

Annual Report 2020

Maintaining Stability & Strategic Growth

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His Majesty
King Hamad bin Isa Al Khalifa
The King of the Kingdom of Bahrain



His Royal Highness
Prince Salman bin Hamad Al Khalifa
The Crown Prince, Prime Minister

Building on our Strong Base for the Future Ahead

Having faced one of the most challenging periods of our 17 years of successful operation in Bahrain, Khaleeji Commercial Bank has earned its well-acclaimed reputation by showing positive results and continuing to contribute to the growth of Islamic Banking. With the support and trust of our shareholders, investors and customers, the Bank was able to achieve positive results in spite of extraordinary circumstances, confirming our strong foundation based on stable financial performance and unwavering client confidence.





Vision & Mission

We are proud to be a customer-centric organisation, working to a shared vision and with an aligned goal that aims to unify efforts, priorities and strategic options towards strengthening the national economy and building a brighter future.



I. Vision

To become one of the strongholds of the domestic economy and regional Islamic Banking by providing unique, innovative and trustworthy Shari'a-compliant products, services and investment opportunities for our clients.

II. Mission

To have a major role in developing the economy and contributing to the growth of Islamic banking in the Kingdom of Bahrain, in order to achieve the optimum value for our clients and shareholders in accordance with the provisions and principles of Shari'a.



Chairman's Report

In the name of Allah, the beneficent, the merciful, Prayers and peace upon the last apostle and messenger, our Prophet Muhammad.

Dear Shareholders,

On behalf of the Board of Directors, it is my pleasure to present the annual report of Khaleeji Commercial Bank for the year ended 31st December 2020.

In all areas, it has been a challenging year with the Coronavirus (COVID-19) pandemic bringing significant human repercussions and important economic variations around the world. The impact of COVID-19 on all fronts is rapidly developing. The Bank is continuously looking at different scenarios and revisiting its strategy to ensure continuous growth and support to its community.

As a result of an ambitious business strategy approved by the board, the Bank has recorded a remarkable performance despite the uncertainty the global markets scene is witnessing. The Bank is equipped to face these challenges - it successfully achieved growth and progress during the year. Strong foundations were laid for this strategy by issuing Sukuk worth BD 60 million as Additional Tier 1 "AT1" Capital and reached an agreement to exchange Financial and Investment Assets worth BD 46.4 million both of which were signed with GFH Financial Group. These agreements were an integral part of our strategy in paving the path towards success and the unwavering steps towards achieving success. This business model ensures that the Bank keeps pace with current developments and takes advantage of new opportunities.

Over the year, the Bank was able to achieve positive results in spite of extraordinary circumstances due to the spread of COVID-19, confirming the Bank's strong foundation and infrastructure that is based on stable financial performance and client confidence. Achieving these results reflects the efficiency and intactness of the plans that the Management and Board of Directors have put together to strengthen the capital base and develop the business. The Sukuk issuance had a great impact on strengthening our financial position which allowed us to engage in new strategic partnerships and promising projects, creating the basis for the Bank's growth and profitability.

Moreover, the Kingdom's economic climate played an important role in protecting all sectors, including the Banking and Finance Sectors from the negative impacts of the pandemic. This was done thanks to the almighty God first, then to the preventive decisions and measures taken by the Government's Executive Committee and the National Task Force for Combating the Coronavirus that contributed to the continuation of economic activity and enabled companies to continue growing and generating profits.



Jassim Mohamed Alseddiqi
Chairman

I. Overall Performance

II. Looking ahead

III. Appreciation

The Bank, during 2020, was able to achieve the strategic goals set by the Board. This was achieved by providing innovative financial solutions and quickly adapting to the ever-changing market and understanding client needs and requirements.

A positive indicator of the Bank's performance this year is the net profit attributable to the shareholders which amounted to BD 7.99 million an increase of 152.6% from a loss of BD 14.94 million in 2019. Despite the challenges faced, the bank managed to achieve a growth of total assets from BD 939.75 million in 2019 to BD 1,015.59 million in 2020, a growth of 8.1%.

Furthermore, the Bank was able to achieve growth in liquid assets which currently comprises of 24.41% of Total Assets while the Capital Adequacy Ratio ("CAR") reached 20.31%. In addition to this, the Bank is maintaining a healthy Liquidity Coverage Ratio ("LCR") of 198.28% and Net Stable Funding

Ratio ("NSFR") of 103.65% as of 31st December 2020. The Bank's return on average equity reached 7.02% while the Return on Average Assets reached 0.81%.

This has in turn allowed the Bank to invest the liquidity in prominent Sukuk investments that are characterized with high yield and low risk. Such investments resulted in a considerable increase in the Sukuk portfolio reaching BD 261.13 million in 2020 compared to BD 195.05 million in 2019, a growth of 33.9%. Moreover, the Bank's total equity reached BD 141.81 million compared to BD 85.71 million, an increase of 65.5%.

The Bank's cost rationalization measures were fruitful as the bank succeeded in obtaining a 45.92% Cost to Income Ratio. The cost rationalization measures will continue to control expenses and further measures are taken to ensure improvement in the efficiency of the Bank in the future.

We trust that the Bank will continue its growth by applying its flexible strategy that is capable of adapting to various regional and international variables imposed by the COVID-19 Pandemic, and the accompanying financial and economic repercussions. The Board of Directors shall spare no effort in providing the necessary support to the Executive Management in achieving sustainability, reinforcing profitability, and attaining remunerative returns for the shareholders.

The Bank will continue to invest its improved financial position towards new strategic partnerships, enhancing the financing portfolio, investing in Sukuk, and continuing the work on implementing the Bank's strategic plan towards digital transformation at an accelerated pace with confidence to implement the latest technology introduced to banking services,

and to develop an integrated set of innovative technological banking solutions. KHCB is also striving to enhance its client service quality, and to introduce banking solutions and services that meet the diverse aspirations of our clients, individuals and corporates alike.

KHCB is a leading Islamic bank that strives to achieve clients' aspirations through an Islamic banking model that offers a comprehensive range of high quality Shari'a-complaint banking services and investment opportunities to individuals and companies.

On behalf of myself, the Board members, the Executive management, and all employees of KHCB, I would like to take this opportunity to express my utmost thanks and gratitude to His Majesty King Hamad bin Isa Al Khalifa may God protect him, and His Royal Highness Prince Salman bin Hamad Al Khalifa, the Crown Prince and Prime Minister may God protect him, for the proactive decisions they have taken to preserve the financial and business market and all other sectors from the negative impacts of the COVID-19 Pandemic. This made the Kingdom one of the top advanced countries facing this pandemic. Also, I would like to thank the Central Bank of Bahrain for its directives and support of the banking sector, which has contributed to its stability under current circumstances. I also extend my thanks to all government ministries and Bahrain Bourse for their continued guidance and support.

Special appreciation is due to the Bank's shareholders, clients and business partners for their on-going confidence and loyalty, and to the Bank's management and staff for their hard work and dedication.

Allah the almighty is the purveyor of all success.

Jassim Mohamed Alseddiqi
Chairman



Sattam Sulaiman Algosabi
Chief Executive Officer



Management Report

In the name of Allah, the beneficent, the merciful, Prayers and peace upon the last apostle and messenger, our Prophet Muhammad.

Our Valued Shareholders,

The year 2020 has been a new significant phase for Khaleeji Commercial Bank with the launch of its new strategy to return to profitability and ensure the utmost value for the shareholders through adopting a new method focusing on investment in digital infrastructure development and launching a diverse set of innovative products and services to offer a unique banking experience to all our valued clients, in addition to reviewing the geographic distribution of its branches to be closer to our clients. This new strategy has enabled the bank to record a net profit attributable to shareholders amounting to BD 7.9 million for the financial year ended 31st December 2020. In achieving this, the bank relied on a series of milestones, notably its successfully finalized and fully covered issuance of Sukuk worth USD 159 Million, which has paved the way for attaining sustainable growth in the bank's operations and activities.

As you are aware, these notable results have been achieved amidst the outbreak of a global pandemic that left enormous and adverse effects at all levels, with negative repercussions on the global economy. In this regard, I would like to seize this opportunity to express my sincere appreciation and gratitude to His Majesty King Hamad bin Isa Al Khalifa, King of the Kingdom of Bahrain, and His Royal Highness Prince Salman bin Hamad Al Khalifa, Crown Prince and Prime Minister, for their wise directives to the esteemed government to undertake proactive measures and precautionary procedures to protect the business community and financial sector from COVID-19's harmful reflections which conspicuously contributed to reinforcing the economic cycle. Moreover, helping banks and financial institutions to overcome all correlated challenges with minimal losses.

We must also commend the Central Bank of Bahrain for its well-informed directives taken to address the harms caused by the pandemic, which has allowed the banking sector with all its entities to withstand the Coronavirus' spillovers. Throughout 2020, the bank offered its individual and corporate clients a bundle of actions and procedures following Bahrain Team commitments to lessen COVID-19 pressures. Such procedures included postponing installments on financing, raising the maximum limit for Credit and Debit Cards, and supporting companies and SMEs, which contributed to mitigating the negative effects resulting from the spread of COVID-19 on our clients, and empowering them to cope with coronavirus-related difficulties.



Additionally, the bank has always been eager to adopt new high-caliber Bahrainis in all its departments, making tremendous contributions to boost the financial and operational performance, alongside improving the bank's infrastructure.

The challenge of the COVID-19 outbreak has proved the soundness of our strategic plans to fasten the stride of Digital Transformation and utilize financial technology solutions (FinTech) to enhance our clients' banking experience. This endeavor has helped us quickly respond to Coronavirus exceptional circumstances by continuing our banking services and finance offerings via our state-of-the-art portals, ensuring streamlined banking operations and their availability to all. Such remarkable developments have coincided with the bank's unwavering efforts to uplift service and product quality, along with adopting nonstop renovation and evolution policies in all its operations, paving the path forward to be one of the leading Islamic banks in the fields of creativity, innovation, higher performance and better finance solutions.

In this respect, the bank is proud to win the "Bahrain's Most Innovative Islamic Retail Bank" Award and "Best Islamic Retail Banking Product for Al Waffer Account" Award for 2020 by the Cambridge International Financial Advisory (Cambridge IFA). This global recognition of excellence reflects the bank's ambitious vision in mastering FinTech in the Islamic banking sector and offering innovative products and services that lead the way towards laying the foundation of new banking standards, enhancing after all client satisfaction and improving services to meet their banking requirements.

These accomplishments are the result of our national workforce who have been capable of keeping up our productivity through their extraordinary loyalty, dedication, and flexibility in dealing with COVID-19 challenges during this period, as well as their full commitment to provide premium client service to individuals and companies alike. The bank takes pride in maintaining a high Bahrainization rate of 97%, making it one of the top providers of career opportunities for Bahraini talents.

Additionally, the bank has always been eager to adopt new high-caliber Bahrainis in all its departments, making tremendous contributions to boost the financial and operational performance, alongside improving the bank's infrastructure.

Thanks to the aspiring development initiatives set by the Board and the high capital adequacy ratio, the bank is moving forward with steady and confident strides towards implementing its new strategy, which comprises of supporting commercial activities, building ties with major partners to enhance the financing portfolio, launching a new set of innovative banking products to support digitalization, which covers all electronic portals and smart applications for the sake of making banking transactions more simple and within reach anytime and anywhere.

Accordingly, the bank enters 2021 with bigger confidence based on its robust financial position and high liquidity rate, which entitles it to sustain development steps and efficiently containing COVID-19 repercussions that is still casting a shadow over the local and global economies today. Investing more in Sukuk and diversifying financing activities will be a top priority for the bank, along with applying the most advanced high-tech in the banking services sector, which will in turn create the appropriate base for generating a well-developed Islamic banking model that offers a holistic group of high-quality banking products to individuals and companies, and Shari'a-compliant investment opportunities.

In closing, I would like to take this opportunity to express my sincere thanks and appreciation to our dear clients for their trust in the Bank, whom we constantly strive to offer them our best, as they are the core of our banking operations and business strategy. My extended gratitude goes to the Chairman and members of the Board of Directors for their wise directives, the Executive Management and all staff members of the Bank for their efforts and devotion, as well as our valued shareholders for their solid confidence and continued support.

Sattam Sulaiman Algoasibi
Chief Executive Officer

Board of Directors



Jassim Mohamed Alseddiqi
Chairman



Sh. Ahmed Bin Isa
Khalifa Al Khalifa
Vice Chairman



Hisham Ahmed Al Rayes
Board Member



Isa Abdulla Zainal
Board Member



Mazen Ibrahim Abdulkarim
Board Member



Mosobah Saif Al Mutairy
Board Member



Reyadh Eid Al Yaqoob
Board Member



Mustafa Ghazi Kheriba
Board Member



Salah Abdulla Sharif
Board Member



Husain Sayed Ali AlHusaini
Board Member

Management Team



Sattam Sulaiman
Algosaibi
Chief Executive Officer



Husam Ghanem Saif
Assistant General Manager
Treasury and Investment



Mazen Salman Sater
Assistant General Manager
Digital Banking



Mohammed Abdulla
Saleh
Assistant General Manager
Legal & Compliance



Abdalnasser Omar
Al Mahmood
Head of Shari'a Coordination
and Implementation



Muna Ghuloom
Al Bastaki
Head of Credit Management



Mohamed Ebrahim
Al Hashimi
Head of Operations



Fatima Ahmed
Al Bin Ali
Head of Human Resources



Abdulkarim Mohamed
Al Zakari
Chief Risk Officer



Abdalnasser Ahmed
Al Rayes
Head of Retail Banking



Ahmed Mohamed
Burashid
Head of Corporate Banking
and Debt Capital Markets



Ameera Ahmed
Al Abbasi
Head of Business Banking



Mohammed Hamad
Fakhri
Head of Internal Audit



Subah Abdulrahman
Al Zayani
Head of Corporate
Communications



Aman Ullah Khan
Head of Finance &
Administration



Nawaf Abdulsalam
Al Hosani
Head of Internal Shari'a Audit
and Shari's Board Secretary



Corporate Governance

Our corporate governance framework focuses on responsibility, oversight and management accountability with regard to governing regulations and better practices. We are proud to implement a framework which is in line with global best practices and regulatory requirements which seek to balance entrepreneurship, control and transparency.



I. Corporate Governance Structure

II. Board of Directors

III. Board Committees Structure

IV. Executive Management Committees

The Bank's corporate governance framework focuses on Board responsibility, oversight and management accountability vis-à-vis governing regulations and better practices. The framework is in line with global best practices and regulatory requirements which seek to balance entrepreneurship, control and transparency, while creating value for all stakeholders.

Corporate governance, the way the Board and Management is organized and how they operate in practice, ultimately aims at leading the Bank towards successfully meeting its strategic objectives. The Board of Directors are accountable to the Bank's shareholders for the creation and delivery of strong sustainable financial performance and long-term shareholder value. To achieve this, the Board approves and monitors the Bank's strategy and financial performance, within a framework of sound corporate governance and effective risk management.

The Bank is in compliance with the Corporate Governance Code (CGC), the Public Disclosure Module and the Stock Exchange Disclosure Standards set by the CBB. The corporate governance philosophy of the Bank is to be fully ethical and transparent in all dealings. In pursuit of this goal, the Board of Directors have approved a Corporate Governance Framework, Director's Conflict of Interest Policy, and the Bank Key Persons' Dealing Policy. The Bank, through its Board and Committees, endeavors to deliver the highest governing standards for the benefit of its stakeholders.

The Bank is committed to continuously reviewing and developing its corporate governance standards to ensure compliance with the requirements of the revised corporate governance framework being implemented by the Central Bank of Bahrain and other regulatory bodies, and also to keep abreast with international best practices.

The Board of Directors comprises of 10 members. The chairman of the Board of Directors is charged with regular supervision and assessment of executive management and is responsible for leading the Board, ensuring its effectiveness, monitoring the performance of the CEO and maintaining a dialogue with the Bank's stakeholders. The Board has

constituted certain committees with specific delegated authorities to oversee and guide the management in specific areas of the Bank's operations and decision-making. The Board, either directly or through its various committees, will oversee the management of the Bank.

The Board of Directors has constituted three committees with specific delegated authorities.

- **Board Audit and Risk Management Committee (BARMC)**, which is responsible for internal and external audit, compliance and anti-money laundering. Beside its responsibility in ensuring that the Bank's overall risk management framework is effective and that key risks are managed within parameters established by the Board (During the year, the Board Audit Committee (BAC) and the Board Risk Management Committee (BRMC) were merged into one committee Board Audit and Risk Management Committee (BARMC).
- **Board Investment & Credit Committee (BICC)**, which is responsible for investment and credit approvals, setting limits and tolerances for different risks, asset liability management, monitoring asset impairment and creation of loss provisions, maintaining banking relationships, as well as for the oversight of the off-balance sheet vehicles.
- **Board Nominations, Remunerations and Governance Committee (BNRGC)**, which is responsible for setting policies for compensation and incentives, human resources and administration. It is also responsible for the corporate governance framework of the Bank.

The Chairman, the Board of Directors and the Board Committees have direct access to the heads Internal Audit, Risk Management, Regulatory Compliance, Head of Anti Financial Crimes (the MLRO), Internal Sharia Audit, and Shari'a Sharia Coordination and Implementation.

Meetings of the Board and its committees are held as and when required but in accordance with the Regulations the Board meets at least once a quarter. The Board of Directors met eight times in 2020. The Bank held its Annual General Assembly (AGM) and the Extraordinary General Meeting (EGM) on 25th March 2020. Moreover, the Bank held its Ordinal General Meeting (OGM) on 23rd September 2020. In addition to physical meetings, several written resolutions were circulated to the Directors during 2020 for approval by mail and facsimile.

During the year, the Board Audit and Risk Management Committee (BARMC) held five meetings, the Board Investment and Credit Committee (BICC) held four meetings, and the Board Nominations, Remunerations and Governance Committee (BNRGC) held five meetings.

The Board of Directors delegates the authority for day-to-day management of the business to the Chief Executive Officer (CEO) who is responsible for implementing the Bank's strategic plan. The CEO manages the Bank through the following management committees:

Committee	Primary responsibilities
Management Committee	Strategy, Performance review, Budget, Human Resources, Administration
Asset Liability Management Committee	Balance sheet management, Funding, Liquidity, Banking Relationships
Executive Credit & Investment Committee	Review of Credit proposal, Review of investments, Exit and credit proposals, Monitoring of investments, Risk Management policies, Risk review, Provisions and impairment.
Human Resources Committee	Approving the policies and strategy of human resources



Risk Management

The Bank builds its business profile for the long term benefit of all its stakeholders by balancing social, environmental, and economic considerations in decisions made.

We at KHCB, consider the dissemination of Risk Culture as an important aspect that drives our business concerning risk awareness, taking, and management. All our Staff are responsible for risk management, with the ultimate accountability residing with the Board of Directors.

The Bank will always strive to achieve a sustainable and continuously enhanced Stakeholders' Value at an acceptable and calculated level of risk, within Islamic Shari'a framework, our social responsibilities of being good citizens, and in fairness and transparency to our stakeholders.

All business decisions in the Bank are considered after thorough risk and reward analysis, adequate to the size and nature of business being considered.

By the nature of its business, the Bank is exposed to risks that include, but are not limited to, Credit, Market, Liquidity, and Operational Risk. The Bank's aim is to achieve an appropriate balance between risk and return, as well as minimize any potential adverse impact on its overall performance.

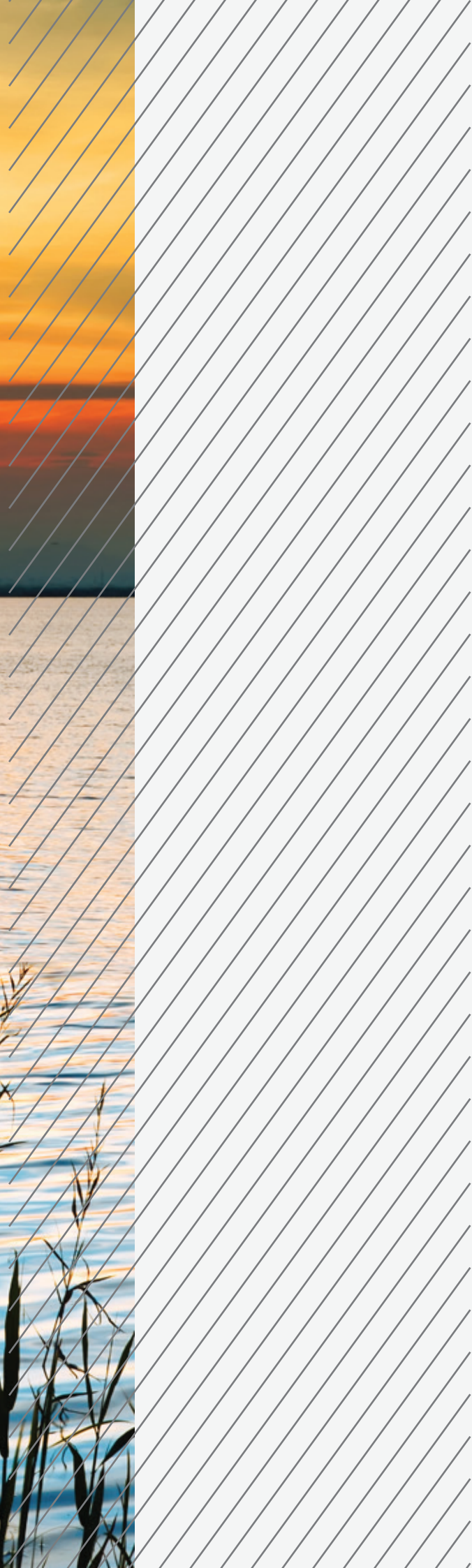
The Bank adopts a robust management framework to manage its risks. This framework is based on assessment of risk capacity, definition of appropriate risk appetite, development of policies and procedures for managing risks, measurement of adequate return for the risk assumed, and establishment of a strong business and risk cultures.

The risk framework promotes ongoing monitoring and risk awareness. It also encourages sound operational and strategic decision making, as well as ensures a consistent approach to identifying, assessing, managing, and reporting the risks we accept and incur in our activities.

The Board of Directors has the primary responsibility for managing risks in the Bank. It discharges its responsibilities through the Board Audit and Risk Management Committee "BARMC" and is responsible for effective implementation of the Bank's risk management framework described above.

As we helped our clients during these challenging times, we continued to prioritize effective and robust risk management.





We have actively managed the risks resulting from the COVID-19 outbreak and its impacts on our clients and operations during 2020, as well as other key risks arising from the economic impact of the COVID-19 pandemic.

The daily management of risk is overseen by the Risk Management Division, which is headed by a Chief Risk Officer who reports directly to “BARMC”. The Risk Management Division is responsible for the identification, assessment, and ongoing control of all material risks that could affect the Bank’s business and operations. In doing so, the Risk Management Division, in coordination with the Management and “BARMC”, implements risk management procedures that are based on the following principles:

- Alignment of Business Strategy and Risk Appetite
- Risk Identification and Measurement
- Risk Prioritization
- Risk Monitoring
- Risk Mitigation

Key Developments in 2020

We have actively managed the risks resulting from the COVID-19 outbreak and its impacts on our clients and operations during 2020, as well as other key risks arising from the economic impact of the COVID-19 pandemic. Risk management activities were focused on the material threats arising from the pandemic itself, as well as those that are strongly correlated with it, especially Credit, Liquidity, and Operational Risk related with operating during the pandemic, as well as following guidance from government agencies in working from home.

In addition to the improved risk ratios in various silos, we enhanced the risk management framework in 2020 in the following areas:

- We continue to enhance our approach and articulation of risk management through the implementation of enterprise risk management frameworks and systems. The enterprise risk management solution integrates the view of risk management reporting which includes credit, liquidity, profit rate risk in the banking book and other risks
- We continue to focus on improving the existing risk models including ICAAP and Stress testing models along with the bank’s credit risk rating models
- We continue to support the business and our clients throughout the global pandemic, while continuing our focus on managing credit risk.
- We performed a number of reviews on segments of our financing portfolio that were likely to be impacted by the economic slowdown. A number of internal stress tests were conducted under different scenarios in order to assess the potential impact of the COVID-19 outbreak on provisions
- We continue our preparations for the transition from LIBOR to other profit-rate benchmarks by the end of 2021 and continue to work closely with regulators in this regards
- We continue to enhance the risk management reports to help Management and the Board of Directors take informed decisions on key risk topics
- We established additional risk committees and taskforces to review the financing portfolio that are impacted by the economic slowdown
- We enhanced the cyber security framework by implementing appropriate risk related policies.

Shari'a Supervisory Board Report To The Shareholders

3rd February 2021
21st Jamadah II 1442 AH

Prayers and Peace upon the Last Apostle and Messenger, Our prophet Mohammed, His Family and companions.

In compliance with our terms of appointment, the Shari'a Supervisory Board ("SSB") hereby presents the following report to the Shareholders on the activities of Khaleeji Commercial Bank ("KHCB") and its subsidiaries for the financial year ending 31st December 2020.

Respective responsibility of the Board of Directors and the SSB

The SSB confirms that as a general principle and practice, KHCB's management is responsible for ensuring that it conducts its business in accordance with Islamic Shari'a rules and principles. The SSB's responsibility is to form an independent Shari'a opinion based on our review of the Bank's operations and to prepare this report.

Basis of opinion

In compliance with the Shari'a Governance and based on SSB's Fatwas, decisions and the AAOIFI standards, the SSB through its periodic meetings and its executive member have reviewed the internal Shari'a audit plan and Shari'a audit reports and examined the documents and transactions by conducting a sample-test method to ensure its compliance with the Shari'a rules and principles. In addition, the SSB has reviewed the IESCA report for 2020. The SSB in collaboration with the Shari'a coordination and implementation department has reviewed contracts, agreements, financings and investment structures, products, related policies, consolidated Financial Statements and attached notes for the year ended 31st December 2020.

Opinion

Based on our review, the SSB is satisfied that:

1. The contracts, agreements and transactions entered into by the Bank that have been reviewed by the SSB are in compliance with the Shari'a rules and principles.
2. The allocation of profits and charging of losses 'if any' on investment accounts conform to the basis that had been approved by the SSB and in accordance with Shari'a rules and principles.
3. Any earnings resulted by means prohibited by the Shari'a rules and principles have been channeled to the charity account.
4. Zakah was calculated in accordance with Shari'a rules and principles based on net assets method according to AAOIFI standards. Each shareholder is responsible to pay their relevant zakah portion related to their respected shares as per the zakah guide.
5. The Bank is in compliance with Shari'a rules and principles, SSB's Fatwas and decisions, Shari'a related policies and procedures, AAOIFI's Shari'a standards, relevant rulings of the CSSB and the regulations, resolutions and directives issued by the CBB.

We pray to Allah the almighty to grant us all success and prosperity.

Shaikh Dr. Fareed Al-Muftah
Chairman

Shaikh Dr. Fareed Mohammed Hadi
Vice-Chairman & Executive Member

Shaikh Dr. Nizam Yaqoobi
Board Member



Independent Auditors' Report To The Shareholders

Report on the audit of the consolidated financial statements

Opinion

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

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

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

Independent Auditors' Report To The Shareholders (Continued)

Impairment allowance on financing assets and assets acquired for leasing

(Refer to accounting policy in Note 5j(i), use of estimates and judgments in Note 25 and management of credit risk in Note 35).

Description	How the matter was addressed in our audit
<p>We focused on this area because:</p> <ul style="list-style-type: none"> Of the significance of financing assets and assets acquired for leasing representing 44% of total assets. The estimation of expected credit losses ("ECL") on financing assets and assets acquired for leasing involve significant judgment and estimates. The key areas where we identified greater level of management judgment and estimates are: <ul style="list-style-type: none"> Use of complex models Use of inherently judgmental complex models to estimate ECL which involves determining Probabilities of default ("PD"), Loss Given Default ("LGD") and Exposure At default ("EAD"). The PD models are considered the drivers of the ECLs. Economic scenarios 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. Management overlays Adjustments to the ECL model results are made by management to address known impairment model limitations or emerging trends or risks, including the potential impacts of COVID-19. Such adjustments are inherently uncertain and significant management judgment is involved in estimating these amounts especially in the current COVID-19 environment. 	<p>Our procedures included:</p> <p>Control testing We performed walk throughs to identify the key systems, applications and controls used in the ECL processes.</p> <p>Key aspects of our controls testing involved the following:</p> <ul style="list-style-type: none"> Testing the design and operating effectiveness of the key controls over the completion and accuracy of the key inputs and assumptions into the ECL Model; Evaluating the design and operating effectiveness of the key controls over the application of staging criteria; Evaluating controls over validation, implementation and model monitoring; Evaluating controls over authorization and calculation of post model adjustments and management overlays; and Testing key controls relating to selection and implementation of material macro-economic variables and the controls over the scenario selection and probabilities. <p>Tests of details</p> <ul style="list-style-type: none"> Sample testing over key inputs and assumptions impacting ECL calculations to assess the reasonableness of economic forecast, weights, and PD assumptions applied; and Selecting a sample of post model adjustments to assess the reasonableness of the adjustments by challenging key assumptions, inspecting the calculation methodology and tracing a sample of the data used back to the source data. <p>Use of specialists</p> <ul style="list-style-type: none"> We involved our information technology specialists in testing the relevant general IT and applications controls over the key systems used in the ECL process; We involved our credit risk specialists to assist us in: <ul style="list-style-type: none"> evaluating the appropriateness of the Group's ECL methodologies (including the staging criteria used); on a test basis, re-performing the calculation of certain components of the ECL model (including the staging criteria); evaluating the appropriateness of the Group's methodology for determining the economic scenarios used and the probability weighing applied to them; and evaluating the overall reasonableness of the management economic forecast by comparing it to external market data. <p>Disclosures</p> <ul style="list-style-type: none"> Evaluating the adequacy of the Group's disclosures related to ECL on financing assets and assets acquired for leasing by reference to the relevant accounting standards.

Independent Auditors' Report To The Shareholders (Continued)

Valuation of unquoted equity investments

(refer to accounting policy in Note 5j (ii) and fair value in Note 34)

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

Impairment of investment in real estate

(Refer to accounting policies in Note 5 (h) and impairment of non-financial assets in Note 5 (k))

Description	How the matter was addressed in our audit
<p>We considered this as a key audit area we focused on because of:</p> <ul style="list-style-type: none"> 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. 	<p>Our procedures included:</p> <ul style="list-style-type: none"> We involved our own real estate valuation specialists, who used their knowledge of the industry and available historical data to assist us in: <ul style="list-style-type: none"> evaluating the appropriateness of the valuation methodology used by the external, independent property valuers appointed by the Group; and evaluating the reasonableness of key inputs and assumptions used in the valuation. Assessing the qualification and experience of the independent property valuers and reviewing 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 in real estate by reference to the relevant accounting standards.



Independent Auditors' Report To The Shareholders (Continued)

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 other sections which forms part of the annual report.

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

In connection with our audit of the 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 ASIFs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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



Independent Auditors' Report To The Shareholders (Continued)

- 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.

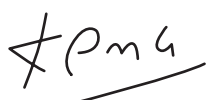
From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation 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 CBB, we report that:

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

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



KPMG Fakhro

Partner Registration No. 100

10th February 2021

Consolidated Financial Statements

Consolidated Statement of Financial Position

as at 31st December 2020 / BD 000's

	Note	31 st December 2020	31 st December 2019
ASSETS			
Cash and bank balances	6	83,017	104,376
Placements with financial institutions	7	17,720	65,508
Financing assets	8	307,717	324,355
Investment in sukuk	9	261,132	195,050
Assets acquired for leasing	10	126,934	129,097
Lease rentals receivables		12,820	17,102
Investment securities	11	55,892	43,989
Investment in real estate	12	83,303	24,032
Equity accounted investees	13	31,963	4,524
Other assets	14	27,646	23,969
Property and equipment	15	7,450	7,750
Total assets		1,015,594	939,752
LIABILITIES			
Placements from financial institutions		79,545	117,098
Placements from non-financial institutions and individuals	16	214,243	134,654
Term borrowings	17	75,477	–
Customers' current accounts		55,676	58,105
Other liabilities	18	13,269	19,798
Total liabilities		438,210	329,655
Equity of investment account holders			
From financial institutions		26,154	22,367
From non-financial institutions and individuals		399,195	499,823
Total equity of investment account holders	19	425,349	522,190
OWNERS' EQUITY			
Share capital	20	89,212	105,000
Subordinated Mudaraba (AT1)	35	47,222	–
Statutory reserve		9,024	8,225
Treasury shares		(11,859)	(11,730)
Employee share incentive scheme		–	–
Investment fair value reserve		348	–
Retained earnings / (accumulated losses)		7,863	(15,788)
Total owners' equity		141,810	85,707
Non-controlling interest		10,225	2,200
Total liabilities, equity of investment account holders, owners' equity and non-controlling interest		1,015,594	939,752

The consolidated financial statements were approved by the Board of directors on 10 February 2021 and signed on its behalf by:

Jassim Mohamed Alseddiqi
Chairman

Sh. Ahmed Bin Isa Al Khalifa
Vice Chairman

Sattam Sulaiman Algozaibi
Chief Executive Officer

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

Consolidated Income Statement

for the year ended 31st December 2020 / BD 000's

	Note	2020	2019
Income from financing assets and assets acquired for leasing		29,921	31,334
Income from placements with financial institutions		551	2,183
Income from sukuk		15,242	10,031
Income from investment securities		366	(1,687)
Fees and other income		2,117	5,726
Total income before return to investment account holders		48,197	47,587
Less: Return to investment account holders before Bank's share as Mudarib	19	(21,575)	(27,059)
Bank's share as a Mudarib	19	9,289	8,457
Return to investment account holders		(12,286)	(18,602)
Finance expense on placements from financial institutions, non-financial institutions and individuals		(12,472)	(8,188)
Finance expense on term borrowings		(796)	(1,241)
Total income		22,643	19,556
Staff cost	21	5,874	8,158
Other operating expenses	22	4,523	6,036
Total expenses		10,397	14,194
Profit before impairment allowances		12,246	5,362
Net impairment charge	23	(4,341)	(20,389)
PROFIT / (LOSS) FOR THE YEAR		7,905	(15,027)
Attributable to:			
Shareholders of the Parent		7,986	(14,937)
Non-controlling interest		(81)	(90)
		7,905	(15,027)
Earnings per share			
Basic and diluted earnings per share (fils)	28	9.94	(18.56)

Jassim Mohamed Alseddiqi
Chairman

Sh. Ahmed Bin Isa Al Khalifa
Vice Chairman

Sattam Sulaiman Algosaihi
Chief Executive Officer

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

Consolidated Statement of Changes in Equity

for the year ended 31st December 2020 / BD 000's

2020	Equity attributable to shareholders of the parent									
	Share Capital	Statutory reserve	Treasury shares	Employee share incentive scheme	Investment fair value reserve	Sub-ordinated mudaraba (AT1)	Retained earnings/ (accumulated losses)	Total	Non-Controlling interest	Total Equity
Balance at 1st January 2020	105,000	8,225	(11,730)	-	-	-	(15,788)	85,707	2,200	87,907
Profit for the year	-	-	-	-	-	-	7,986	7,986	(81)	7,905
Total recognised income and expense for the year	-	-	-	-	-	-	7,986	7,986	(81)	7,905
Issuance of AT1 (Note 35)	-	-	-	-	-	60,000	12,000	72,000	-	72,000
Issuance costs of AT1 (Note 35)	-	-	-	-	-	(12,778)	-	(12,778)	-	(12,778)
Modification loss (Note 2a)	-	-	-	-	-	-	(9,452)	(9,452)	-	(9,452)
Government grant (Note 2b)	-	-	-	-	-	-	1,069	1,069	-	1,069
Capital reduction (Note 20)	(15,788)	-	-	-	-	-	15,788	-	-	-
Purchase of Treasury shares	-	-	(129)	-	-	-	-	(129)	-	(129)
Issue of shares under staff incentive scheme	-	-	-	-	-	-	111	111	-	111
Fair value movement	-	-	-	-	348	-	-	348	-	348
Profit distribution on AT 1 Capital	-	-	-	-	-	-	(2,834)	(2,834)	-	(2,834)
Acquisition of a subsidiary (Note 27)	-	-	-	-	-	-	-	-	8,106	8,106
Transfer to statutory reserve	-	799	-	-	-	-	(799)	-	-	-
Transfer to Zakah fund	-	-	-	-	-	-	(218)	(218)	-	(218)
Balance at 31 December 2020	89,212	9,024	(11,859)	-	348	47,222	7,863	141,810	10,225	152,035

2019	Equity attributable to shareholders of the parent							
	Share Capital	Statutory reserve	Treasury shares	Employee share incentive scheme	(Accumulated losses)	Total	Non-Controlling interest	Total Equity
Balance at 1 January 2019	105,000	8,225	(11,295)	(29)	(729)	101,172	2,290	103,462
Loss for the year	-	-	-	-	(14,937)	(14,937)	(90)	(15,027)
Total recognised income and expense for the year	-	-	-	-	(14,937)	(14,937)	(90)	(15,027)
Transfer to statutory reserve	-	-	-	-	-	-	-	-
Net treasury shares purchased	-	-	(435)	-	-	(435)	-	(435)
Issue of shares under incentive scheme	-	-	-	29	65	94	-	94
Transfer to Zakah fund	-	-	-	-	(187)	(187)	-	(187)
Balance at 31 December 2019	105,000	8,225	(11,730)	-	(15,788)	85,707	2,200	87,907

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

Consolidated Statement of Changes in Equity

for the year ended 31st December 2020 / BD 000's

	Note	2020	2019
OPERATING ACTIVITIES			
Receipts from financing assets, net		3,828	9,621
Receipts / (Payments) towards asset acquired for leasing, net		11,509	(17,786)
Receipt of profit on short-term placements		551	2,183
Returns paid to investment account holders		(15,615)	(10,454)
(Withdrawals) / Receipts from investment account holders, net		(97,296)	165,461
Payment of profit on placements		(12,472)	(11,703)
Payment for expenses		(13,137)	(19,441)
Other receipts		2,048	3,964
Payment for charity		(276)	(235)
Withdrawals from customers' current accounts, net		(2,430)	(12,311)
Payment towards placements from financial institutions, net		(37,552)	(29,839)
Receipts from placements from non-financial institutions and individuals, net		79,589	14,184
Net receipt / (Payment) to CBB reserve account		10,016	(4,610)
Income from sukuk received		15,187	10,006
Net cash (used) / generated from operating activities		(56,050)	99,040
INVESTING ACTIVITIES			
Purchase of sukuk		(102,254)	(37,407)
Proceeds from redemption / sale of sukuk		29,967	3,269
Purchase of equity securities		(15,080)	-
Proceeds from disposal / redemption of equity securities		-	1,438
Proceeds from investment in real estate, net		728	-
Receipt of dividends / income from equity securities		316	343
Purchase of property and equipment, net		(249)	(452)
Net cash used in investing activities		(86,572)	(32,809)
FINANCING ACTIVITIES			
Purchase of treasury shares		(129)	(350)
Proceeds from ATI Capital		11,447	-
Profit distribution on AT 1 Capital		(2,834)	-
Drawdown / (Repayment) of term borrowings, net		75,524	(41,357)
Finance expense on term borrowings		(517)	(1,241)
Net cash from / (used) in financing activities		83,491	(42,948)
Net (decrease) / increase in cash and cash equivalents		(59,131)	23,283
Cash and cash equivalents at 1 January		144,454	121,171
Cash and cash equivalents at 31 December		85,323	144,454
Cash and cash equivalent comprise:			
Cash and bank balances (excluding CBB reserve)	6	67,603	78,946
Placements with financial institutions with original maturities of 90 days or less	7	17,720	65,508
		85,323	144,454

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

Consolidated Statement of changes in Restricted Investment

for the year ended 31st December 2020 / BD 000's

2020	Balance at 1 st January 2020			Movements during the year						Balance at 31 st December 2020		
	No of units (000's)	Average value per share BD	Total BD 000's	Investment (with-drawals) BD 000's	Revalua-tion BD 000's	Gross income/(loss) BD 000's	Divi-dends paid BD 000's	Bank's fees as an agent BD 000's	Admin-stration expenses BD 000's	No of units (000's)	Average value per share BD	Total BD 000's
Safana Investment WLL (RIA 1) and NS12	6,254	1.00	6,254	-	-	-	-	-	-	6,254	1.00	6,254
Shaden Real Estate Investment WLL (RIA 5)	3,434	1.00	3,434	-	-	-	-	-	-	3,434	1.00	3,434
Locata Corporation Pty Ltd (RIA 6)	2,633	0.38	993	-	-	-	-	-	-	2,633	0.38	993
			10,681	-	-	-	-	-	-			10,681

2019	Balance at 1 st January 2019			Movements during the year						Balance at 31 st December 2019		
	No of units (000's)	Average value per share BD	Total BD 000's	Investment (with-drawals) BD 000's	Revalua-tion BD 000's	Gross income/(loss) BD 000's	Divi-dends paid BD 000's	Bank's fees as an agent BD 000's	Admin-stration expenses BD 000's	No of units (000's)	Average value per share BD	Total BD 000's
Safana Investment WLL (RIA 1) and NS12	6,254	1.00	6,254	-	-	-	-	-	-	6,254	1.00	6,254
Shaden Real Estate Investment WLL (RIA 5)	3,434	1.00	3,434	-	-	-	-	-	-	3,434	1.00	3,434
Locata Corporation Pty Ltd (RIA 6)	2,633	0.38	993	-	-	-	-	-	-	2,633	0.38	993
			10,681	-	-	-	-	-	-			10,681

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



Consolidated Statement of sources and uses of Zakah and Charity Fund

for the year ended 31st December 2020 / BD 000's

	2020	2019
Sources of zakah and charity fund		
At 1 January	714	708
Contributions by the Bank	218	187
Non-Islamic income	40	54
Total sources	972	949
Uses of zakah and charity fund		
Contributions to charitable organisations	(276)	(235)
Total uses	(276)	(235)
Undistributed zakah and charity fund at 31 December	696	714

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

Notes to the Consolidated Financial Statements

for the year ended 31st December 2020 / BD 000's

1. REPORTING ENTITY

Khaleeji Commercial Bank BSC ("the Bank"), a public shareholding company listed on Bahrain Bourse, was incorporated on 24 November 2004 in the Kingdom of Bahrain under Commercial Registration No. 55133. The Bank operates under an Islamic retail banking license granted by the Central Bank of Bahrain ("CBB") on 20 October 2003. The Bank's Additional Tier 1 securities were listed on London Stock Exchange (International Securities Market) in 2020.

The Bank's activities are regulated by the CBB and supervised by a Shari'a Supervisory Board to ensure adherence to Shari'a rules and principles in its activities.

The principal activities of the Bank include retail and corporate banking, consumer finance, wealth management, structured investment products and project financing facilities which comply with Islamic Shari'a rules and principles as determined by the Bank's Shari'a Supervisory Board.

The consolidated financial statements include the results of the Bank and its subsidiaries (together "the Group"). The significant subsidiaries are as follows:

Name	Country of incorporation	% holding 2020	% holding 2019	Nature of business
Harbour West 2 Real Estate SPC	Bahrain	100%	100%	To hold property.
Harbour West 4 Real Estate SPC	Bahrain	100%	100%	To hold property .
Surooh Limited	Cayman Islands	19.08%	19.08%	To construct and sell properties at "Oryx Hills".
H.H. Hospitality SPC (Note 27)	Bahrain	86%	-	Hospitality business
KHCB Tier 1 Sukuk Limited	Cayman Islands	100%	-	To issue sukuk

2. STATEMENT OF COMPLIANCE

The consolidated financial statements of the Group have been prepared in accordance with applicable rules and regulations issued by the CBB. These rules and regulations require the adoption of all Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation of Islamic Financial Institutions ("AAOIFI"), except for:

- recognition of modification losses on financial assets arising from 6 months payment holidays provided to customers impacted by COVID-19 without profit, in equity instead of the profit or loss as required by FAS. Any other modification gain or loss on financial assets are recognised in accordance with the requirements of applicable FAS.

The modification loss has been calculated as the difference between the net present value of the modified cash flows calculated using the original effective profit rate and the current carrying value of the financial assets on the date of modification; and

- recognition of financial assistance received from the government and/ or regulators as part of to 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 recognised in equity as a result of (a) above. In case this exceeds the modification loss amount, the balance amount is recognized in the profit or loss. Any other financial assistance is recognised in accordance with the requirements of FAS.

The above framework for basis of preparation of the consolidated financial statements is hereinafter referred to as 'Financial Accounting Standards as modified by CBB'. The modification to accounting policies have been applied retrospectively and did not result in any change to the comparatives.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

2. STATEMENT OF COMPLIANCE (CONTINUED)

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

3. BASIS OF PREPARATION

The consolidated financial statements have been prepared on the historical cost basis except for equity securities that are measured at fair value through equity and structured notes that are measured at fair value through income statement.

4. USE OF SIGNIFICANT JUDGEMENTS AND ESTIMATES

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Management believes that the underlying assumptions are appropriate and the Group's consolidated financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 25

5. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been consistently applied by the Group and are consistent with those used in the previous year except as described in Note 2 above "statement of compliance" and those arising from the adoption of the following standards and amendments to Standards early adopted by the Group.

i) Standards issued not yet effective but early adopted

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

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

The Group uses Wakala structure to 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 individuals, respectively as of 31 December 2019. All funds raised using Wakala structure, together called "Wakala pool" are comingled with the Bank's jointly financed pool of funds based on an underlying equivalent 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 any restrictions as to where, how and for what purpose the funds should be invested. After adopting FAS 31 on 1 January 2020, the Wakala pool is now classified as part of the Mudaraba pool of funding under equity of investment account holders and the profit paid on these contracts is reported as part of determination of return on investment of equity of investment account holders.

As per the transitional provisions of FAS 31, the entity may choose not to apply this standard on existing transactions executed before 1 January 2020 and have an original contractual maturity before 31 December 2020. However, 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 a change in classification of all Wakala based funding contracts as part of equity of investment account holders and additional associated disclosures (refer note 19).

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) FAS 33 - Investment in Sukuk, shares and similar instruments

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

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

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

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

The adoption of FAS 33 has resulted in changes in accounting policies for recognition, classification and measurement of investment in sukuk, shares and other similar instruments, however, the adoption of FAS 33 had no significant impact on any amounts previously reported in the consolidated financial statements for the year ended 31 December 2020 and the consolidated financial statement of the Group for the year ended 31 December 2019. Set out below are the details of the specific FAS 33 accounting policies applied in the current year.

Changes in accounting policies

Categorization and classification

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

- i) equity-type instruments;
- ii) debt-type instruments, including:
 - monetary debt-type instruments; and
 - non-monetary debt-type instruments; and
- iii) other investment instruments

Unless irrevocable initial recognition choices as per the standard are exercised, an institution shall classify investments as subsequently measured at either of (i) amortised cost, (ii) fair value through equity or (iii) fair value through income statement, on the basis of both:

- the Bank's business model for managing the investments; and
- the expected cash flow characteristics of the investment in line with the nature of the underlying Islamic finance contracts.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassification of assets and liabilities

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

	Original classification under FAS 25	New classification under FAS 33	Original carrying amount under FAS 25	New carrying amount under FAS 33
Investment in sukuk	Amortised cost	Amortised cost	195,050	195,050
Investment securities	FVTPL	FVTE	11,174	11,174
Investment securities	FVTE	FVTE	32,815	32,815

ii) **New Standards, amendments to Standards issued but not yet effective and not early adopted**

FAS 32 - Ijarah

This standard issued in 2020 supersedes the existing FAS 8 "Ijarah and Ijarah Muntahia Bittamleek", and effective for the financial periods beginning on or after 1 January 2021 with early adoption permitted.

The objective of this standard is to 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.

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

FAS 38 Wa'ad, Khiyar and Tahawwut

FAS 38 Wa'ad, Khiyar and Tahawwut was issued in 2020 and is effective for the financial reporting periods beginning on or after 1 January 2022.

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

- "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
- "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.

(a) Basis of consolidation

(i) Business combination

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meet the definition of a business and control is transferred to the Group.

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. 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.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation (Continued)

(i) *Business combination (Continued)*

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 financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, other contingent consideration is re-measured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

(ii) *Subsidiaries*

Subsidiaries are those enterprises (including special purpose entities) controlled by the Bank. Control exists when the Bank 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 Group owns more than 50% of voting rights on an entity.

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

The Group in its fiduciary capacity manages and administers assets held in trust and other investment vehicles on behalf of investors.

The financial statements of 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 26.

(iii) *Equity accounted investees*

The Group's interests in equity accounted investees comprise interests in associates and a joint venture.

Associates are those entities over which the Group holds exercises significant influence, but not control or joint control, over the financial and operating policies. 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. These are accounted for using the equity method.

Investments in associates and joint ventures are initially recognised at cost including transactions cost and the carrying amount is adjusted to recognise the Group's share of the post-acquisition profits or losses of the investee after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's equity. When the Group's share of losses exceeds its interest in the investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued, except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee.

The carrying amount of the equity accounted investee is tested for impairment in accordance with the policy described in note 5 (k).

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation (Continued)

(iv) 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.

(b) Foreign currency transactions

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

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

The other Group companies functional currencies are either denominated in Bahraini dinars or US dollars which is effectively pegged to the Bahraini dinar. Hence, the translation of financial statements of the group entities that have a functional currency different from the presentation currency do not result in an exchange difference.

(c) Investment securities

Investment securities comprise investments in equity securities and investments in debt-type securities, sukuk. Investment securities exclude investments in subsidiaries and equity accounted investees (refer note 5(a)).

(i) Classification

The Group segregates its investment securities into debt-type and equity-type instruments. Debt-type instruments are investments that have terms that provide fixed or determinable payments of instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities profits and capital. Equity-type instruments are investments that do not exhibit features of debt-type.

Debt-type Instruments:

A debt-type investment is classified and measured at amortised cost only if the instrument is managed on a contractual yield basis or the instrument is not held for trading and has not been designated at FVTIS. Debt-type investments at amortised cost include investment in sukuk.

Equity-type investments:

Investments in equity type instruments are classified in the following categories: 1) at fair value through income statement ('FVTIS') or 2) at fair value through equity ('FVTE'), consistent with its investment strategy.

The Group has one investment in structured notes that is designated at FVTIS. The rest are classified as investments at fair value through equity.

(ii) Recognition and de-recognition

Investment securities are recognised at the trade date i.e. the date that the Group contracts to purchase or sell the asset, at which date the Group becomes party to the contractual provisions of the instrument.

Investment securities are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Investment securities (Continued)

(iii) Measurement

Investment securities are measured initially at fair value, which is the value of the consideration given. For FVTIS investments, transaction costs are expensed in the income statement. For other investment securities, transaction costs are included as a part of the initial recognition.

Subsequent to initial recognition, investments carried at FVTIS and FVTE are re-measured to fair value. Gains and losses arising from a change in the fair value of investments carried at FVTIS are recognised in the income statement in the period in which they arise. Gains and losses arising from a change in the fair value of investments carried at FVTE are recognised in the consolidated statement of changes in equity and presented in a separate fair value reserve within equity. The fair value gains/losses are recognised taking into consideration the split between portions related to owners' equity and equity of investment account holders. When the investments carried at FVTE are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in equity is transferred to the income statement.

Subsequent to initial recognition, debt-type securities, other than those carried at FVTIS, are measured at amortised cost using the effective profit method less any impairment allowances.

(iv) Measurement principles

Amortised cost measurement

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

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

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

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If a market for a financial instrument is not active or there is no market, the Group establishes fair value using well-recognised valuation techniques that may include recent arm's length transactions between knowledgeable, willing parties (if available), discounted cash flows or market multiples for similar instruments.

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

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

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Investment securities (Continued)

(iv) Measurement principles (Continued)

In determining fair valuation, the Group in many instances relies on the financial data of investees and on estimates by the management of the investee companies as to the effect of future developments.

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

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

(d) Financing assets

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

(e) Placements with and from financial institutions, non-financial institutions and individuals

These comprise inter-bank and over the counter customer placements made/received using Shari'a compliant contracts. Placements are usually for short-term and are stated at their amortised cost.

(f) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash and bank balances (excluding CBB reserve account), and placement with financial institutions with original maturities of three months or less when acquired which are subject to insignificant risk of changes in fair value and are used by the Group in the management of its short-term commitments.

(g) Assets acquired for leasing

Assets acquired for leasing (Ijarah Muntahia Bittamleek) are stated at cost less accumulated depreciation and any impairment. Under the terms of lease, the legal title of the asset passes to the lessee at the end of the lease term, provided that all lease instalments are settled. Depreciation is calculated on a straight line basis at rates that systematically reduce the cost of the leased assets over the period of the lease. The Group assesses at each reporting date whether there is objective evidence that the assets acquired for leasing are impaired. Impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount. Impairment losses, if any, are recognised in the income statement. The estimates of future cash flows, when dependent on a single customer, takes into consideration the credit evaluation of the respective customer in addition to other factors.

(h) Investment in real estate

Investment property

Real estate properties held for rental, or for capital appreciation purposes, or both, are classified as investment property. Investment property are carried at cost less depreciation and impairment allowances. Cost includes expenditure that is directly attributable to the acquisition of the investment property. Investment property includes plots of land held for undetermined use and property leased to third parties. Land is not depreciated.

Development property

Development property is measured at lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less costs to complete development and selling expenses.

Development property comprise a property being developed as a hotel in the Kingdom of Bahrain.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Investment in real estate (Continued)

Trading properties

Trading properties are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less costs to complete development and selling expenses.

Trading properties include properties for the sale in the ordinary course of business.

(i) Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and impairment allowances, if any. Property includes land which is not depreciated. Other equipment is depreciated using the straight-line method to write-off the cost of the assets over their estimated useful lives ranging from 3 to 5 years. The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

(j) Impairment of financial instruments

i) Exposures subject to credit risk

The Group recognises loss allowances for ECLs on:

- Cash and bank balances;
- Placements with financial institutions;
- Financing assets;
- Assets acquired for leasing (including lease rental receivable);
- Investments in Sukuk - debt-type securities at amortised cost; and
- Undrawn financing commitments and financial guarantee contracts issued.

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

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

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

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

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

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

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

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Impairment of financial instruments (Continued)

i) Exposures subject to credit risk (Continued)

Stage 1: 12-months ECL

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

Stage 2: Lifetime ECL - not credit impaired

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

Stage 3: Lifetime ECL - credit impaired

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

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

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

- Financing assets and assets acquired for leasing that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).
- Financing assets and assets acquired for leasing that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn financing commitment: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn and the cash flows that the Group expects to receive;
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover; and
- Purchased or originated credit-impaired financial assets are those assets that are credit-impaired on initial recognition. Their ECL is measured on a lifetime basis (stage 3).

ECLs are discounted at the effective profit rate of the financial instrument.

Credit-impaired exposures

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

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

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Impairment of financial instruments (Continued)

i) Exposures subject to credit risk (continued)

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost and assets acquired for leasing are deducted from the gross carrying amount of the assets. Loss on undrawn commitments and financial guarantees are disclosed in other liabilities.

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

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

(k) Impairment of non-financial assets

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

(l) Customers' current accounts

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

(m) Equity of investment account holders

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

The Group charges management fee (Mudarib fees) to investment account holders. Of the total income from investment accounts, the income attributable to customers is allocated to investment accounts after setting aside provisions, reserves (Profit equalisation reserve and Investment risk reserve) and deducting the Group's share of income as a Mudarib. The allocation of income is determined by the management of the Group within the allowed profit sharing limits as per the terms and conditions of the investment accounts. Only the income earned on pool of assets funded from IAH are allocated between the owners' equity and investment account holders. Administrative expenses incurred in connection with the management of the funds are borne directly by the Group and are not charged separately to investment accounts.

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

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Equity of investment account holders (Continued)

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

(n) Restricted investment accounts

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

(o) 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.

(p) Treasury shares

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

(q) Statutory reserve

The Bahrain Commercial Companies Law 2001 requires that 10 per cent of the annual net profit be appropriated to a statutory reserve which is normally distributable only on dissolution. Appropriations may cease when the reserve reaches 50 per cent of the paid up share capital.

(r) Revenue recognition

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

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

Istisna'a revenue and the associated profit margin is recognised using the percentage of completion method.

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

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

Dividend income is recognised when the right to receive is established.

Rental income is recognised on a straight line basis over the term of the contract.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Revenue recognition (Continued)

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

(s) Earnings prohibited by Shari'a

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

(t) 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 Group 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 Shari'a Supervisory Board. Payment of Zakah on the unrestricted investment and other accounts is the responsibility of the investment account holders.

(u) Employee benefits

(i) 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.

(ii) 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 Group 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. These benefits are in the nature of "defined benefit scheme" and any increase or decrease in the benefit obligation is recognised in the income statement.

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

(iii) Share-based employee incentive scheme

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Dividends and board remuneration

Dividends to shareholders and board remuneration are recognised as liabilities in the period in which they are declared.

(w) Trade date accounting

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

(x) Offsetting

Financial assets and liabilities are offset only when there is a legal or Shari'a based enforceable right to set-off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

(y) Provisions

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

(z) URIA Protection Scheme

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

The Scheme applies to all eligible accounts held with the Group subject to certain specific exclusions, maximum total amount entitled and other regulations governing the establishment of a Deposit and URIA Protection Scheme and a Deposit Protection Board.

(aa) Repossessed assets

In certain circumstance, properties are repossessed following the foreclosure on financing facilities that are in default. Repossessed properties are measured at the lower of carrying value and fair value less cost to sell in accordance with IFRS 5 "Non-current assets held for sale and discontinued operation".

(bb) Term Borrowings

Term borrowings represents borrowing obtained through murabaha contract recognized on the origination date and carried at amortized cost.

6. CASH AND BANK BALANCES

	31 st December 2020	31 st December 2019
Cash	5,031	5,299
Balances with banks	33,280	42,601
Balances with the Central Bank:		
– Current account	29,292	31,047
– Reserve account	15,414	25,430
Less: Impairment allowance	–	(1)
	83,017	104,376

The reserve account with the Central Bank of Bahrain is not available for day-to-day operational purposes.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

7. PLACEMENTS WITH FINANCIAL INSTITUTIONS

	31 st December 2020	31 st December 2019
Gross Murabaha and Wakala receivable	17,720	65,524
Less: Deferred profits	-	(15)
Less: Impairment allowance	-	(1)
	17,720	65,508

The average profit rate on placement with financial institutions for 2020 was 1.55% per annum (31 December 2019: 3.07% per annum).

8. FINANCING ASSETS

	31 st December 2020	31 st December 2019
Murabaha	322,220	354,510
Musharaka	104	104
Wakala	90	5,007
Mudharaba	1,014	1,047
Istisna	1,344	1,733
	324,772	362,401
Less: Impairment allowances	(17,055)	(38,046)
	307,717	324,355

Murabaha financing receivables are net of deferred profits of BD 18,862 thousand (2019: BD 25,724 thousand).

The movement on impairment allowances is as follows:

2020	Stage 1	Stage 2	Stage 3	Total
At 1 January 2020	4,581	2,730	30,735	38,046
Net movement between stages	85	(1,701)	1,616	-
Charge for the year	2,672	905	1,180	4,757
Write back for the year	-	-	(2,046)	(2,046)
Write-off	-	-	(11,010)	(11,010)
Disposal	(108)	-	(12,584)	(12,692)
At 31 December 2020	7,230	1,934	7,891	17,055

2019	Stage 1	Stage 2	Stage 3	Total
At 1 January 2019	4,762	3,695	13,566	22,023
Net movement between stages	(20)	(1,221)	1,241	-
Net charge for the year	(161)	256	15,928	16,023
Write-off	-	-	-	-
At 31 December 2019	4,581	2,730	30,735	38,046

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

9. INVESTMENT IN SUKUK

	31 st December 2020	31 st December 2019
Debt type instruments – at amortized cost		
– Quoted sukuk *	261,539	195,061
– Unquoted sukuk	1,317	1,317
Less: Impairment allowances	(1,724)	(1,328)
	261,132	195,050

* Quoted Sukuk of BD 113,952 thousand are pledged against term borrowings of BD 75,477 (refer note 17).

10. ASSETS ACQUIRED FOR LEASING

	2020	2019
Cost		
At 1 January	168,309	138,952
Additions during the year	34,618	53,688
Settlements/adjustments during the year	(33,521)	(24,331)
At 31 December	169,406	168,309
Accumulated depreciation		
At 1 January	39,212	30,274
Charge for year	17,494	16,714
Settlements during the year	(14,234)	(7,776)
At 31 December	42,472	39,212
Net book value at 31 December	126,934	129,097

At 31 December 2020, accrued lease rental receivable amounted to BD 12,820 thousand (2019: BD 17,102 thousand). Lease rental receivable is net of stage 1 and 2 ECL of BD 969 thousands (2019: BD 516 thousand) and Stage 3 ECL of BD 3,014 thousand (2019: BD 2,705 thousand). During the year, an impairment allowance of BD 762 thousand (2019: BD 765 thousand) was provided on the lease rental receivables (note 23).

Of the total net book value of assets acquired for leasing, consumer financing amounted to BD 83,394 thousand (2019: BD 84,958 thousand).

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

11. INVESTMENT SECURITIES

	31 st December 2020	31 st December 2019
At fair value through income statement		
– Structured notes	15,080	–
At fair value through equity		
– unquoted equity securities*	40,812	43,989
	55,892	43,989

* additional impairment charge for the year of BD 500 thousand was made (2019: BD 2,667 thousand).

12. INVESTMENT IN REAL ESTATE

	2020	2019
Investment property	15,081	15,081
Development property	65,522	6,251
Trading properties	3,000	3,000
Impairment allowance	(300)	(300)
	83,303	24,032

(i) Investment property

Investment property comprise plots of land in the Kingdom of Bahrain and United Arab Emirates, net of impairment allowance of BD 300 thousand (2019: BD 300 thousand).

The fair value of investment property as of 31 December 2020 was BD 15,259 thousand, determined by an external independent real estate valuer based on sales comparison approach and accordingly has been categorised as level 2 in the fair value hierarchy.

(ii) Development property

Development property comprise mainly a property under construction in Bahrain Financial Harbour in the Kingdom of Bahrain acquired during the year from the Parent part of a swap transaction (refer note 27).

(iii) Trading properties

Trading properties comprise villas for sale in the ordinary course of business.

The net realisable value of development property and trading properties were determined by external, independent property valuers, having appropriate recognised professional qualification and recent experience in the location and category of the property being valued.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

13. EQUITY ACCOUNTED INVESTEES

	2020	2019
At 1 st January	4,524	4,575
Additions during the year	27,759	–
Share of loss for the year	(320)	(51)
At 31st December	31,963	4,524

Name	Country of incorporation	% holding		Nature of business
		2020	2019	
Amlak II	Kingdom of Bahrain	23.51%	23.51%	Investment in real estate
Capital Real Estate Projects Company	Kingdom of Bahrain	30.00%	30.00%	Real estate development
NS 12	Kingdom of Bahrain	28.41%	28.41%	Investment in real estate
Lagoon Real Estate Development	Kingdom of Bahrain	22.97%	–	Investment in real estate
Al Areen Hotels W.L.L.	Kingdom of Bahrain	50.00%	–	Hospitality business

During the year, the Group acquired 50% stake in Al Areen Hotels W.L.L., a Bahraini incorporated company operating in the hospitality business from the parent as part of the Parent's subscription to a subordinated Modaraba (additional Tier One Capital securities) issued by the Bank (refer to Note 35). The investment is accounted for as joint venture based on shareholders' agreement.

14. OTHER ASSETS

	31 st December 2020	31 st December 2019
Reposessed assets	15,708	13,513
Profit accrued on Sukuk	3,836	3,250
Due from investments	1,044	985
Prepaid expenses	608	776
Other receivables*	6,450	5,445
	27,646	23,969

*This is net of impairment allowance of BD 1,742 thousand (2019: BD 1,742 thousand).

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

15. PROPERTY AND EQUIPMENT

	Land	Furniture and fixtures	Computers	Motor vehicle and other equipment	Work-in-progress	2020 Total	2019 Total
Cost							
At 1 January	6,714	4,471	5,254	576	175	17,190	16,843
Additions	–	7	152	1	111	271	452
Disposals	–	(103)	–	–	(11)	(114)	(105)
Transfer	–	–	81	–	(81)	–	–
At 31 December	6,714	4,375	5,487	577	194	17,347	17,190
Accumulated Depreciation							
At 1 January	–	4,350	4,583	507	–	9,440	8,978
Charge for year (note 22)	–	47	466	36	–	549	567
Disposals	–	(92)	–	–	–	(92)	(105)
At 31 December	–	4,305	5,049	543	–	9,897	9,440
Net book value							
At 31st December 2020	6,714	70	438	34	194	7,450	7,750
At 31 December 2019	6,714	121	671	69	175	7,750	

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

16. PLACEMENTS FROM NON-FINANCIAL INSTITUTIONS AND INDIVIDUALS

	31 st December 2020	31 st December 2019
Non-financial institutions	96,635	51,660
Individuals	117,608	82,994
	214,243	134,654

These represent placements in the form of Murabaha and Wakala contracts, net of deferred profit of BD 5,622 thousand (2019: BD 5,218 thousand).

17. TERM BORROWINGS

As of 31 December 2020, the Bank had five term Murabaha facilities of BD 75,477 thousand secured by pledge over sukuk of BD 113,952 thousand.

18. OTHER LIABILITIES

	31 st December 2019	31 st December 2018
Mudaraba profit accrual	5,581	8,911
Advance received from customers	443	3,274
Employee related accruals	269	1,251
Zakah and charity payable	696	714
Payable for Istisna'a contracts	27	27
Other payables and accrued expenses	6,253	5,621
	13,269	19,798

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

19. EQUITY OF INVESTMENT ACCOUNT HOLDERS

	31 st December 2020	31 st December 2019
Placements and borrowings from financial institutions – Wakala	–	10,355
Mudaraba	425,349	511,835
	425,349	522,190

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

	31 st December 2020	31 st December 2019
Balances with banks	33,280	42,601
CBB reserve account	15,414	25,430
Placements with financial institutions	17,720	65,508
Debt type instruments – sukuk	261,132	195,050
Financing assets	97,803	193,601
	425,349	522,190

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

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

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

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

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

* Includes savings, Al Waffer and Call Mudaraba accounts.

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

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

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

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

20. SHARE CAPITAL

	31 st December 2019	31 st December 2018
Authorised:		
3,000,000,000 ordinary shares of BD 0.100 each	300,000	300,000
Issued and fully paid up:		
892,119,480 ordinary shares (2019: 1,050,000,000) of BD 0.100 each	89,212	105,000

In their Extra -ordinary meeting on 25 March 2020, the shareholders resolved to write-off losses of BD 15,788 thousand against paid up capital by reducing the number of shares. The Group has only one class of equity shares and the holders of these shares have equal voting rights. At 31 December 2020, the Group holds 92,048,004 as treasury shares (2019: 105,573,476 shares).

Distribution schedule of equity shares, setting out the number of holders and percentage in the following categories:

31 December 2020

Categories*	Number of Shares	Number of Shareholders	% of total outstanding shares
Less than 1%	117,417,814	541	13.16
1% up to less than 5%	104,880,910	5	11.76
5% up to less than 10% **	175,490,264	2	19.67
10% up to less than 20%	-	-	-
20% and less than 50%	-	-	-
50% and above	494,330,492	1	55.41
	892,119,480	549	100.00

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

** Includes treasury shares.

31 December 2019

Categories*	Number of Shares	Number of Shareholders	% of total outstanding shares
Less than 1%	137,765,476	604	13.12
1% up to less than 5%	122,049,555	5	11.62
5% up to less than 10% **	296,694,051	3	28.26
10% up to less than 20%	-	-	-
20% and less than 50%	493,490,918	1	47.00
50% and above	-	-	-
	1,050,000,000	613	100.00

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

** Includes treasury shares.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

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 shares:

31 December 2020

	Nationality	Number of shares	% of total outstanding shares
GFH Financial Group*	Bahrain	494,330,492	55.41
Khaleeji Commercial Bank B.S.C	Bahrain	88,411,540	9.91
Goldilocks Investment Company Limited	UAE	87,078,724	9.76

*These shares are held by KHCB Asset Company on behalf of GFH Financial Group, the Parent.

31 December 2019

	Nationality	Number of shares	% of total outstanding shares
GFH Financial Group*	Bahrain	493,490,918	47.00
Goldilocks Investment Company Limited	UAE	104,779,110	9.98
Khaleeji Commercial Bank B.S.C	Bahrain	103,592,516	9.87
Emirates Islamic Bank PJSC	UAE	88,322,425	8.41

*These shares are held by KHCB Asset Company on behalf of GFH Financial Group, the Parent.

21. STAFF COST

	2020	2019
Salaries and short-term benefits	4,974	7,073
Social insurance expenses	835	964
Other staff expenses	65	121
	5,874	8,158

22. OTHER OPERATING EXPENSES

	2020	2019
Premises cost	773	1,059
Advertisement and marketing expenses	157	660
Professional fees	743	1,194
Information technology expenses	549	536
Board expenses	216	244
Communication expenses	135	286
Distribution channel expenses	663	589
Depreciation expense	549	567
Other operating expenses	738	901
	4,523	6,036

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

23. NET IMPAIRMENT CHARGE

	2020	2019
Balances and placements with banks and financial institutions	(2)	(50)
Financing assets (note 8)	2,711	16,023
Investments in sukuk (note 9)	401	8
Assets acquired for leasing - including lease rentals receivables (note 10)	762	765
Investment securities (note 11)	500	2,667
Investment in real estate (note 12)	-	300
Other assets	-	788
Commitments and financial guarantees	(31)	(112)
	4,341	20,389

24. SHARE-BASED EMPLOYEE INCENTIVE SCHEME

The shareholders, in their annual general meeting held on 30 March 2015, approved the employee share based incentive scheme (the "scheme") in line with the CBB's Sound Remuneration Practices. Under the share incentive scheme, certain covered employees are granted the Group's shares as compensation for their performance.

In 2018 the Group had incorporated a Trust, Khaleeji Commercial Bank Employee Benefit Trust ("Trust"), to hold the beneficial interest of the shares under the scheme.

As per the scheme, the share awards from each performance year will vest immediately but will be released over three years period from the date of grant. The share awards are subject to an additional retention period of six months from the date of completion of deferred period, after which the employee is unconditionally allowed to sell the shares in the market. The scheme allows the Bank's Nomination, Remuneration and Governance Committee ("BNRGC") to determine that, if appropriate, un-awarded shares can be forfeited or clawed back in certain situations.

As at 31 December 2020, 3,636,464 shares were held by the Trust (2019: 1,980,960 shares). During the year, 2,827,275 shares (2019: 1,182,516 shares) shares were awarded to the employees as awards under the terms of the scheme subject to a three-year deferment period.

During the year, the Group transferred 896,634 shares (2019: 1,465,997 shares) to the employees.

During the year, the shareholders resolved to write-off accumulated losses of BD 15,788 thousand against paid up capital by reducing the number of shares (refer Note 20). Accordingly, the number of shares held by the trust was reduced by 297,862 shares.



Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

25. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

I. Judgements

- a) Establishing the criteria for determining whether credit risk on an exposure subject to credit risk has increased significantly since initial recognition, determining methodology for incorporating forward looking information into measurement of ECL and selection and approval of models used to measure ECL is set out in Note 5j(i) and Note 35.

Covid 19 impact

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

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

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

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

Financing portfolio

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

Impairment allowance on financing portfolio at amortised cost

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

The ECL methodology, significant increase in credit risk (SICR) thresholds, and definition of default remain consistent with those used as at 31 December 2020.

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

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

25. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

I. Judgements (Continued)

Impairment allowance on financing portfolio at amortised cost (Continued)

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

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

The Group continues to assess borrowers for other indicators of unlikelihood 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.

b. Classification of investments

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as 1) debt type instruments carried at fair value through equity or at amortised cost, or 2) equity-type instruments carried at fair value through equity or at fair value through income statement. 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 (refer note 5 (c) (i)).

c. Impairment of equity investments at fair value through equity – (refer to Note 5 (j) (ii))

II. Estimations

a) Impairment of financing assets at amortised cost

- Determining inputs into ECL measurement model including incorporation of forward-looking information is set out in Note 5(j) and Note 35; and
- Ky assumptions used in estimating recoverable cash flows

b) Measurement of fair value of unquoted equity investments (level 3) -refer to Note 5c (iv) and Note 34

c) Assessment of impairment of investment in real estate (Note 5(h, 5(k)) and Note 12).

26. ASSETS UNDER MANAGEMENT

The Group provides corporate administration, investment management and advisory services to its investment entities, which involves making decisions on behalf of such entities. Assets that are held in such capacity are not included in these consolidated financial statements. At the reporting date, the Group had assets under management of BD 267.98 million (31 December 2019: BD 262.25 million). During the year, the Group has not charged any management fees (2019: BD Nil) for the management of these assets.

Notes to the Consolidated Financial Statements (Continued)

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27. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include the parent company, other significant shareholders and entities over which the Group and the shareholders exercises significant influence, directors, sharia board members and executive management of the Group. The transactions with these parties were made on agreed commercial terms.

During the year, the Group entered into a swap transaction with its Parent at agreed terms by transferring assets of BD 46.4 million comprising financing assets of BD 27.7 million, Sukuk of BD 7.5 million and equity investment of BD 11.2 million in exchange for a 86% stake in HH Hospitality SPC, a Bahraini company incorporated solely to own a hotel under construction in the Kingdom of Bahrain. The transaction was assessed as an asset acquisition and did not result in any gain or loss for the Bank. The property under development was recognised at the fair value on the date of transfer.

31 December 2020	Associates	Significant shareholders / entities in which directors are interested	Total
Transactions with related parties			
Underwriting fee on Subordinated Mudaraba	–	12,100	12,100
Sub-ordinated Mudaraba	–	60,000	60,000
Cash injection of AT1 Capital	–	23,600	23,600
Investment in associates	24,500	–	24,500
Acquisition of development property	–	60,000	60,000
Sale of financial assets	–	46,376	46,376
Transfer of financial assets	–	18,433	18,433
Profit distribution on AT 1 Capital	–	2,834	2,834

Details of Directors' interests in the Bank's ordinary shares as at the end of the year were nil (2019: 1,050,763 shares representing less than 1% of total outstanding shares of the Bank were held by one director).

Compensation of key management personnel

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

The key management personnel compensation during the year is as follows:

	2020	2019
Board member fees and allowances	236	254
Salaries and other short-term benefits	1,452	1,150

The key management personnel balances as of the end the year is as follows:

	2020	2019
Balances due to key management as compensation	228	426

Notes to the Consolidated Financial Statements (Continued)

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27. RELATED PARTY TRANSACTIONS (CONTINUED)

The related party balances and transactions (except for compensation of key managerial personnel) included in these consolidated financial statements are as follows:

31 st December 2020	Associates	Directors / Key management personnel and Shari'a board members	Parent company / other significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Assets					
Financing assets	–	3,576	6,671	–	10,247
Investment securities	–	–	2,284	18,537	20,821
Equity accounted investees	31,963	–	–	–	31,963
Other assets	117	–	–	825	942
Liabilities					
Placement from financial institutions, Non-FIs and individuals	–	2,105	42,438	–	44,543
Customers' current accounts	135	85	6,784	1,211	8,215
Equity of investment account holders	413	241	79,846	327	80,827
Other liabilities	–	–	1,030	–	1,030
31st December 2019					
Assets					
Financing assets	–	2,017	5,710	–	7,727
Investment securities	–	–	2,284	18,051	20,335
Equity accounted investees	4,524	–	–	–	4,524
Other assets	121	–	–	865	986
Liabilities					
Placement from financial institutions, Non-FIs and individuals	–	1,784	–	–	1,784
Customers' current accounts	194	61	5,634	1,207	7,096
Equity of investment account holders	404	598	122,880	380	124,262

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27. RELATED PARTY TRANSACTIONS (CONTINUED)

2020	Associates	Directors / Key management personnel and Shari'a board members	Parent company/ other significant shareholders/ entities in which directors are interested	Assets under management (including special purpose entities)	Total
Income					
Income from financing assets and assets acquired for leasing	-	100	987	-	1,087
Fees and other income	(320)	-	2	-	(318)
Expenses					
Finance expense on placements from financial institutions, non-financial institutions and individuals	-	100	1,937	-	2,037
Return to investment account holders	14	2	1,820	9	1,845
Staff cost	-	1,452	-	-	1,452
Other expenses	-	-	-	25	25

2019	Associates	Directors / Key management personnel and Shari'a board members	Parent company/ other significant shareholders/ entities in which directors are interested	Assets under management (including special purpose entities)	Total
Income					
Income from financing assets and assets acquired for leasing	-	128	373	-	501
Fees and other income	(42)	-	-	-	(42)
Expenses					
Finance expense on placements from financial institutions, non-financial institutions and individuals	-	-	2,931	-	2,931
Return to investment account holders	15	18	4,153	11	4,197
Staff cost	-	1,150	-	-	1,150
Other expenses	-	-	-	32	32

Notes to the Consolidated Financial Statements (Continued)

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28. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of equity shares outstanding during the year adjusted for impact arising from shares issued under the employee share incentive scheme.

Basic EPS	2020	2019
Profit attributable to parent for the year (BD 000's)	7,986	(14,937)
Weighted average number of equity shares (Nos. in 000's)	803,874	804,820
Basic earnings per share (in fils)	9.94	(18.56)

The Group did not have any dilutive instruments as of 31st December 2020 and December 2019.

29. SHARI'A SUPERVISORY BOARD

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

30. ZAKAH

Zakah is directly borne by the shareholders on distributed profits and investment account holders. The Group currently does not collect or pay Zakah on behalf of its shareholders and investors in restricted investment accounts. Zakah payable by the shareholders is computed by the Group on the basis of the method prescribed by the Group's Shari'a Supervisory Board and notified to shareholders annually. During the year, the Shari'a Supervisory Board has computed Zakah payable of BD 246 thousand (2019: BD 222 thousand) of which BD 230 thousand (2019: 218 thousand) represents the Zakah computed on the statutory reserve and cumulative retained earnings as at 31 December 2020, payable by the Group. The remaining Zakah balance amounting to BD 16 thousand or 0.018 fils per share (2019: BD 4 thousand or 0.003 fils per share) is due and payable by the shareholders. The Group will pay Zakah of BD 1.6 thousand (2019: BD 0.4 thousand) on the treasury shares held as of 31 December 2020 based on 0.018 fils per share.



Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

31. SEGMENT REPORTING

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group's chief operating decision maker (Board of Directors) to make decisions about resource allocation to each segment and assess its performance and for which discrete financial information is available. An operating segment is divided into business segment and geographic segments. For management purposes, the Group is organised into two major business segments:

Corporate and retail banking

Providing customer services such as accepting Mudaraba deposits, savings account and current account facilities, fund transfer facilities, bill payment facilities. It also provides financing facilities (in the form of Commodity Murabaha, Musharaka, Istisna'a and Ijarah facilities) to corporate clients and High-Networth-Individuals and consumer finance products. This segment includes money market and treasury services in the form of short term Commodity Murabaha and Wakala to banks, financial institutions and investments in sukuk to manage funding of the Group.

Investment banking

Primarily relates to conceptualising of investment deals and performing roles of an arranger, lead manager, and administrator of the funds (involves structuring of deals, raising of funds through private placement and fund administration). Also offers products like Restricted Investment Accounts (RIA) and management of funds raised through the RIA structures. Also involves carrying out strategic investments in the form of equity contribution (either in the funds created and managed by the Group or other institutions).

Segment performance is measured based on results for each department as mentioned in the internal management reports that are reviewed by the Board of directors on a quarterly basis. Segment results is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate in these industries.

The Group reports directly attributable revenue and cost relating to transactions originating from respective segments as segment revenue and segment cost respectively. Indirect costs and corporate overheads are treated as unallocated. The internal management reports are designed to reflect revenue and cost for respective segments which are measured against the budgeted figures.

The Group primarily operates from Bahrain and does not have any overseas branches/divisions. The geographic concentration of assets and liabilities is disclosed in note 33 (b) to the consolidated financial statements.

The Group is winding down in investment banking business.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

31. SEGMENT REPORTING (CONTINUED)

These segments are the basis on which the Group reports its primary segment information. Transactions between segments (if any) are conducted on an arm's length basis

31 st December 2020	Investment Banking	Corporate and Retail Banking	Unallocated	Total
Cash and bank balances	2	83,015	–	83,017
Placements with financial institutions	902	16,818	–	17,720
Financing assets	–	307,717	–	307,717
Investment in sukuk	–	261,132	–	261,132
Assets acquired for leasing (including lease rentals receivables)	–	139,754	–	139,754
Investment securities	55,892	–	–	55,892
Investment in real estate	83,303	–	–	83,303
Equity accounted investees	31,963	–	–	31,963
Other assets	16,069	4,894	6,683	27,646
Property and equipment	–	–	7,450	7,450
Total segment assets	188,131	813,330	14,133	1,015,594
Placements from financial institutions	–	79,545	–	79,545
Placements from non- financial institutions and individuals	–	214,243	–	214,243
Term borrowings	–	75,477	–	75,477
Customers' current accounts	902	54,774	–	55,676
Other liabilities	1,591	8,364	3,314	13,269
Total segment liabilities	2,493	432,403	3,314	438,210
Equity of investment account holders	–	425,349	–	425,349
Restricted investment accounts	10,681	–	–	10,681

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

31. SEGMENT REPORTING (CONTINUED)

2020	Investment Banking	Corporate and Retail Banking	Unallocated	Total
Income from financing assets and assets acquired for leasing	(175)	30,096	–	29,921
Income from placements with financial institutions	28	523	–	551
Income from sukuk	–	15,242	–	15,242
Income from investment securities	366	–	–	366
Fees and other income	(308)	2,425	–	2,117
Total income before return to investment account holders	(89)	48,286	–	48,197
Less: Return to investment account holders before Bank's share as Mudarib	–	(21,575)	–	(21,575)
Bank's share as a Mudarib	–	9,289	–	9,289
Return to investment account holders	–	(12,286)	–	(12,286)
Less:				
Expense on placements from financial institutions, non-financial institutions and individuals	–	(12,472)	–	(12,472)
Finance expense on term borrowings	–	(796)	–	(796)
Total segment income	(89)	22,732	–	22,643
Staff cost	587	2,350	2,937	5,874
Other expenses	93	825	3,605	4,523
Total segment expenses	680	3,175	6,542	10,397
Segment results before impairment allowances	(769)	19,557	(6,542)	12,246
Net impairment charge	(500)	(3,841)	–	(4,341)
Segment results	(1,269)	15,716	(6,542)	7,905

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

31. SEGMENT REPORTING (CONTINUED)

31 st December 2019	Investment Banking	Corporate and Retail Banking	Unallocated	Total
Cash and bank balances	1	104,375	–	104,376
Placements with financial institutions	1,184	64,324	–	65,508
Financing assets	–	324,355	–	324,355
Investment in sukuk	–	195,050	–	195,050
Assets acquired for leasing (including lease rentals receivables)	–	146,199	–	146,199
Investment securities	43,989	–	–	43,989
Investment in real estate	24,032	–	–	24,032
Equity accounted investees	4,524	–	–	4,524
Other assets	13,906	4,182	5,881	23,969
Property and equipment	–	–	7,750	7,750
Total segment assets	87,636	838,485	13,631	939,752
Placements from financial institutions	–	117,098	–	117,098
Placements from non- financial institutions and individuals	–	134,654	–	134,654
Term borrowings	–	–	–	–
Customers' current accounts	1,184	56,921	–	58,105
Other liabilities	1,847	13,647	4,304	19,798
Total segment liabilities	3,031	322,320	4,304	329,655
Equity of investment account holders	–	522,190	–	522,190
Restricted investment accounts	10,681	–	–	10,681

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

31. SEGMENT REPORTING (CONTINUED)

2019	Investment Banking	Corporate and Retail Banking	Unallocated	Total
Income from financing assets and assets acquired for leasing	102	31,232	–	31,334
Income from placements with financial institutions	39	2,144	–	2,183
Income from sukuk	–	10,031	–	10,031
Income from investment securities	(1,687)	–	–	(1,687)
Fees and other income	(51)	5,777	–	5,726
Total income before return to investment account holders	(1,597)	49,184	–	47,587
Less: Return to investment account holders before Bank's share as Mudarib	–	(27,059)	–	(27,059)
Bank's share as a Mudarib	–	8,457	–	8,457
Return to investment account holders	–	(18,602)	–	(18,602)
Less:				
Expense on placements from financial institutions, non-financial institutions and individuals	–	(8,188)	–	(8,188)
Finance expense on term borrowings	–	(1,241)	–	(1,241)
Total segment income	(1,597)	21,153	–	19,556
Staff cost	816	3,263	4,079	8,158
Other expenses	101	1,262	4,673	6,036
Total segment expenses	917	4,525	8,752	14,194
Segment results before impairment allowances	(2,514)	16,628	(8,752)	5,362
Net impairment charge	(2,968)	(17,421)	–	(20,389)
Segment results	(5,482)	(793)	(8,752)	(15,027)

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

32. MATURITY PROFILE

The maturity profile of placements with and from financial institutions, financing assets, assets acquired for leasing, (including lease rental receivable), and equity of investment account holders has been presented using their contractual maturity period. For other balances, maturity profile is based on expected cash flows/ settlement profile of the respective assets and liabilities.

31 st December 2020	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash and bank balances	75,238	1,875	3,918	1,986	–	83,017
Placements with financial institutions	17,720	–	–	–	–	17,720
Financing assets	43,397	18,839	37,549	123,057	84,875	307,717
Investment in sukuk	249,716	11,416	–	–	–	261,132
Assets acquired for leasing (including lease rentals receivables)	5,266	3,724	7,457	32,884	90,423	139,754
Investment securities	–	–	22,622	15,549	17,721	55,892
Investment in real estate	–	–	–	–	83,303	83,303
Equity accounted investees	–	923	1,981	–	29,059	31,963
Other assets	953	206	61	26,426	–	27,646
Property and equipment	–	–	–	–	7,450	7,450
Total assets	392,290	36,983	73,588	199,902	312,831	1,015,594
Liabilities						
Placements from financial institutions	32,906	34,948	8,077	3,614	–	79,545
Placements from non-financial institutions and individuals	86,708	62,708	45,795	14,369	4,663	214,243
Term borrowings	67,915	7,562	–	–	–	75,477
Customers' current account	17,117	5,419	5,884	6,724	20,532	55,676
Other liabilities	4,918	1,651	1,589	5,111	–	13,269
Total liabilities	209,564	112,288	61,345	29,818	25,195	438,210
Equity of investment account holders	95,829	73,308	107,892	73,093	75,227	425,349
Restricted investment accounts	–	–	–	10,681	–	10,681
Commitments and financial guarantees	6,896	4,796	5,495	17,459	6,923	41,569

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

32. MATURITY PROFILE (CONTINUED)

31 st December 2019	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash and bank balances	90,605	4,727	5,485	3,559	–	104,376
Placements with financial institutions	65,508	–	–	–	–	65,508
Financing assets	75,634	24,168	38,425	121,509	64,619	324,355
Investment in sukuk	195,050	–	–	–	–	195,050
Assets acquired for leasing (including lease rentals receivables)	6,106	11,191	8,358	38,729	81,815	146,199
Investment securities	–	–	7,056	15,549	21,384	43,989
Investment in real estate	–	–	–	–	24,032	24,032
Equity accounted investees	–	923	1,981	–	1,620	4,524
Other assets	844	138	12	22,975	–	23,969
Property and equipment	–	–	–	–	7,750	7,750
Total assets	433,747	41,147	61,317	202,321	201,220	939,752
Liabilities						
Placements from financial institutions	–	–	15,637	101,461	–	117,098
Placements from non-financial institutions and individuals	37,914	39,623	41,594	12,232	3,291	134,654
Term borrowings	–	–	–	–	–	–
Customers' current account	17,864	5,655	6,141	7,018	21,427	58,105
Other liabilities	6,731	2,164	3,305	7,598	–	19,798
Total liabilities	62,509	47,442	66,677	128,309	24,718	329,655
Equity of investment account holders	124,172	86,311	126,115	92,855	92,737	522,190
Restricted investment accounts	–	–	–	10,681	–	10,681
Commitments and financial guarantees	32,422	7,579	5,203	35,406	102	80,712

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

33. CONCENTRATION OF ASSETS, LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND RESTRICTED INVESTMENT ACCOUNTS

(a) Industry sector

31 st December 2020	Banks and financial institutions	Real estate	Others	Total
Assets				
Cash and bank balances	83,017	–	–	83,017
Placements with financial institutions	17,720	–	–	17,720
Financing assets	4,420	89,532	213,765	307,717
Investment in sukuk	1,137	21,177	238,818	261,132
Assets acquired for leasing (including lease rentals receivables)	–	127,333	12,421	139,754
Investment securities	22,785	28,952	4,155	55,892
Investment in real estate	–	83,303	–	83,303
Equity accounted investees	–	31,963	–	31,963
Other assets	1,400	16,982	9,264	27,646
Property and equipment	–	6,739	711	7,450
Total assets	130,479	405,981	479,134	1,015,594
Liabilities				
Placements from financial institutions	79,545	–	–	79,545
Placements from non-financial institutions and individuals	1,209	42,798	170,236	214,243
Term borrowings	75,477	–	–	75,477
Customers' current accounts	848	8,524	46,304	55,676
Other liabilities	–	398	12,871	13,269
Total liabilities	157,079	51,720	229,411	438,210
Equity of investment account holders	20,343	59,171	345,835	425,349
Restricted investment accounts	–	9,688	993	10,681
Commitments and financial guarantees	–	15,015	26,554	41,569

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

33. CONCENTRATION OF ASSETS, LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND RESTRICTED INVESTMENT ACCOUNTS (CONTINUED)

(a) Industry sector (Continued)

31 st December 2019	Banks and financial institutions	Real estate	Others	Total
Assets				
Cash and bank balances	104,376	–	–	104,376
Placements with financial institutions	65,508	–	–	65,508
Financing assets	7,857	72,043	244,455	324,355
Investment in sukuk	11,737	7,539	175,774	195,050
Assets acquired for leasing (including lease rentals receivables)	–	133,657	12,542	146,199
Investment securities	11,174	29,147	3,668	43,989
Investment in real estate	–	24,032	–	24,032
Equity accounted investees	–	4,524	–	4,524
Other assets	954	14,871	8,144	23,969
Property and equipment	–	6,739	1,011	7,750
Total assets	201,606	292,552	445,594	939,752
Liabilities				
Placements from financial institutions	117,098	–	–	117,098
Placements from non-financial institutions and individuals	–	–	134,654	134,654
Term borrowings	–	–	–	–
Customers' current accounts	4,661	7,422	46,022	58,105
Other liabilities	17	588	19,193	19,798
Total liabilities	121,776	8,010	199,869	329,655
Equity of investment account holders	18,792	119,463	383,935	522,190
Restricted investment accounts	–	9,688	993	10,681
Commitments and financial guarantees	–	51,779	28,933	80,712

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

33. CONCENTRATION OF ASSETS, LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND RESTRICTED INVESTMENT ACCOUNTS (CONTINUED)

(b) Geographic sector

31 st December 2020	GCC countries	Europe	America	Asia	Australia	Total
Assets						
Cash and bank balances	74,873	2,693	5,442	9	–	83,017
Placements with financial institutions	17,720	–	–	–	–	17,720
Financing assets	305,606	–	–	2,111	–	307,717
Investment in sukuk	261,132	–	–	–	–	261,132
Assets acquired for leasing (including lease rentals receivables)	139,626	–	–	128	–	139,754
Investment securities	22,275	15,080	–	14,383	4,154	55,892
Investment in real estate	83,303	–	–	–	–	83,303
Equity accounted investees	31,963	–	–	–	–	31,963
Other assets	26,706	131	–	808	1	27,646
Property and equipment	7,450	–	–	–	–	7,450
Total assets	970,654	17,904	5,442	17,439	4,155	1,015,594
Liabilities						
Placements from financial institutions	79,545	–	–	–	–	79,545
Placements from non-financial institutions and individuals	214,158	10	–	75	–	214,243
Term borrowings	48,945	26,532	–	–	–	75,477
Customers' current accounts	54,945	260	–	471	–	55,676
Other liabilities	13,269	–	–	–	–	13,269
Total liabilities	410,862	26,802	–	546	–	438,210
Equity of investment account holders	417,914	42	–	7,393	–	425,349
Restricted investment accounts	9,688	–	–	–	993	10,681
Commitments and financial guarantee	41,569	–	–	–	–	41,569

Concentration by location for financing assets is measured based on the location of the counterparty, which has a high correlation with the location of the collateral for the exposure.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

33. CONCENTRATION OF ASSETS, LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND RESTRICTED INVESTMENT ACCOUNTS (CONTINUED)

(b) Geographic sector (Continued)

31 st December 2019	GCC countries	Europe	America	Asia	Australia	Total
Assets						
Cash and bank balances	91,971	1,593	10,786	26	–	104,376
Placements with financial institutions	65,508	–	–	–	–	65,508
Financing assets	320,083	4,258	–	14	–	324,355
Investment in sukuk	195,050	–	–	–	–	195,050
Assets acquired for leasing (including lease rentals receivables)	146,160	–	–	39	–	146,199
Investment securities	25,938	–	–	14,383	3,668	43,989
Investment in real estate	24,032	–	–	–	–	24,032
Equity accounted investees	4,524	–	–	–	–	4,524
Other assets	23,203	15	–	750	1	23,969
Property and equipment	7,750	–	–	–	–	7,750
Total assets	904,219	5,866	10,786	15,212	3,669	939,752
Liabilities						
Placements from financial institutions	117,098	–	–	–	–	117,098
Placements from non-financial institutions and individuals	134,654	–	–	–	–	134,654
Term borrowings	–	–	–	–	–	–
Customers' current accounts	57,230	257	–	618	–	58,105
Other liabilities	19,798	–	–	–	–	19,798
Total liabilities	328,780	257	–	618	–	329,655
Equity of investment account holders	519,655	694	–	1,841	–	522,190
Restricted investment accounts	9,688	–	–	–	993	10,681
Commitments and financial guarantee	80,712	–	–	–	–	80,712

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

34. FAIR VALUE

a) Fair value

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair value of quoted Sukuk carried at amortised cost of BD 261,539 thousand (31 December 2019: BD 195,061 thousand) is BD 275,366 thousand as at 31 December 2020 (31 December 2019: BD 204,198 thousand).

In case of financing assets and lease receivables, the average profit rate of the portfolio is in line with current market rates for similar facilities and hence after consideration of adjustment for prepayment risk and impairment charges it is expected that the current value would not be materially different to fair value of these assets. The estimated fair values of the Group's other financial instruments are not significantly different from their carrying values due to their short-term nature.

b) Fair value hierarchy

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

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

31 st December 2020	Level 1	Level 2	Level 3	Total
Structured notes at fair value through income statement	–	15,080	–	15,080
Unquoted equity type securities carried at fair value through equity	–	–	40,812	40,812
	–	15,080	40,812	55,892
31 st December 2019	Level 1	Level 2	Level 3	Total
Unquoted equity type securities carried at fair value through income statement	–	–	11,174	11,174
	–	–	11,174	11,174

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

	2020	2019
At 1 January	11,174	13,148
Reclassification due to FAS 33 implementation	32,815	–
Fair value loss in income statement	(556)	(1,974)
Movement in foreign exchange reserve	348	–
Purchases	8,205	–
Settlements	(11,174)	–
At 31 December	40,812	11,174

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

34. FAIR VALUE (CONTINUED)

b) Fair value hierarchy (Continued)

The potential effect of using reasonable possible alternative assumptions for fair valuing equity investments classified as level 3 are summarised below:

31 December 2020

Valuation technique used	Key unobservable inputs	Fair value at 31 December 2020	Reasonable possible shift +/- (in average input)	Increase / (decrease) in valuation
Market multiples approach	Enterprise value to EBITDA	2,817	+/- 5%	103 / (103)
Market multiples approach	Price to book value	11,664	+/- 5%	702 / (702)
Market multiples approach	Price to total assets	1,142	+/- 5%	32 / (32)
Discounted cash flow	Cost of equity and terminal growth rate	792	+/- 5%	27 / (27)
		16,415		

31 December 2019

Valuation technique used	Key unobservable inputs	Fair value at 31 December 2019	Reasonable possible shift +/- (in average input)	Increase / (decrease) in valuation
Market multiples approach	Price to book value	11,174	+/- 5%	559 / (559)
		11,174		



Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

35. FINANCIAL RISK MANAGEMENT

Introduction and overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established various committees with responsibilities for managing the overall risks associated with the Group. The committees also continuously monitors consistent implementation of the Board approved policies in the Group and reports deviations, if any, to the Board. The committees consists of heads of business and other functional units in the Group. The committees comprise the following: Management Committee (operational risks), Executive Credit and Investment Committee (credit and investment risks), and Assets and Liabilities Committee (market and capital risks). In addition to the Committees, the Board has established an independent Risk Management Department with an overall responsibility to identify, measure, control risks and recommend policies and corrective actions. Risk Management Department reports directly to the Board Audit and Risk Management Committee.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Group's Audit and Risk Management Committee is responsible for monitoring compliance with the risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit and Risk Management Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Management Committee.

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's exposures to placements with financial institutions, financing assets, assets acquired for leasing (including lease rental receivable), investment in sukuk and other receivables. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual and group exposure risk, country and sector concentration risk, related party exposure, etc.).

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

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

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (Continued)

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

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

The Group has updated its inputs and assumptions for computation of ECL (refer note 25).

The Group manages its credit risks through its various business units, an independent Risk Management Department, Board Audit & Risk Management Committee ("BARMC"), and the Executive Credit & Investment Committee ("ECICOM"). The Credit risk management framework comprises the following:

- Formulating credit risk strategies policies and risk appetite which are developed after careful assessment of the market, capital requirement, regulatory rules, and the Board's risk appetite. The risk strategies and risk appetites are coded into policies approved by the Board. The Group's credit policy framework includes, inter alia, the following: in consultation with business units, credit risk management framework, credit risk mitigations, credit risk rating, credit risk pricing, expected credit loss, cross boarder business policy, personal finance product programs, approval authorities' matrix, and many others.
- Credit granting process. All credit exposures are assumed after careful assessment of the risks. Business proposals are initiated by the business units through formal credit applications. Such credit application provide adequate information about the proposed exposure including description of possible risks and mitigating factors. All credit applications are independently reviewed by Credit Review Unit to assess the adequacy of the due diligence conducted, independent assessment of the risks and mitigants, ensure compliance with limits and policies. Credit Review Unit issue formal opinion in respect of the proposals which may include recommendations for enhancing the Group's position. Proposals are then presented to approving authorities for their considerations (see proceeding point below). Where applicable and necessary, credit applications are also independently reviewed by the Sharia Compliance Officer to ensure adherence to Islamic principles.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Approval authorities are documented in the Credit Authorities Policy of the Group which describes the various approval authorities, conditions, and limits for approving business transactions arising from investment and credit activities within the Group. There are 5 main levels of credit and investment authorities within the Group: Board of Directors, Board Investment & Credit Committee, Executive Credit & Investment Committee, Chief Executive Officer, and Heads of Business Units. Approval authorities are decided based on the magnitude of the risk and transactions size while at the same time allowing for smooth business operations.
- Managing concentrations. The Group places significant emphasis on diversifying its portfolio through applying a portfolio strategy in which the Group spreads its assets and liabilities' businesses so that results from volatility or fluctuations in such businesses become subdued, controlled, and assist in the consistent long-term growth of the shareholders' interests. An important element of such portfolio strategy is to establish limits within which the Management may conduct business. In principle, the Group shall adhere to all maximum limits established by regulatory authorities. At the same time, the Group has defined its own internal limits to control the following: Credit risk concentration, Counterparty limits, Industry limits, Country limits, Collateral concentration limits, Product mix, Maturity limits, amongst others. These internal limits are reviewed on periodic basis taking into considerations the following factors: The Group's risk appetite, Business and budget plans, Counterparty's risk rating, Risk rating of the Counterparty's country, The Group's financial positions including liquidity and Capital adequacy, General market condition; and other factors as determined by the Board of Directors or the Board Audit & Risk Management Committee. In general, the Group adopts a negative correlation between risks and limits in that lower limits are defined for higher risks.



Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (Continued)

- Credit Measurement Methodologies. The Group quantifies its credit risk using two main metrics: expected loss (EL) and economic capital (EC). The expected loss reflects the average value of the estimated losses (i.e. the cost of the business) and is associated with the Group's policy on provisions, while economic capital is the amount of capital necessary to cover unexpected losses (i.e. if actual losses are higher than expected losses). As part of its measurement techniques, the Group conducts adequate stress testing on its portfolio.
- Credit risk rating. An important tool in monitoring the quality of individual credits, as well as the total portfolio, is the use of Credit Risk Rating systems. The Group adopts a well-structured internal CRR system as a mean of differentiating the degree of credit risk in the different credit exposures of the Group to allow more accurate determination of the overall characteristics of the asset portfolio, concentrations, limits management, problem assets, pricing, and the adequacy of loss reserves (provisions). As well as identifying the risks associated with a counterparty and a credit facility, CRRs provide a key input for the capital charges and risk weights. The Group's approach to credit risk rating is documented in the Credit Risk Rating Policy which aims at achieving the following: (a) create a benchmark for assessing relative creditworthiness of the graded entity and measure credit risk in relation to the market, (b) arrive at a system of risk-based pricing for credit facilities granted by the Group, (c) monitor the overall credit risk inherent in the Group's Credit portfolio, (d) create a benchmark for recognition of accrued income on credit assets, (e) link asset review frequency and approval authority levels to Credit risk and emphasize focus on effective management of weak assets, and (f) provide a means to link Internal Capital Adequacy to the portfolio credit risk.
- Classifications and identification of non-performing exposures. The Group has adopted FAS 30 / IFRS 9 standards for classifying exposures into three stages. Accounts are moved into higher staging depending on occurrence of Significant Increase in Credit Risks. Exposures with past due exceeding 90 days are classified as non-performing.
- Remedial management. All credit exposures assumed by the Group are considered after thorough risk and reward analysis adequate for the size and nature of business being considered. However, despite all due diligence exercised to minimize the risks involved, it is inevitable that certain exposures may experience setbacks due to various reasons such as: fundamental changes in the market conditions, changes in regulations and laws, changes in the status of counterparties (such as death, loss of job, sanctions, seizure of business, or bankruptcy), delays in deliverables (such as delays in completion of projects), or Unintentional errors in the initial assumptions. From business impact point of view, such exposures would have high costs due to suspension of profits, provisioning, liquidity, reputational, or opportunity costs. To prevent such adverse business impact, the Group has developed a prudent remedial strategy appropriate for the size, nature, and delinquency period. Such strategy is documented in the Remedial Management Policy. The Group, through its Remedial and Collection department pursue various recovery techniques including: dunning, rescheduling, restructuring, collateral foreclosure, legal actions, and cash settlement amongst others.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (Continued)

Exposures subject to credit risk

31 st December 2020	Stage 1	Stage 2	Stage 3*	Total
Financing facilities				
Grade 8 -10 Impaired	–	–	39,977**	39,977
Past due but not impaired				
Grade 1-6 Low-Fair Risk	9,248	995	–	10,243
Grade 7 Watch list	25	16,540	–	16,565
Past due comprises:				
Up to 30 days	8,596	15,826	–	24,422
30-60 days	82	1,257	–	1,339
60-90 days	595	452	–	1,047
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	241,978	10,461	–	252,439
Grade 7 Watch list	209	5,339	–	5,548
Gross carrying amount	251,460	33,335	39,977	324,772
Less: expected credit losses	7,230	1,934	7,891	17,055
Net carrying amount	244,230	31,401	32,086	307,717
Assets acquired for leasing (including lease rentals receivables)				
Grade 8 -10 Impaired	–	–	15,208	15,208
Past due but not impaired				
Grade 1-6 Low-Fair Risk	10,783	10,773	–	21,556
Grade 7 Watch list	1,258	320	–	1,578
Past due comprises:				
Up to 30 days	2,781	360	–	3,141
30-60 days	2,016	110	–	2,126
60-90 days	7,244	10,623	–	17,867
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	83,624	10,579	–	94,203
Grade 7 Watch list	9,894	1,298	–	11,192
Gross carrying amount	105,559	22,970	15,208	143,737
Less: expected credit losses	545	424	3,014	3,983
Net carrying amount	105,014	22,546	12,194	139,754

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (Continued)

Exposures subject to credit risk (Continued)

31 st December 2020	Stage 1	Stage 2	Stage 3	Total
Investment in Sukuk				
Grade 8 -10 Impaired	–	–	1,317	1,317
Grade 1-6 Low-Fair Risk	261,539	–	–	261,539
Gross carrying amount	261,539	–	1,317	262,856
Less: expected credit losses	407	–	1,317	1,724
Net carrying amount	261,132	–	–	261,132
Balances with banks and placements				
Grade 1-6 Low-Fair Risk	95,706	–	–	95,706
Gross carrying amount	95,706	–	–	95,706
Less: expected credit losses	–	–	–	–
Net carrying amount	95,706	–	–	95,706
Commitments and financial guarantees				
Grade 8 -10 Impaired	–	–	727	727
Grade 1-6 Low-Fair Risk	38,108	2,627	–	40,735
Grade 7 Watch list	–	107	–	107
Gross carrying amount	38,108	2,734	727	41,569
Less: expected credit losses	155	6	76	237
Net carrying amount	37,953	2,728	651	41,332
Total net carrying amount	744,035	56,675	44,931	845,641

* Includes facilities under cooling off period of BD 24,405 thousand.

** includes BD 6,621 thousand of purchased or originated credit impaired assets (POCI).

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (Continued)

Exposures subject to credit risk (Continued)

31 st December 2019	Stage 1	Stage 2	Stage 3*	Total
Financing facilities				
Grade 8 -10 Impaired	–	–	71,289	71,289
Past due but not impaired				
Grade 1-6 Low-Fair Risk	33,624	6,790	56	40,470
Grade 7 Watch list	9	6,867	6	6,882
Past due comprises:				
Up to 30 days	30,049	4,047	18	34,114
30-60 days	18	1,858	41	1,917
60-90 days	3,566	7,752	3	11,321
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	229,041	12,117	734	241,892
Grade 7 Watch list	87	1,780	1	1,868
Gross carrying amount	262,761	27,554	72,086	362,401
Less expected credit losses	4,581	2,730	30,735	38,046
Net carrying amount	258,180	24,824	41,351	324,355
Assets acquired for leasing (including lease rentals receivables)				
Grade 8 -10 Impaired	–	–	35,137	35,137
Past due but not impaired				
Grade 1-6 Low-Fair Risk	12,648	7,501	769	20,918
Grade 7 Watch list	–	3,272	–	3,272
Past due comprises:				
Up to 30 days	11,220	7,462	105	18,787
30-60 days	1,428	2,609	664	4,701
60-90 days	–	702	–	702
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	86,315	2,249	108	88,672
Grade 7 Watch list	–	1,421	–	1,421
Gross carrying amount	98,963	14,443	36,014	149,420
Less expected credit losses	140	376	2,705	3,221
Net carrying amount	98,823	14,067	33,309	146,199

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (Continued)

Exposures subject to credit risk (Continued)

31 st December 2019	Stage 1	Stage 2	Stage 3	Total
Investment in Sukuk				
Grade 8 -10 Impaired	–	–	1,317	1,317
Grade 1-6 Low-Fair Risk	195,061	–	–	195,061
Gross carrying amount	195,061	–	1,317	196,378
Less: expected credit losses	11	–	1,317	1,328
Net carrying amount	195,050	–	–	195,050
Balances with banks and placements				
Grade 1-6 Low-Fair Risk	164,587	–	–	164,587
Gross carrying amount	164,587	–	–	164,587
Less: expected credit losses	2	–	–	2
Net carrying amount	164,585	–	–	164,585
Commitments and financial guarantees				
Grade 8 -10 Impaired	–	–	1,415	1,415
Grade 1-6 Low-Fair Risk	77,309	1,950	13	79,272
Grade 7 Watch list	–	25	–	25
Gross carrying amount	77,309	1,975	1,428	80,712
Less: expected credit losses	175	17	76	268
Net carrying amount	77,134	1,958	1,352	80,444
Total net carrying amount	793,772	40,849	76,012	910,633

* Includes facilities under cooling off period of BD 46,900 thousand.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument and assets acquired for leasing 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 and including forward-looking information.

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

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

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (Continued)

Credit risk grades

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

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

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

Corporate exposures

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

Retail exposures

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

All exposures

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

Generating the term structure of PD

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

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

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

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (Continued)

Generating the term structure of PD (Continued)

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

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

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

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

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

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

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

Definition of default

The Group considers a financial asset to be in default when:

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

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

Incorporation of forward looking information

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

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



Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (Continued)

Incorporation of forward looking information (Continued)

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

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

Modified financial assets and assets acquired for leasing

The contractual terms of a financing asset and assets acquired for leasing may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer.

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

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

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

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

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired / in default (refer Note 5). A customer needs to demonstrate consistently good payment behaviour over a period of time (12 months) before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL. For the purpose of calculating ECL for the year ended 31 December 2020, the Bank has applied the 3 months as against 12 months, in order to assess consistent good payment behaviour of customer this is in line with the CBB concessionary measures.



Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (Continued)

Measurement of ECLs

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (Continued)

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

	12-month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total
Balance at 1 January 2020	4,909	3,123	34,833	42,865
Transfer to 12-month ECL	1,430	(979)	(451)	-
Transfer to lifetime ECL non-credit-impaired	(122)	360	(238)	-
Transfer to lifetime ECL credit-impaired	(991)	(1,169)	2,160	-
Net transfers	317	(1,788)	1,471	-
Net re-measurement of loss allowance	3,224	1,029	2,292	6,545
Recoveries / write backs	-	-	(2,704)	(2,704)
Write-offs	-	-	(11,010)	(11,010)
Disposals	(113)	-	(12,584)	(12,697)
Balance at 31 December 2020	8,337	2,364	12,298	22,999

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

	12-month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total
Cash and balances with banks (note 6)	-	-	-	-
Placements with financial institutions (note 7)	-	-	-	-
Financing assets (note 8)	7,230	1,934	7,891	17,055
Assets acquired for leasing – Including lease rentals receivables (note 10)	545	424	3,014	3,983
Investment in sukuk (note 9)	407	-	1,317	1,724
Commitments and Financial Guarantees	155	6	76	237
	8,337	2,364	12,298	22,999

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (Continued)

	12-month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total
Balance at 1 January 2019	5,099	3,918	17,214	26,231
Transfer to 12-month ECL	1,338	(1,118)	(220)	–
Transfer to lifetime ECL non-credit-impaired	(500)	604	(104)	–
Transfer to lifetime ECL credit-impaired	(863)	(856)	1,719	–
Net transfers	(25)	(1,370)	1,395	–
Net re-measurement of loss allowance	(165)	575	16,304	16,714
Recoveries / write backs	–	–	(80)	(80)
Write-offs	–	–	–	–
Balance at 31 December 2019	4,909	3,123	34,833	42,865

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

	12-month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total
Cash and balances with banks (note 6)	1	–	–	1
Placements with financial institutions (note 7)	1	–	–	1
Financing assets (note 8)	4,581	2,730	30,735	38,046
Assets acquired for leasing – Including lease rentals receivables (note 10)	140	376	2,705	3,221
Investment in sukuk (note 9)	11	–	1,317	1,328
Commitments and Financial Guarantees	175	17	76	268
	4,909	3,123	34,833	42,865

Impaired financial assets

Impaired financial assets are those for which the Group determines that it is probable that it will be unable to collect all or part of the principal and profit due according to the contractual terms of the exposure and these fall under risk grades 8, 9 and 10. For other financial assets impairment is assessed on an individual basis for each exposure by considering various factors.

Past due but not impaired exposures

The exposure pertains to financing assets where contractual profit or principal payments are past due but the Group believes that impairment is not appropriate on the basis of subsequent collections, the level of security / collateral available and / or the stage of collection of amounts owed to the Group.



Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (Continued)

Renegotiated facilities

During the year, facilities of BD 19,676 thousands (2019: BD 37,917 thousand) were renegotiated, out of which BD 6,056 thousand (2019: BD 1,096 thousand) are classified as neither past due nor impaired as of 31 December 2020. The renegotiated terms usually require settlement of profits accrued till date on the facility and/or part payment of the principal and/or obtaining of additional collateral coverage. The renegotiated facilities are subject to revised credit assessments and independent review by the RMD. Of the total past due facilities of BD 83,612 thousand (2019: BD 166,033 thousand) only instalments of BD 42,555 thousand (2019: BD 36,625 thousand) are past due as at 31 December 2020.

Allowances for impairment

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

Non-accrual basis

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

Write-off policy

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. During the year, the Group has written off financing facilities amounting to BD 11,010 thousand (2019: BD Nil thousand) which were fully impaired. The Group has recovered BD 628 thousand from a financing facility written off in previous years (2019: 964 thousand).

Collaterals

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

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (Continued)

Collaterals (Continued)

	As at 31 st December 2020			As at 31 st December 2019		
	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total
Against impaired						
Property	17,018	11,838	28,856	20,181	32,464	52,645
Other	1,162	–	1,162	1,888	–	1,888
Against past due but not impaired						
Property	23,369	22,957	46,326	35,420	23,949	59,369
Other	628	–	628	1,157	–	1,157
Against neither past due nor impaired						
Property	140,863	105,173	246,036	96,730	89,681	186,411
Other	17,337	–	17,337	9,280	–	9,280
Total	200,337	139,968	340,345	164,656	146,094	310,750

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

For analysis of concentration of total assets and liabilities refer note 33.

Further, for financing assets and assets acquired for leasing including lease rentals receivable, the Group monitors concentrations of credit risk by sector and by geographic location.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (Continued)

Collaterals (Continued)

An analysis of concentrations of credit risk at the reporting date is shown below:

Concentration by Sector	As at 31 st December 2020			As at 31 st December 2019		
	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total
Banking and finance	4,420	–	4,420	7,857	–	7,857
Real estate	89,532	127,333	216,865	72,043	133,657	205,700
Construction	56,623	–	56,623	51,038	–	51,038
Trading	48,951	–	48,951	57,224	–	57,224
Manufacturing	14,617	–	14,617	13,955	–	13,955
Others	93,574	12,421	105,995	122,238	12,542	134,780
Total carrying amount	307,717	139,754	447,471	324,355	146,199	470,554

Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a company to honour its obligations to deliver cash, securities or other assets as contractually agreed.

Settlement limits form part of the credit approval / limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from RMD.

Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial assets.

Management of liquidity risk

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

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

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

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

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (Continued)

Management of liquidity risk (Continued)

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

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

Financial Control Department (FCD) collates data from treasury and other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. FCD communicates the information to the treasury who manages the Group's portfolio of short-term liquid assets, largely made up of short-term placements with other banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored by FCD. The Group has in place a Liquidity Contingency Plan, the elements of which are periodically tested. Tools for implementation of regular stress testing under various scenarios are in place. All liquidity policies and procedures are subject to review by ALCO and approval by appropriate authorities. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO members.

Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For computation of this, net liquid assets are considered as including cash and bank balances and placements with financial Institutions and investments in sukuk net of sukuk pledged against term borrowings less placements from financial institution, and deposits comprise current accounts, placements from non-financial institutions and individuals, and equity of investment account holders.

Details of the reported Group ratio of net liquid assets to deposits and customers current accounts at the reporting date and during the reporting period were as follows:

	2020 %	2019 %
At 31 December	35.7%	33.70
Average for the period	36.4%	29.11
Maximum for the period	39.9%	33.70
Minimum for the period	33.6%	22.32

For maturity profile of assets and liabilities refer note 32.

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

LCR has been developed to promote short-term resilience of a bank's liquidity risk profile. The LCR requirements aim to ensure that a bank has an adequate stock of unencumbered high quality liquidity assets (HQLA) that consists of assets that can be converted into cash immediately to meet its liquidity needs for a 30 calendar day stressed liquidity period. The stock of unencumbered HQLA should enable the Bank to survive until day 30 of the stress scenario, by which time appropriate corrective actions would have been taken by management to find the necessary solutions to the liquidity crisis. LCR is computed as a ratio of Stock of HQLA over the Net cash outflows over the next 30 calendar days. Until 31 December 2021, the Bank is required to maintain LCR greater than 80%. As of 31 December 2020, the Bank had LCR ratio of 198.28%.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (Continued)

Exposure to liquidity risk (Continued)

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

NSFR as a percentage is calculated as "Available stable funding" divided by "Required stable funding". Until 31 December 2021, the Bank is required to maintain NSFR ratio greater than 80%. As of 31 December 2020, the Bank had NSFR ratio of 103.65%.

Market Risk

Market risk is the risk that changes in market prices, such as profit rate, equity prices, foreign exchange rates and credit spreads will affect the Group's income, future cash flows or the value of its holdings of financial instruments. Market risk comprises three types of risk: currency risk, profit rate risk and other price risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Exposure to profit rate risk–non–trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market profit rates. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for re-pricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by the Group's Risk Management Department in its day-to-day monitoring activities.

A summary of the Group's profit rate gap position at 31 December 2020 is as follows:

31 st December 2020	Up to 3 months	3 - 6 months	6 months - 1 year	1 - 3 years	More than 3 years	Total
Assets						
Placements with financial institutions	17,720	–	–	–	–	17,720
Financing assets	49,758	13,386	16,998	48,964	178,611	307,717
Assets acquired for leasing (including lease rentals receivables)	31	36	15	2,576	137,096	139,754
Investment in sukuk	2,147	536	16,556	6,800	235,093	261,132
Total profit rate sensitive assets	69,656	13,958	33,569	58,340	550,800	726,323
Liabilities and investment accounts						
Placements from financial institutions	32,906	34,948	8,077	3,614	–	79,545
Placements from non-financial institutions and individuals	74,188	32,705	59,918	47,432	–	214,243
Term borrowings	67,915	7,562	–	–	–	75,477
Customers' current accounts	1,188	–	–	–	–	1,188
Equity of investments account holders	144,256	41,472	51,894	185,652	2,075	425,349
Total profit rate sensitive liabilities and investment accounts	320,453	116,687	119,889	236,698	2,075	795,802
Profit rate gap	(250,797)	(102,729)	(86,320)	(178,358)	548,725	(69,479)

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (Continued)

31 st December 2019	Up to 3 months	3 - 6 months	6 months - 1 year	1 - 3 years	More than 3 years	Total
Assets						
Placements with financial institutions	65,508	–	–	–	–	65,508
Financing assets	62,733	15,395	25,046	58,075	163,106	324,355
Assets acquired for leasing (including lease rentals receivables)	1	6,597	133	2,030	137,438	146,199
Investment in sukuk	1,951	–	–	18,096	175,003	195,050
Total profit rate sensitive assets	130,193	21,992	25,179	78,201	475,547	731,112
Liabilities and investment accounts						
Placements from financial institutions	–	–	15,637	101,461	–	117,098
Term borrowings	–	–	–	–	–	–
Placements from non-financial institutions and individuals	29,382	21,056	38,307	45,909	–	134,654
Customers' current accounts	1,193	–	–	–	–	1,193
Equity of investments account holders	266,735	104,746	99,735	50,974	–	522,190
Total profit rate sensitive liabilities and investment accounts	297,310	125,802	153,679	198,344	–	775,135
Profit rate gap	(167,117)	(103,810)	(128,500)	(120,143)	475,547	(44,023)

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise across all yield curves and a 50 bp rise or fall of all yield curves.

An analysis of the Group's sensitivity to an increase or decrease in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) is as follows:

	100bp parallel increase/ decrease	50bp increase/ decrease
At 31st December 2020	± 690	± 345
At 31 st December 2019	± 433	± 216

Overall non-trading profit rate risk positions are managed by Treasury department, which uses short term investment securities, placement with banks and placement from banks to manage the overall position arising from the Group's non-trading activities.

A fundamental review and reform of major profit rate benchmarks is being undertaken globally. There is uncertainty as to the timing and the methods of transition for replacing existing benchmark interbank offered rates (IBORs) with alternative rates.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (Continued)

As a result of these uncertainties, there could be an impact on the values of financial contracts entered by the Bank. While the IBOR continues to be used as a reference rate in financial markets and is used in the valuation of instruments with maturities that exceed the expected end date for IBOR. The Bank will have to assess the impact. As at 31 December 2020, the Bank is in the process of assessing the impact on its financial instruments which are maturing after the expected end date for IBOR.

Exposure to foreign exchange risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group had the following significant net exposures denominated in foreign currency as of 31 December.

	2020 BHD Equivalent	2019 BHD Equivalent
US Dollars*	103,734	145,868
Other GCC Currencies *	(39,435)	(63,732)
Euros	(1,079)	(280)
Australian Dollars	5,100	4,608
Kuwaiti Dinars	3,158	3,322
Sterling Pounds	(433)	1,443
Indian Rupee	13	30

(*) The exposure in US dollars and other GCC currencies does not create any foreign exchange risk for the Group since Bahrain Dinars and other GCC currencies except for Kuwaiti Dinars are effectively pegged to the US Dollars.

The management of foreign exchange risk against net exposure limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various foreign exchange scenarios. Standard scenarios that are considered on a monthly basis include a 5% plus/minus increase in exchange rates, for currencies other than US Dollars, other GCC currencies.

An analysis of the Group's sensitivity to an increase or decrease in foreign exchange rates (assuming all other variables, primarily profit rates, remain constant) is as follows:

	2020 BHD Equivalent	2019 BHD Equivalent
Euros	±54	±14
Australian Dollars	±255	±230
Kuwaiti Dinars	±158	±166
Sterling Pounds	±22	±72
Indian Rupees	±1	±2



Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (Continued)

Exposure to other price risks – non-trading portfolios

Credit spread risk on debt securities is subject to regular monitoring by RMD, but is not currently significant in relation to the overall financial position of the Group.

The Group's unquoted equity securities carried at cost are exposed to risk of changes in equity values. Refer to note 25 for significant estimates and judgments in relation to impairment assessment of unquoted equity investments carried at cost. The Group manages exposure to other price risks by actively monitoring the performance of the equity securities. The performance assessment is performed on a quarterly basis and is reported to the Board Investment and Credit Committee.

Operational Risk

Operational risk is the risk of loss arising from systems and control failures, fraud and human errors, which can result in financial and reputation loss, and legal and regulatory consequences. The Group manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, including internal audit and compliance. The Risk Management Department is in charge of identifying, monitoring and managing operational risk in the Group. The Group already has an approved policy for doing this and all required organisational and physical infrastructure are in place.

The Group has completed conducting one cycle of Risk Control Self-Assessment (RCSA) of Operational risk for majority of the departments of the Group to identify the important Key Risk Areas, Key Risk Indicators and Key Risk Triggers. Furthermore, for the remaining departments Key Risk Areas have been identified and the next process will be the identification of Key Risk Indicators and Key Risk Triggers. The RCSA process is a continuous process and will be conducted at regular frequencies across the Group. It will be an annual process to review all the KRI's. A software for monitoring these triggers and recording actual and near miss losses is already in place. The medium-term objective of the Group is to generate statistically reliable data to upgrade to more sophisticated modes of Operational Risk Control both to manage the risk better and to reduce capital commitment.

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

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

Capital Management

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

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

- **Tier 1 capital: includes CET1 and AT1**

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

AT1 comprise instruments issued by consolidated banking subsidiaries of the Bank which meet the criteria of AT1, and regulatory adjustments applied in calculation of AT1.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Capital Management (Continued)

Subordinated Mudaraba

In order to meet minimum regulatory requirements relating to total equity of BD 100 million, during the year, the Bank issued a Subordinated Mudaraba (Basel III compliant Additional Tier 1 capital securities) of US\$ 159 million (BD 60 million) at a premium of BD 12 million. The issue was fully subscribed for by the Parent through a combination of cash of BD 23.6 million and in-kind of

BD 48.4 million comprising of a stake in a joint venture of BD 24.5 million (Note 13), properties of BD 5.5 million, and financing assets of BD 18.4 million. The in-kind contribution was recognised at the fair value of the consideration received on the date of transfer. The premium received has been added to retained earnings and recognized as part of the total equity attributable to AT1.

Issuance costs of BD 12.7 million representing BD 12.1 million underwriting fee to the Parent and BD 0.6 million other transaction costs have been adjusted against the AT1 issued capital.

Profits on these securities shall be distributed on a semi-annual basis subject to and in accordance with terms and conditions on the outstanding nominal value of the securities at an expected rate of 10% p.a. The Subordinated Mudaraba is recognised in owners' equity and the profits paid to rab al-maal (security holder) are accounted for as appropriation of profits. Security holder will not have a right to claim the profits and such event will not be considered as event of default.

• Tier 2 capital

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

The regulations prescribe higher risk weights for certain exposures that exceeds materiality thresholds. These regulatory adjustments required for certain items such as goodwill on mortgage service right, deferred tax assets, cash flow hedge reserve, gain on sale of related securitization transactions, defined benefit pension fund assets and liabilities, investment in own shares and reciprocal cross holdings in the capital of Banking and financial entities, investment in the capital of Banking and financial entities that are outside the scope of regulatory consolidation and where the Group does not own more than 10% of issued common shares capital of the entity and significant investments in the capital of banking and financial entities that are outside the scope of regulatory consolidation.

As at 31 December 2020, the Group has made regulatory adjustments of BD 11,859 thousand (2019: BD 14,356 thousand) in line with the CBB requirements.

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

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

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Capital Management (Continued)

The Group's regulatory capital position at 31 December was as follows:

	31 st December 2020	31 st December 2019
Total risk weighted exposure	791,271	532,793
Tier 1 capital:		
CET 1 capital prior to regulatory adjustments	116,422	97,215
Less: regulatory adjustments	(11,859)	(14,356)
CET 1 after regulatory adjustments	104,563	82,859
AT 1	47,222	–
Tier 2 capital:		
Total regulatory capital	160,725	88,585
Total regulatory capital expressed as a percentage of total risk weighted assets	20.31%	16.63%
Liquidity coverage ratio	198.28%	733.93%
Net stable funding ratio	103.65%	108.5%
Leverage ratio	20.84%	13.72%

The Group has complied with all externally imposed capital requirements throughout the year.

Capital allocation

The allocation of capital between specific operations and activities is primarily driven by regulatory requirements. The Group's capital management policy seeks to maximise return on risk adjusted while satisfying all the regulatory requirements. The Group's policy on capital allocation is subject to regular review by the Board.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31st December 2020 / BD 000's

36. COMMITMENTS

The commitments contracted in the normal course of business of the Group:

	2020	2019
Undrawn commitments to extend finance *	31,389	68,876
Financial guarantees	10,180	11,836
Legal contingencies	19,000	–
	60,569	80,712

* The Group has a right to revoke the undrawn commitment to extend finance prior to expiry of its tenor.

Performance obligations

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

Litigations and claims

An investor in one of the Group's projects has filed a claim against the Group. Based on the advice of the Bank's external legal counsel, the Board of directors is of the opinion that the Group has strong grounds to successfully defend itself against this claim. No further disclosures regarding contingent liabilities arising from any such claims are being made by the Bank as the directors believe that such disclosures may be prejudicial to the Group's legal position.

37. SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through donations to charitable causes and organisations from its zakah and charity fund.

38. COMPARITIVES

Certain prior year amounts have been regrouped to conform the current year's presentation. Such regrouping did not affect previously reported profit for the year or owner's equity.



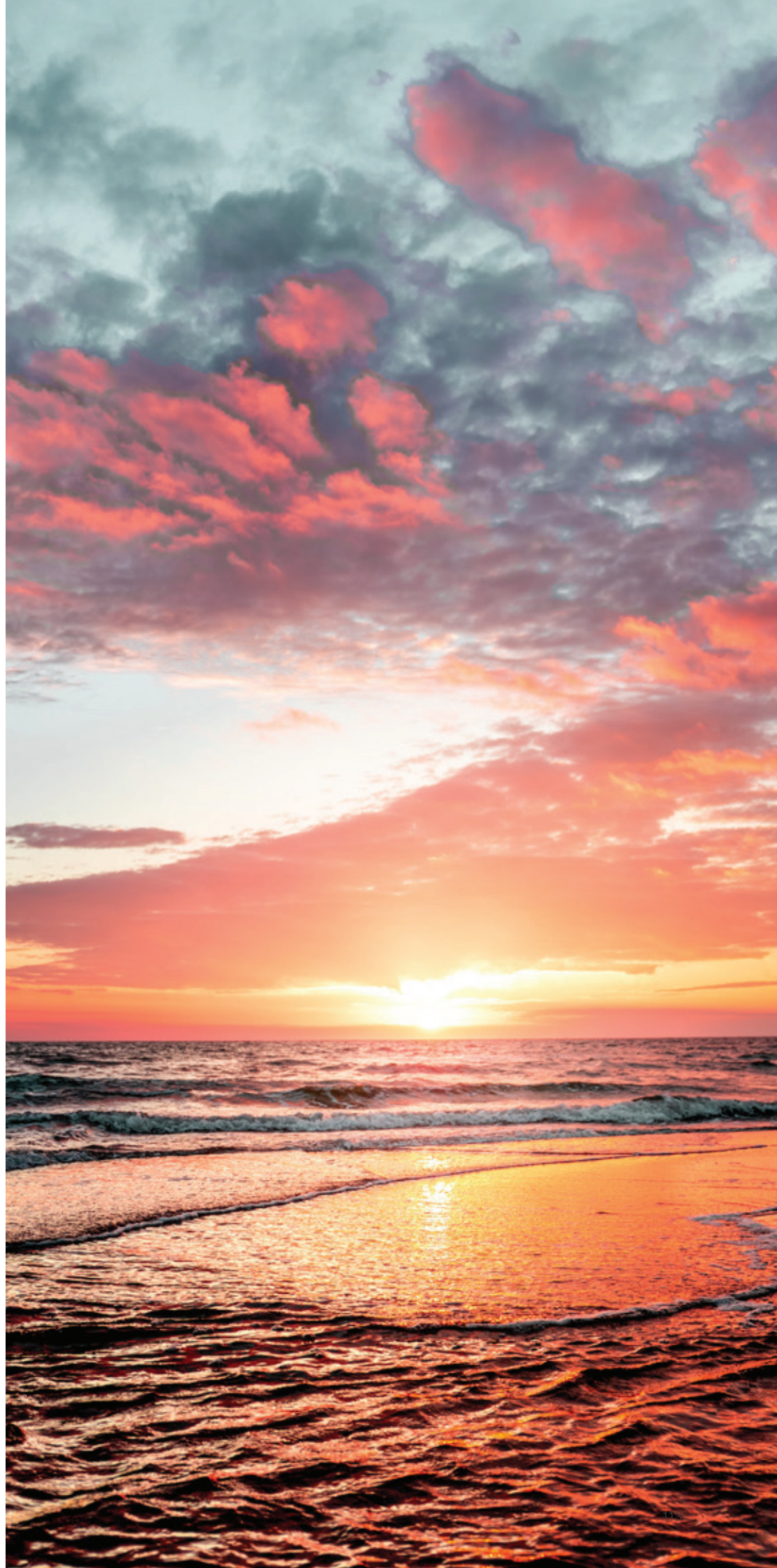
Public Disclosures

(Based on CBB guidelines)



Public Disclosures

These disclosures have been prepared in accordance with the Public Disclosure Module (“PD”), Section PD-1.3: Disclosures in Annual Reports, CBB Rule Book Volume II for Islamic Banks. To avoid any duplication, information required under PD module but already disclosed in other sections of annual report has not been reproduced. These disclosures are part of the annual report for the year ended 31 December 2020 and should be read in conjunction with the consolidated financial statements for the year ended 31 December 2020 and other sections of the annual report.





Public Disclosures

as at 31st December 2020 / BD 000's

Introduction

The Public Disclosures made under this section have been prepared in accordance with the CBB requirements outlined in the Public Disclosure Module ("PD"), Section PD-1.3: Disclosures in Annual Reports, of the CBB Rule Book, Volume II for Islamic Banks. Section PD-1.3: Disclosures in Annual Reports.

The disclosures in this report are in addition to or in some cases, serve to clarify the disclosures set out in the consolidated financial statements for the year ended 31 December 2020, presented in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"). To avoid any duplication, information required under PD module but already disclosed in other sections of the annual report has not been reproduced in these disclosures.

All figures presented in this section are reported in Bahraini Dinars (in thousand) and are as of 31 December 2020 unless otherwise stated.

The Bank's common equity tier I (CET1), Additional tier I (AT1) and total capital adequacy ratios comply with the minimum capital requirements under the CBB's Basel III framework.

At 31 December 2020, Bank's CET1, AT1 and total adequacy ratios were 13.21%, 19.18% and 20.31% respectively.

1 GROUP STRUCTURE

The Bank operates under a retail banking license granted by the CBB on 20 October 2003. The Bank has 6 subsidiaries. These are not significant to the Bank. The subsidiaries set-up is primarily special purpose entities with nominal capital to execute specific investment transactions. The subsidiaries qualify as commercial entities as per the CBB guidelines and are risk weighted as investments for capital adequacy computation purposes.

1.1 The risk management function

The Board of Directors has overall responsibility for risk management in the Bank. The Board lays down the risk management policies of the Bank and quantifies its risk appetite through appropriate definitions of various risk limits and tolerances. The Bank reviews and redefines its risk appetite according to the evolving business plans considering fluctuations in economic and market conditions and future forecasts. The Bank also assesses on a regular basis its tolerance for specific risk categories in term of limits structures for various risks and its strategy to manage these risks. The Board discharges its risk management responsibilities through the Board Audit & Risk Management Committee ("BARMC").

The risk management objective for each area of risk is to adopt the best practices as provided by Basel Committee of the Banking Supervision (BCBS), IFSB guidelines and adhering to CBB requirements. The Bank's aim is to protect the asset values and income streams, and hence, optimising the Bank's shareholder returns, while maintaining its risk exposure within defined parameters.

The Risk Management Department (RMD) prepares various risk reports and aids the BARMC and Board in the monitoring and managing of these limits. The RMD has also implemented various risk management tools and system to aid in this exercise.

The Bank has established an Executive Credit and Investment Committee (ECICOM) to assist the Chief Executive and the Executive Management in discharging their credit-risk responsibilities. The ECICOM's principal objectives are to review and approve transactions within their discretionary powers. It is also responsible for assessing and mitigating the credit risk of the Bank as well as directing the Bank's credit strategy.



Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

The day to day risk management functions are performed by the Risk Management Department (“RMD”) of the Bank. RMD is responsible to ensure that the policies laid down by the Board are consistently implemented across the Bank and to review the adequacy of these policies periodically. It monitors all risk taking activities and ensures that the risk limits defined by the Board are complied with. The department has specialized personnel dealing with Credit, Market, and Operational Risks. It is independent of all risk taking functions in the Bank and reports to the BARMC.

The Asset Liability Management Committee (“ALCO”) of the Bank acting through the Treasury Department monitors the Bank’s liquidity position and recommends appropriate action to the Board where necessary. There is a high level of coordination between the RMD, ECICOM and ALCO. The ALCO of the Bank assist the Management with its risk oversight with its primary responsibility being the Market & Liquidity risks of the Bank.

The RMD prepares a risk overview report on a regular basis which covers in detail the various risks faced by the Bank and the same is discussed at the ECICOM, BARMC and the Board.

The Bank considers that its overall risk management strategies have been effective throughout the reporting period.

All policies having significant impact on the overall internal control framework existing in the Bank are subject to periodic review and approval by the Board of Directors.

The RMD, together with the Internal Audit and Compliance Departments, provides independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board of Directors.

2 CAPITAL MANAGEMENT & CAPITAL ADEQUACY RATIO

2.1 Capital management

The Bank’s policy is to maintain a strong capital base to develop and retain investor, creditor and market confidence and to sustain business growth. The Bank recognises the impact of a high level of capital on shareholders’ returns, while not losing sight of the security and market confidence afforded by a sound capital base. The Bank aims to maintain a minimum total capital adequacy ratio significantly in excess of that mandated by the CBB.

2.2 Internal Capital Adequacy Assessment Process (“ICAAP”)

The Bank has an established ICAAP as per the requirements under Pillar II of Basel II. ICAAP prescribes procedures and measures designed to ensure appropriate identification, measurement, aggregation and monitoring of the Bank’s risks. It also defines an appropriate level of internal capital in relation to the Bank’s overall risk profile and business plan.

The ICAAP program quantifies the economic capital requirements from the following key risks, credit risk, market risk, investment risk, operational risk, liquidity risk, profit rate risk, concentration risk, reputational risk, and other risks such as strategic risks. The Bank also performs stress testing on its various risk portfolios using multiple scenarios in a forward looking manner while taking into consideration the business growth projections and strategies.

Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

2 CAPITAL MANAGEMENT & CAPITAL ADEQUACY RATIO (continued)

2.3 Statement of Financial position under the regulatory scope of consolidation

The table below shows the link between the statement of financial position in the published financial statements (accounting statement of financial position) and the regulatory statement of financial position.

	Statement of Financial position as in published financial statements	Statement of Financial position as per regulatory reporting	Reference
Assets			
Cash and bank balances	83,017	83,016	
Of which ecl (stage 1&2)	-	-	a
Of which financing to subsidiary (commercial entity)	1	-	
Placements with financial institutions	17,720	17,720	
Of which ecl (stage 1&2)	-	-	b
Financing assets	307,717	318,524	
Of which ecl (stage 1&2)	(9,164)	-	c
Of which financing to subsidiary (commercial entity)	(1,643)	-	
Investment in sukuk	261,132	261,539	
Of which ecl (stage 1&2)	(407)	-	d
Assets acquired for leasing	126,934	126,934	
Lease rental receivables	12,820	13,789	
Of which ecl (stage 1&2)	(969)	-	e
Investment securities	55,892	107,788	
Of which financing to subsidiary (commercial entity)	(51,896)	-	
Of which related to insignificant investments in financial entities	7,705	7,705	f
Of which capital adjustments related to investment in financial entities where ownership is < 10% of issued common share capital (amount above 10% cet1a)	-	-	g
Of which related to other investments	48,187	100,083	
Investment in real estate	83,303	18,029	
Of which development property of subsidiary (commercial entity)	65,274	-	
Equity accounted investees	31,963	31,963	
Other assets	27,646	27,746	
Of which receivable from subsidiary (commercial entity)	(100)	-	
Property and equipment	7,450	7,450	
Total assets	1,015,594	1,014,498	
Liabilities			
Placements from financial institutions	79,545	79,545	
Placements from non-financial institutions and individuals	214,243	214,243	
Term borrowing	75,477	75,477	
Customers' current accounts	55,676	55,963	
Of which account of subsidiary (commercial entity)	(287)	-	
Other liabilities	13,269	11,517	
Of which ecl (stage 1&2)	161	-	h
Of which payables of subsidiary (commercial entity)	1,591	-	
Total liabilities	438,210	436,745	
Equity of investment account holders	425,349	425,349	
Owners' equity			
Share capital	89,212	89,212	i
Subordinated mudaraba (at 1)	47,222	47,222	
Statutory reserve	9,024	9,024	j
Treasury shares	(11,859)	(11,859)	k
Investment fair value reserve	348	348	l
Retained earnings	7,863	7,756	m
Of which retained earnings of subsidiary (commercial entity)	107	-	
Total equity attributable to shareholders of the parent	141,810	141,703	
Ecl (stage 1&2)	-	10,701	a+b+c+d+e-h
Non-controlling interest	10,225	-	
Total liabilities, equity of investment account holders and owners' equity	1,015,594	1,014,498	

Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

2. CAPITAL MANAGEMENT & CAPITAL ADEQUACY RATIO (CONTINUED)

2.4 Composition of Capital as at 31st December 2020

Composition of Capital as at 31 st December 2020	Source based on reference letters of the statement of financial position under the regulatory scope of consolidation	
Common Equity Tier 1 capital: instruments and reserves		
Directly issued qualifying common share capital plus related stock surplus	98,584	i+j+l
Retained earnings	17,838	m
Accumulated other comprehensive income (and other reserves)	–	
Not applicable		
Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	–	
Common Equity Tier 1 capital before regulatory adjustments	116,422	
Prudential valuation adjustments	–	
Goodwill (net of related tax liability)	–	
Other intangibles other than mortgage-servicing rights (net of related tax liability)	–	
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	–	
Cash-flow hedge reserve	–	
Shortfall of provisions to expected losses	–	
Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	–	
Not applicable		
Defined-benefit pension fund net assets	–	
Investments in own shares	(11,859)	k
Reciprocal cross-holdings in common equity	–	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	7,705	f
Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	–	g
Mortgage servicing rights (amount above 10% threshold)	–	
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	–	
Amount exceeding the 15% threshold	–	
of which: significant investments in the common stock of financials	–	
of which: mortgage servicing rights	–	
of which: deferred tax assets arising from temporary differences	–	
CBB specific regulatory adjustments	–	
Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	–	
Total regulatory adjustments to Common equity Tier 1	(11,859)	
Common Equity Tier 1 capital (CET1)	104,563	

Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

2. CAPITAL MANAGEMENT & CAPITAL ADEQUACY RATIO (CONTINUED)

2.4 Composition of Capital as at 31st December 2020 (Continued)

	Source based on reference letters of the statement of financial position under the regulatory scope of consolidation
Composition of Capital as at 31st December 2020	
Additional Tier 1 capital: instruments	
Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	47,222
of which: classified as equity under applicable accounting standards	47,222
of which: classified as liabilities under applicable accounting standards	–
Directly issued capital instruments subject to phase out from Additional Tier 1	–
Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	–
of which: instruments issued by subsidiaries subject to phase out	–
Additional Tier 1 capital before regulatory adjustments	47,222
Additional Tier 1 capital: regulatory adjustments	
Investments in own Additional Tier 1 instruments	–
Reciprocal cross-holdings in Additional Tier 1 instruments	–
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	–
Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	–
CBB specific regulatory adjustments	–
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	–
Total regulatory adjustments to Additional Tier 1 capital	–
Additional Tier 1 capital (AT1)	47,222
Tier 1 capital (T1 = CET1 + AT1)	151,785
Tier 2 capital: instruments and provisions	
Directly issued qualifying Tier 2 instruments plus related stock surplus	–
Directly issued capital instruments subject to phase out from Tier 2	–
Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	–
of which: instruments issued by subsidiaries subject to phase out	–
Provisions	8,940
Tier 2 capital before regulatory adjustments	8,940
Tier 2 capital: regulatory adjustments	
Investments in own Tier 2 instruments	–
Reciprocal cross-holdings in Tier 2 instruments	–
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	–

Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

2. CAPITAL MANAGEMENT & CAPITAL ADEQUACY RATIO (CONTINUED)

2.4 Composition of Capital as at 31st December 2020 (Continued)

		Source based on reference letters of the statement of financial position under the regulatory scope of consolidation
Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	–	
National specific regulatory adjustments	–	
Total regulatory adjustments to Tier 2 capital	–	
Tier 2 capital (T2)	8,940	
Total capital (TC = T1 + T2)	160,725	
Total risk weighted assets	791,271	
Capital ratios and buffers		
Common Equity Tier 1 (as a percentage of risk weighted assets)	13.21%	
Tier 1 (as a percentage of risk weighted assets)	19.18%	
Total capital (as a percentage of risk weighted assets)	20.31%	
Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk weighted assets)	9%	
of which: capital conservation buffer requirement	2.5%	
of which: bank specific countercyclical buffer requirement	N/A	
of which: D-SIB buffer requirement	N/A	
Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	13.21%	
National minima including CCB (where different from Basel III)		
CBB Common Equity Tier 1 minimum ratio	9.0%	
CBB Tier 1 minimum ratio	10.5%	
CBB total capital minimum ratio	12.5%	
Amounts below the thresholds for deduction (before risk weighting)		
Non-significant investments in the capital of other financials	7,705	f
Significant investments in the common stock of financials	–	
Mortgage servicing rights (net of related tax liability)	–	
Deferred tax assets arising from temporary differences (net of related tax liability)	–	
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	10,701	a+b+c+d+e-h
Cap on inclusion of provisions in Tier 2 under standardized approach	8,940	
N/A	–	
N/A	–	
Capital instruments subject to phase-out arrangements (only applicable between 1st Jan 2019 and 1 Jan 2023)		
Current cap on CET1 instruments subject to phase out arrangements	NA	
Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	NA	
Current cap on AT1 instruments subject to phase out arrangements	NA	
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	NA	
Current cap on T2 instruments subject to phase out arrangements	NA	
Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	NA	

Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

2. CAPITAL MANAGEMENT & CAPITAL ADEQUACY RATIO (CONTINUED)

2.5 Unconsolidated legal entities for regulatory purposes

- a) Legal entities that are included within the accounting scope of consolidation but excluded from the regulatory scope of consolidation:

Legal Entity name	Entity classification as per CBB Rules & Guidelines	Treatment by the Bank for regulatory purposes	Extracts of financial information as at 31 st December 2020 (Amount in BD 000's)	
			Total assets	Total equity
Harbour West 2 Real Estate SPC	Commercial entity	Risk weighted (look through approach)	8,523	8,523
Harbour West 4 Real Estate SPC	Commercial entity	Risk weighted (look through approach)	6,042	6,042
Surooh LTD	Commercial entity	Risk weighted	5,153	2,336
H.H. Hospitality SPC	Commercial entity	Risk weighted	60,001	60,001
KHCB Tier 1 Sukuk Limited	Trust	Risk weighted	60,000	0.094
The Khaleeji Commercial Bank Employee Benefit Trust	Trust	Risk weighted	1	1

Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

2. CAPITAL MANAGEMENT & CAPITAL ADEQUACY RATIO (CONTINUED)

2.6 Disclosure template for main feature of regulatory capital instruments

Issuer	Khaleeji Commercial Bank B.S.C	KHCB Tier 1 Sukuk Limited
Unique identifier	KHCB	NA
Governing law(s) of the instrument	All applicable laws and regulations of the Kingdom of Bahrain	English law, Cayman Islands Law
Regulatory treatment		
Transitional CBB rules	Common Equity Tier 1	Additional Tier 1
Post-transitional CBB rules	Common Equity Tier 1	Additional Tier 1
Eligible at solo/group/group & solo	Group and solo	Group and solo
Instrument type (types to be specified by each jurisdiction)	Equity Shares	Subordinated Mudaraba
Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	BD 89 million	BD 47 million
Par value of instrument	BD 0.100	USD 200,000 and integral multiples of USD 1,000 in excess thereof
Accounting classification	Shareholders' Equity	Shareholders' Equity
Original date of issuance	Various	30-Jun-20
Perpetual or dated	Perpetual	Perpetual
Original maturity date	No Maturity	No Maturity
Issuer call subject to prior supervisory approval	No	Yes
Optional call date, contingent call dates and redemption amount	Not applicable	30-Jun-25
Subsequent call dates, if applicable	Not applicable	After the First Call Date, subject to the CBB approval
Coupons / dividends		
Fixed or floating dividend/coupon	Dividend as decided by the Shareholders	Fixed
Coupon rate and any related index	Not applicable	10%
Existence of a dividend stopper	Not applicable	Not applicable
Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
Existence of step up or other incentive to redeem	No	No
Noncumulative or cumulative	Non-cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible	Convertible
If convertible, conversion trigger (s)	Not applicable	If a Non-Viability Event occurs (means that the Central Bank has informed the Bank in writing that either (i) it has to cancel/write-off the Certificates on the grounds of non-viability; or (ii) an immediate public sector injection of capital is required, without which the Bank would become non-viable).
If convertible, fully or partially	Not applicable	Full or Partial
If convertible, conversion rate	Not applicable	Conversion will take place at higher of, i) current market value, ii) Net book value or iii) determination of independent valuer
If convertible, mandatory or optional conversion	Not applicable	Optional

Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

2. CAPITAL MANAGEMENT & CAPITAL ADEQUACY RATIO (CONTINUED)

2.6 Disclosure template for main feature of regulatory capital instruments (Continued)

If convertible, specify instrument type convertible into	Not applicable	CET1 Instruments
If convertible, specify issuer of instrument it converts into	Not applicable	KHCB
Write-down feature	No	No
If write-down, write-down trigger(s)	Not applicable	Not applicable
If write-down, full or partial	Not applicable	Not applicable
If write-down, permanent or temporary	Not applicable	Not applicable
If temporary write-down, description of write-up mechanism	Not applicable	Not applicable
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not applicable	Rank subordinate to all Senior Obligations, and rank Pari Passu with all other Pari Passu Obligations.
Non-compliant transitioned features	No	No
If yes, specify non-compliant features	Not applicable	Not applicable

Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

2. CAPITAL MANAGEMENT & CAPITAL ADEQUACY RATIO (CONTINUED)

2.7 Capital structure, minimum capital requirements and capital adequacy

Eligible capital	31 st December 2020
Common Equity Tier 1 (CET1)	
Issued and fully paid ordinary shares	89,212
Less: Employee stock incentive program funded by the bank (outstanding)	–
Statutory reserve	9,024
Retained earnings	9,738
Other reserve	8,101
Current interim cumulative net profit	348
Total CET1 capital prior to the regulatory adjustments	116,422
Less: Investment in own shares	(11,859)
Less: Investments in financial entities where ownership is < 10% of the issued common share capital (amount above 10% CET1a)	–
Total Common Equity Tier 1 capital after the regulatory adjustments	104,563
Other Capital	
AT1	47,222
General financing loss provision – (Tier 2)	8,940
Total available AT1 & T2 Capital	56,162
Total Capital	160,725
Risk Weighted Assets	
Credit risk weight exposures	715,233
Market risk weight exposures	8,263
Operational risk weight exposures	67,775
Total risk weighted assets	791,271
Capital adequacy ratio (CET1)	13.21%
Capital adequacy ratio (T1)	19.18%
Capital adequacy ratio (Total capital)	20.31%

The above capital adequacy ratios are calculated by dividing the respective regulatory capital base by the total RWA's.

Risk-weighted assets

Credit risk

For regulatory reporting purposes, the Bank calculates the capital requirements for credit risk based on the standardised approach. Under this approach, the on and off-balance sheet credit exposures are assigned risk weights based on the type of counterparty, type of the exposure, and source of funding (equity of investment account holders (“IAH”) or own funds). Further for capital adequacy computations, 100% of the RWA's is used for self-financed assets while only 30% is considered for assets funded through equity of IAH. The risk weights for types of counterparties and exposures are prescribed by CBB.

Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

2. CAPITAL MANAGEMENT & CAPITAL ADEQUACY RATIO (CONTINUED)

2.7 Capital structure, minimum capital requirements and capital adequacy (Continued)

Market risk

The Bank uses the standardised approach to measure market risk. Market risk for the Bank is primarily on account of the foreign exchange exposures that are considered as specific risks. As per the CBB guidelines, capital for foreign exchange risk is computed at 8% of overall net open foreign currency positions of the Bank and this is multiplied by 12.5 to derive the market RWA's.

Operational risk

The Bank adopts the Basic Indicator Approach to evaluate operational risk charge in accordance with the CBB Capital Adequacy Module for Islamic Banks. According to this approach, the Bank's average gross income for the past three financial years is multiplied by a fixed coefficient alpha of 15% set by the CBB to arrive at the capital required and a multiple of 12.5 is used to arrive at the RWA's that are subject to capital charge.

Break-up of capital requirement in accordance with the Capital Adequacy Module of the CBB for the year ended 31 December 2020 is as follows:

Exposure classification	Exposure			Risk-Weighted Assets [1]			Capital requirement @ 12.5%		
	Self-financed [2]	IAH [3]	Total	Self-financed	IAH	Total	Self-financed	IAH	Total
Cash and collection items	5,029	-	5,029	-	-	-	-	-	-
Sovereigns	29,991	217,590	247,581	-	-	-	-	-	-
Claims on PSEs	10,240	50,813	61,053	-	9,343	9,343	-	1,168	1,168
Banks	116	51,001	51,117	23	21,513	21,536	3	2,689	2,692
Corporates	173,213	100,579	273,792	220,267	99,243	319,511	27,533	12,405	39,939
Past due facilities	38,011	-	38,011	53,129	-	53,129	6,641	-	6,641
Investment in equities/sukuks	82,094	-	82,094	123,141	-	123,141	15,393	-	15,393
Holdings of real estate	97,269	-	97,269	273,243	-	273,243	34,155	-	34,155
Other assets	6,400	-	6,400	6,400	-	6,400	800	-	800
Credit Risk	442,363	419,983	862,346	676,204	130,099	806,303	84,525	16,262	100,788
Market Risk	8,263	-	8,263	8,263	-	8,263	1,033	-	1,033
Operational Risk	67,775	-	67,775	67,775	-	67,775	8,472	-	8,472
Total	518,400	419,983	938,383	752,241	130,099	882,340	94,030	16,262	110,293

1. For capital adequacy computations, 100% of the RWAs are used for self-financed assets while only 30% is considered for assets funded through equity of investment account holders (IAH).
2. Excludes credit risk mitigants of BD 151,432 thousand.
3. Excludes credit risk mitigants of BD 5,366 thousand.



Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

3. CREDIT RISK

3.1 Credit risk management

Credit Risk is the risk that counterparty fails to meet its obligations in accordance with agreed terms and conditions. The major sources of credit risk in the Bank are under the following classes of assets:

- Placements and exposures of financial institutions,
- Financing assets,
- Assets acquired for leasing (including lease rentals receivable), and
- Investments in Sukuk.

The Bank follows the CBB classification of credit risk for the purpose of capital adequacy computation (as well as certain other tables below).

The Bank has the necessary internal processes for assessing, monitoring and controlling credit risk both at the individual credit and portfolio levels. Credit limits are approved after a thorough assessment which takes into account the financial strength of the counterparty, the technical feasibility and economic viability of the business being financed, the adequacy and quality of the cash flow available for repayment, etc. in addition to availability of collateral security by way of physical assets or guarantees. The RMD reviews the credit proposals and incorporates its remarks on the proposal before the same is considered by the appropriate authority as per delegated approval levels granted by the Bank's Board of Directors.

At the portfolio level, the Board has established risk concentration limits for single counterparties and related counterparties forming a business group, geographical and economic sectors as well as exposures to counterparties related to the Bank and/or its major shareholders. The RMD regularly monitors compliance with these limits and deviations if any are reported regularly to the Senior Management, Executive Credit & Investment Committee and the Board of Directors.

Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

3. CREDIT RISK (CONTINUED)

3.2 Levels of exposure

The table below shows gross credit exposure along with average credit exposure broken down under different exposure classes as at 31 December 2020:

Gross/ Average Credit Exposures	Average Exposure ¹	Gross Exposure		
		Self-financed	IAH	Total
Cash and bank balances	71,041	34,321	48,696	83,017
Placement with financial institutions	22,020	–	17,720	17,720
Financing assets	318,447	221,129	97,395	318,524
Investment in sukuk	243,102	–	261,538	261,538
Assets acquired for leasing	125,241	118,364	–	118,364
Lease rentals receivable	18,289	22,359	–	22,359
Investment in equity securities	87,894	107,788	–	107,788
Investments in associates	23,628	31,963	–	31,963
Investment in real estate	17,781	17,781	–	17,781
Development property	248	248	–	248
Other assets (Including property and equipment)	33,017	35,196	–	35,196
Total funded exposures	960,708	589,149	425,349	1,014,498
Financial guarantees	4,623	4,486	–	4,486
Undrawn commitments to extend finance	16,915	–	–	–
Total unfunded exposures ²	21,538	4,486	–	4,486

¹ Represents quarterly average balances for the year ended 31 December 2020.

² Represents unfunded exposures amounts after considering their credit conversion factors.

Public Disclosures (Continued)

as at 31st December 2020 / BD '000's

3. CREDIT RISK (CONTINUED)

3.3 Concentration of credit risk

3.3.1 Geographic distribution

For disclosure of Geographic distribution, please refer to note 33 of the consolidated financial statements for the year ended 31 December 2020.

3.3.2 Industry/sector-wise distribution

For disclosure of Geographic distribution, please refer to note 33 of the consolidated financial statements for the year ended 31 December 2020.

3.3.3 Transactions with related counterparties

Related counterparties are those entities which are related to the Bank through significant shareholding, control, or both. Wherever the Bank has entered into business transactions with such counterparties, such transactions have been done at an arm's length basis and on commercial terms that bring no disadvantage to the Bank. For the purpose of identification of related counterparties, the Bank strictly follows the guidelines issued by CBB.

Detailed break up is presented in note 27 of the consolidated financial statements for the year ended 31 December 2020.

3.3.4 Exposures exceeding materiality thresholds

The Bank is required to carry out capital adjustments (deduction) for its exposure to significant investments in capital of banking and financial entities that are outside the scope of regulatory consolidation subject to certain materiality thresholds as defined in the Capital Adequacy Module ("CA Module") of the CBB Rule Book.

Further, the exposures in excess of limits prescribed by Credit Risk Management Module ("CM Module") (single obligor limit of 15% of total capital and aggregate limit for connected counterparty exposure of 25% of total capital) are subject to risk weight of 800%. For investment in a financial entity where ownership is < 10% of the issued common capital, 100% of the amount exceeding 10% of CET1 (a) is subject to deduction from CET1 (a). The following table summarises the exposures exceeding regulatory limits as of 31 December 2020:

Counterparty	Exposure type	Total exposure	Total Exposure as a % of eligible capital	Exposures exceeding threshold
Single Obligor Limit	Financing	6,722	4.18%	6,722

3.3.5 Exposures in highly leveraged counterparties

The following balances represent the financing facilities to highly leveraged or other high risk counterparties as of 31 December 2020:

Counterparties	Gross BD '000	Provision BD '000	Net BD '000
Counterparty # 1	4,185	815	3,370
Counterparty # 2	2,280	-	2,280

Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

3. CREDIT RISK (CONTINUED)

3.3 Concentration of credit risk (Continued)

3.3.6 Residual contractual maturity of the credit portfolio and investment in sukuk

The Bank's policy provides guidelines for the appropriate tenor for corporate clients and retail customers. These guidelines are reviewed on a periodic basis. The Bank constantly monitors the residual maturity profile of its assets to ensure that any mismatch with the maturity of its liabilities is kept within acceptable limits. The contractual residual maturity profile by type of financing contract of the Bank's credit portfolio and investment in sukuk is given in the table below:

Maturity Scale	< 1 M	1 - 3 M	3 - 6 M	6M - 1Y	1 - 3Y	3 - 5Y	5 - 10Y	10 - 20Y	Over 20Y	Total
Credit portfolio:										
Murabaha	16,190	17,232	14,509	28,906	94,641	72,168	59,936	1,769	8	305,359
Mudharaba	4	9	13	26	113	122	727	-	-	1,014
Istisna	-	12	20	55	233	378	646	-	-	1,344
Ijarah	2,321	1,680	2,829	5,666	24,984	23,962	46,058	28,935	3,319	139,754
Total	18,515	18,933	17,371	34,653	119,971	96,630	107,367	30,704	3,327	447,471
Investment in sukuk	-	2,103	536	16,226	6,748	145,193	90,326	-	-	261,132
Grand Total	18,515	21,036	17,907	50,879	126,719	241,823	197,693	30,704	3,327	708,603

3.4 Equity risk in banking book

The Bank has certain equity investments classified in the banking book and are subject to credit risk weighting under the capital adequacy framework. For regulatory capital computation purposes, the Bank's equity investments in the banking book include unquoted equity investments, and investments in associates being non-financial entities.

Please refer to notes 5 of the consolidated financial statements for policies covering the accounting of equity holdings, including the accounting policies and valuation methodologies used, key assumptions and practices affecting valuation.

The RMD provides an independent review of investment transactions. An impairment assessment of investments takes place every quarter with inputs from the Investment department and RMD. Quarterly updates of investments are reviewed by the Board of Directors and are submitted to the CBB.

The Bank's equity investments are predominantly in its own products, which includes private equity and infrastructure development projects. The intent of such investments is a later stage exit along with the investors, by means of strategic sell outs at the project level or through initial public offerings. The Bank also has a strategic investment portfolio which is aligned with the long term investment objectives of the Bank.

Information on equity investments	Amount
Privately held	107,788
Dividend income	103

Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

3. CREDIT RISK (CONTINUED)

3.4 Equity risk in banking book (Continued)

The following are the categories under which equity investments are included in the capital adequacy computations as per the requirements of the CBB rules:

Equity investments in banking book	Gross exposure		Risk weighted exposure		Capital charge @12.5%	
	Self-financed	IAH	Self-financed	IAH	Self-financed	IAH
Unlisted	78,835	-	118,253	-	14,782	-
Investments in unlisted real estate companies	28,953	-	115,812	-	14,477	-
Investment in equity shares exceeding exposure threshold	-	-	-	-	-	-
Total	107,788	-	234,065	-	29,258	-

3.5 Risk grading of exposures

The Bank adopts a well-structured internal Credit Risk Rating/Grading system as a means of differentiating the degree of credit risk in the different credit exposures of the Bank to allow more accurate determination of the overall characteristics of the asset portfolio, concentrations, limits management, problem assets, pricing, and the adequacy of loss reserves (provisions). Credit Risk Ratings (CRRs) provides a key input in identifying the risks associated with a counterparty and a credit facility, and the relevant expected credit loss. The Bank's approach to credit risk rating is documented in the Credit Risk Rating Policy which aims at achieving the following: (a) create a benchmark for assessing relative credit-worthiness of the graded entity and measure credit risk in relation to the market, (b) arrive at a system of risk-based pricing for credit facilities granted by the Bank, (c) monitor the overall credit risk inherent in the Bank's Credit portfolio, (d) create a benchmark for recognition of accrued income on credit assets, (e) link asset review frequency and approval authority levels to Credit risk and emphasize focus on effective management of weak assets, and (f) provide a means to link Internal Capital Adequacy to the portfolio credit risk.

The Bank allocates each exposure to credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. The grading sheets are prepared by the Business Department and reviewed by the RMD. Grades are continuously monitored by the Bank's Credit Management Department and exposures are downgraded depending on the days past due, if any, based on clear criteria laid out in the Bank's credit policy. Further, the grading for corporate customers is also subject to review at least once on an annual basis. Movement of grades for credit exposures is reported quarterly to the Board.

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

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

Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

3. CREDIT RISK (CONTINUED)

3.5 Risk grading of exposures (Continued)

The Bank relies on credit/risk ratings for financial institutions, as they are generally rated by an ECAI, as per the following guidelines:

- The Bank will use ratings issued by ECAs approved by the Central Bank of Bahrain (“CBB”) only. These currently comprise S&P, Moody’s, Fitch, Capital Intelligence (“C.I.”), and Islamic International Rating Agency (“IIRA”).
- Ratings will be used consistently for risk assessment purposes from selected ECAs;
- If there are two assessments by eligible ECAs chosen by Bank which map into different risk weights, the higher risk weight will be applied.
- If there are three or more assessments by eligible ECAs chosen by the Bank which map into different risk weights, the assessments corresponding to the two lowest risk weights is referred to and the higher of those two risk weights is applied.
- The Bank will use the issuer or issue specific rating depending on the guideline issued by the CBB. The Bank not use the issue specific risk rating of an un-rated financial institutions except in case of specific investment in that financing instrument or bank claim pari passu to the issuer;
- Domestic currency ratings will be used to assess claims in domestic currency while foreign currency rating would be used for foreign currency exposures;
- Short-term rating of the financial institutions cannot be used for risk assessments of un-rated long-term claims.

Different ECAs issue different coding-references to refer to the risk rating of the financial institutions. The following rating equalization table, provided by CBB, is to be used to map the ECAs ratings into the Bank’s internal ratings:

S&P	Moody's	Fitch	C.I.	IIRA	Internal		Class
					Grade		
AAA	Aaa	AAA	AAA	AAA	1	Prime	Investment Rated
AA+	Aa1	AA+	AA+	AA+	2	Excellent	
AA	Aa2	AA	AA	AA	2		
AA-	Aa3	AA-	AA-	AA-	2		
A+	A1	A+	A+	A+	3	Very Good	
A	A2	A	A	A	3		
A-	A3	A-	A-	A-	3		
BBB+	Baa1	BBB+	BBB+	BBB+	4	Good	
BBB	Baa2	BBB	BBB	BBB	4		
BBB-	Baa3	BBB-	BBB-	BBB-	4		
BB+	Ba1	BB+	BB+	BB+	5	Satisfactory	Non-Investment Rated
BB	Ba2	BB	BB	BB	5		
BB-	Ba3	BB-	BB-	BB-	5		
B+	B1	B+	B+	B+	6	Average	
B	B2	B	B	B	6		
B-	B3	B-	B-	B-	6		
CCC+	Caa1	CCC+	C+	CCC+	7	Watch List	
CCC	Caa2	CCC	C	CCC	7		
CCC-	Caa3	CCC-	C-	CCC-	7		
CC	Ca	CC	D	CC	8	Sub-Standard	
C	C	C	-	C	9	Doubtful	Classified
D	-	D	-	D	10	Loss	

Please refer to note 35 of the consolidated financial statements for the year ended 31 December 2020, for details of the grading profile of credit exposures of the Bank.



Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

3. CREDIT RISK (CONTINUED)

3.6 Past dues, impaired accounts, provisions

Customers may occasionally fail to meet their obligations to the Bank on due dates. Any amount not paid when due is classified as past due and the Bank initiates focused recovery efforts on such accounts.

The Bank adopted FAS 30 / IFRS 9 standards that classify exposures into three stages to measure ECL on exposures subject to credit risk. Accounts are moved into higher staging depending on occurrence of Significant Increase in Credit Risks. Exposures classified in Stage 3 are considered Credit impaired, this includes exposures with past dues 90 days or more.

The Bank assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Bank applies the relevant ECL related rules in line with the CBB instructions, if any, which may change from time to time.

The Bank considers a financial asset to be in default when:

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

FAS 30 classifies assets and exposures into three categories based on the nature of risks involved (i.e. credit risk and other risks) and prescribes three approaches for assessing losses for each of these categories of assets 1) Credit Losses approach, 2) Net Realizable Value approach ("NRV") and 3) Impairment approach.

The Bank recognises loss allowances for ECLs on:

- Cash and bank balances;
- Placements with financial institutions;
- Financing assets;
- Assets acquired for leasing (including lease rental receivable);
- Investments in Sukuk - debt-type securities at amortised cost; and
- Undrawn financing commitments and financial guarantee contracts issued.

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

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

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

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 Bank expects to receive). ECLs are discounted at the effective profit rate of the financial asset.

The Bank makes provisions for impairment on individual assets classified under grades 8, 9 and 10. This is done on the basis of the present value of projected future cash flows from the assets themselves and consideration of the value of the collateral securities available.

For a detailed policy on impairment of financial assets, please refer to note 5 (j) of the consolidated financial statements for the year ended 31 December 2020. For the quantitative disclosures relating to exposures which were past due or impaired as of 31 December 2020, please refer to note 35 of the consolidated financial statement for the year ended 31 December 2020.

Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

3. CREDIT RISK (CONTINUED)

3.6 Past dues, impaired accounts, provisions (Continued)

3.6.1 Geographical and sector-wise break-up of impairment allowances and Credit impaired (stage 3) and past due but not credit impaired.

	GCC Countries	Europe	Total
Credit Impaired:			
3 months to 1 year	35,143	-	35,143
1 year to 3 years	16,289	-	16,289
More than 3 years	3,753	-	3,753
	55,185	-	55,185
Less: Stage 3 impairment allowance:			
At 1 January 2020	29,180	4,260	33,440
Transfer to stage 3	1,468	-	1,468
Charge during the year	2,294	-	2,294
Write back	(2,704)	-	(2,704)
Write off during the year	(11,009)	-	(11,009)
Disposals	(8,324)	(4,260)	(12,584)
	10,905	-	10,905
Carrying amount	44,280	-	44,280
Past due but not credit impaired:			
Up to 3 months	49,942	-	49,942
3 months to 1 year	-	-	-
More than 1 year	-	-	-
	49,942	-	49,942
Stage 1 and Stage 2 impairment allowance	9,919	214	10,133

Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

3. CREDIT RISK (CONTINUED)

3.6 Past dues, impaired accounts, provisions (Continued)

3.6.1 Geographical and sector-wise break-up of impairment allowances and Credit impaired (stage 3) and past due but not credit impaired (Continued)

	Banks and financial institutions	Real estate	Others	Total
Credit Impaired:				
3 months to 1 year	1,014	14,091	20,038	35,143
1 year to 3 years	–	4,350	11,939	16,289
More than 3 years	–	2,107	1,646	3,753
	1,014	20,548	33,623	55,185
Less: Stage 3 impairment allowance:				
At 1 January 2020	524	3,836	29,080	33,440
Transfer to stage 3	–	(66)	1,534	1,468
Charge during the year	–	2,089	205	2,294
Write back	–	(726)	(1,978)	(2,704)
Write off during the year	–	–	(11,009)	(11,009)
Disposals	–	(1,657)	(10,927)	(12,584)
	524	3,476	6,905	10,905
Carrying amount	490	17,072	26,718	44,280
Past due but not credit impaired:				
Up to 3 months	–	34,579	15,363	49,942
3 months to 1 year	–	–	–	–
More than 1 year	–	–	–	–
	–	34,579	15,363	49,942
Stage 1 and Stage 2 impairment allowance	–	1,749	8,384	10,133

3.7 Renegotiated facilities

For disclosure of renegotiated facilities, please refer to note 35 of the consolidated financial statements for the year ended 31 December 2020.

3.8 Legal action and write-off of exposures

The Bank has policy for initiation and prosecution of legal action when all amicable avenues for settlement of dues from a customer have been exhausted. The Bank has a policy that permits write-off of exposures when there is no possibility of recovery of the dues through legal and other means.

As of 31 December 2020, an investor in one of the Group's projects has filed a claim against the Group. Based on the advice of the Bank's external legal counsel, the Board of directors is of the opinion that the Group has strong grounds to successfully defend itself against this claim. No further disclosures regarding contingent liabilities arising from any such claims are being made by the Bank as the directors believe that such disclosures may be prejudicial to the Group's legal position.

Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

3. CREDIT RISK (CONTINUED)

3.9 Penalties for delayed payments

In cases where customers delay the payment of dues to the Bank, the Bank has the right to collect penalties, subject to the provisions of the agreement between the customer and the Bank. The Bank recovers such penalties from customers when the amounts are significant. As per policy, such penalties are maintained in a separate account and used for charity purposes approved by the Bank's Shari'a Board.

The Bank has a policy of creating a contribution for Charity and Zakah fund for any non-Islamic income earned. During the year ended 31 December 2020, an amount of BD 40 thousand was thus transferred to Charity and Zakah fund.

For quantitative disclosures, please refer to consolidated statement of sources and uses of charity and Zakah fund in the consolidated financial statements for the year ended 31 December 2020.

3.10 Credit risk mitigation

The Bank uses a variety of tools to mitigate its credit risk, the primary one being that of securing the exposure by suitable collateral. While existence of collateral security is not a policy precondition for financing, in practice a large part of existing exposures are at least partially supported by collateral. The Bank has clear policies on the type of assets that can be accepted as collateral security and the mode of valuation of these assets. In general, all assets accepted as collateral are valued at least once in a year. The legal validity and enforceability of the documents used for creating these collaterals have been established by external legal experts.

The position of collateral cover for all credit exposures categorised on the basis of the type of security as on 31 December 2020 is given in the table below:

Collateral Type	Murabaha	Wakala	Istisna	Ijara	Value of collateral ¹	Gross Exposure ²	% of cover	% of Total
Real estate	231,408	2,587	3,565	202,821	440,380	326,941	135%	93%
Listed securities	4,283	–	–	–	4,283	5,777	74%	1%
Unlisted securities	–	–	–	–	–	–	0%	0%
Bank guarantee	–	–	–	–	–	–	0%	0%
Cash collateral	22,502	–	–	1,713	24,215	48,190	50%	5%
Others	4,402	–	–	–	4,402	10,355	43%	1%
Unsecured	–	–	–	–	–	77,246	0%	0%
Total	262,595	2,587	3,565	204,534	473,280	468,509		

¹ Represents collateral values based on the last valuation carried out based on the Bank's valuation policy including collaterals which exceed the book value of facility.

² The amounts are gross of ECL of BD 21,038 thousand.

Real estate properties are reckoned at values certified by qualified valuers. Other physical assets like machinery are valued at book value, invoice value or as certified by an outside expert. Listed securities are valued at market price while un-listed ones are carried at cost less impairment. The Bank has an approved panel of valuers for real estate property. Valuation exercises are supervised by the credit department, independent of the business units.

Financing facilities are also often secured by personal/ corporate guarantees, joint ownership of vehicles, assignment of contract proceeds, assignment of insurance policies, etc. However under the Bank's credit policy these are not treated as tangible securities and the value of such guarantees/ assignments, though significant in many cases, are taken as nil for the purpose of the above analysis.

Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

3. CREDIT RISK (CONTINUED)

3.10 Credit risk mitigation (Continued)

Assets financed under Ijara Muntahia Bittamleek are considered at par with physical collateral and included under Real Estate or Others in the above calculations.

The declared value of exposures in all cases is the gross exposure before any provisions. The Bank does not carry out any on or off balance sheet netting for the securities held. The Bank has not claimed any capital relief for Credit Risk Mitigation under Section CA 4.7 of the Capital Adequacy Module of CBB rule book and hence all exposures are risk weighted at their gross values for the purpose of computation of capital adequacy ratio.

The Bank has a policy of disposal of asset held as collateral not readily convertible into cash, after completion of necessary legal formalities.

3.11 Regulatory capital requirements by type of financing contracts

Financing contract	Exposure		Credit Risk Weighted Assets		Capital Requirement @ 12.5%	
	Self-financed	IAH	Self-financed	IAH	Self-financed	IAH
Murabaha	220,889	96,051	255,941	27,206	31,993	3,401
Ijara assets (including lease rentals receivable)	139,754	–	–	–	–	–
Musharaka	105	–	105	–	13	–
Mudharaba	1,014	–	1,014	–	127	–
Wakala	90	–	90	–	11	–
Istisna	–	1,344	–	403	–	50
Total	361,852	97,395	257,150	27,609	32,144	3,451

4 MARKET RISK

4.1 Market risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates, profit rates, equity prices, and commodity prices will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

CBB rules require that the Bank separates its exposure to market risk between trading and non-trading portfolios. The Bank has no trading positions in equity or commodities and the main source of market risk for the Bank is its foreign exchange exposure and Sukuk exposure, although this is quite limited. There is also an extent of profit rate risk in the banking book arising out of mismatches in its asset liability structure. The Bank has well-defined policies approved by the Board with clear risk limits and thresholds to effectively manage its market risk.

The Sukuk risk is monitored by marking to market of the portfolio on a daily basis. The pricing of the sukuk is based on acceptable market pricing norms.

The ALCO committee reviews these investments as part of the overall monitoring of cash management and treasury and investment activities of the Bank.

Details on market risk management, net exposures and sensitivities are given as part of note 35 of the consolidated financial statements for the year ended 31 December 2020.

Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

4. MARKET RISK (CONTINUED)

4.2 Regulatory capital allocation against market rate risk

The table below shows the market risk position for each category of the market risk as at 31 December 2020 along with the maximum and minimum values during the period:

	As at 31 st December	Max	Min
Equity position risk	-	-	-
Market risk on trading positions in sukuk *	-	-	-
Foreign exchange risk	661	661	614
Commodity risk	-	-	-
Total (A)	661	661	614
Risk Weighted Assets (A x 12.5)	8,263	8,263	7,679
Capital requirement @ 12.5%	1,033	1,033	960

* represents 30% of the exposure since these sukuk investments are allocated from IAH pool.

5. OPERATIONAL RISK

5.1 Operational risk management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, systems, and/ or from external events which includes but is not limited to, legal risk and Shari'a compliance risk. Operational risk is an inherent part of normal business operations. Whilst operational risk cannot be eliminated entirely, the Bank endeavors to minimise it by ensuring that a strong control infrastructure is in place throughout the organisation. Various procedures and processes used to manage operational risk including effective staff training, appropriate controls to safeguard assets and records, regular reconciliation of accounts and transactions, close monitoring of risk limits, segregation of duties, and financial management and reporting.

Details on operational risk management are given as part of note 35 of the consolidated financial statements for the year ended 31 December 2020.

The Bank implements an operational risk control framework and monitors and responds to potential risks. Controls to limit the impact of operational risk include but are not limited to effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, and the internal audit process.

The ultimate responsibility of managing operational risk rest with the Board. This responsibility is further discharged to the BARMC. The Board approves the operational risk policies and procedures. The Bank has implemented Risk Controls and Self-Assessment (RCSA) and departments report the incidents and Key Risk Indicators (KRIs) values to the operational risk unit for monitoring and reporting the key operational risks in the Bank.

RMD monitors the key operational processes, through the RCSA framework and KRI reporting, to ensure that the Board directives are fully implemented and deviations are reported if any to the Senior Management and to the Board. The department has specialised personnel engaged in this process. The Bank has implemented an Operational Risk Management System which monitors Key Risk Indicators and controls across all major areas of operation and generates appropriate triggers as and when pre-defined risk events occur (through breach of triggers set) and also generates periodical update report to the Board and to the Management. In addition, the Bank's policy dictates that the operational functions of booking, recording and monitoring of transactions are carried out by staff that are independent of the individuals initiating the transactions.

The Bank's operational risk management framework includes components such as Key Risk Indicators ("KRI's"), operational loss data and Risk & Control Self-Assessment across the Bank. These are monitored periodically which helps in quickly detecting and correcting deficiencies in processes and procedures. The collected data is maintained to create a loss database which could be the starting point for a more advanced operational risk measurement approach in future.

Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

5. OPERATIONAL RISK (CONTINUED)

5.2 Litigation

As of the reporting, an investor in one of the Group's projects has filed a claim against the Group. Based on the advice of the Bank's external legal counsel, the Board of directors is of the opinion that the Group has strong grounds to successfully defend itself against this claim. as reported in Para 4.8 above. The Bank has a dedicated legal team which provides legal advice and services to all business units of the Bank.

5.3 Shari'a compliance

The Shari'a Supervisory Board ("SSB") is entrusted with the duty of directing, reviewing and supervising the activities of the Bank in order to ensure that they are in compliance with the rules and principles of Islamic Shari'a. The Bank also has a dedicated internal Shari'a reviewer, who performs an ongoing review of the compliance with the fatwas and rulings of the SSB on products and processes and also reviews compliance with the requirements of the Shari'a standards prescribed by AAOIFI. The SSB reviews and approves all products and services before launching and offering to the customers and also conducts periodic reviews of the transactions of the Bank. An annual audit report is issued by the SSB confirming the Bank's compliance with Shari'a rules and principles.

5.4 Regulatory capital allocation against operational risk

The Bank uses the Basic Indicator Approach in calculating its regulatory capital requirement for operational risk.

The risk weighted assets and capital requirement for operational risk as at 31 December 2020 is as given below:

Average gross income for 3 years (A)	36,146
Operational Risk Weighted Assets (B) = A x 15% x 12.5	67,775
Capital requirement = B x 12.5%	8,472

6 OTHER RISKS

6.1 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting its financial obligations on account of a maturity mismatch between assets and liabilities. The Bank's approach to manage liquidity is to ensure that it will always have sufficient funds and high quality liquid assets to meet its liabilities when due without incurring unacceptable losses or risking damage to the Bank's reputation.

The Bank has a liquidity risk policy in place, which describes the roles and responsibilities of the Asset Liability Management Committee ("ALCO"), Treasury and other concerned departments in management of liquidity. It also stipulates various liquidity ratios to be maintained by the bank, as well as gap limits under each time bucket of the maturity ladder. It is the Bank's policy to keep adequate level of high quality liquid assets such as cash and Sukuk to ensure that funds are available to meet maturing Mudharaba deposits, current accounts and other liabilities, as and when they fall due. The day-to-day management of liquidity risk is the responsibility of the Treasury Department, which monitors the sources and maturities of assets and liabilities closely, and ensures that limits stipulated by the ALCO are complied with. RMD and Financial Control Department ("FCD") monitors the liquidity position and any violations are reported to ALCO, ECICOM and the Board of Directors.

Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

6. OTHER RISKS (CONTINUED)

6.1 Liquidity risk (Continued)

For maturity profile of assets and liabilities, please refer to note 32 of the consolidated financial statements for the year ended 31 December 2020.

The following are the key liquidity ratios which reflect the liquidity position of the Bank:

	2020	2019	2018	2017	2016
Interbank assets to interbank liabilities	64.11%	84.82%	62.61%	47.02%	162.20%
Liquid assets to total assets	24.41%	38.83%	30.02%	22.19%	27.30%
Liquid assets to total deposits	35.66%	51.79%	47.55%	35.12%	35.94%
Net liquid assets to total deposits	24.22%	33.70%	18.08%	10.07%	25.78%

Figures in %

6.2 Profit rate risk in the banking book

The other principal risk to which the banking book is exposed, is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market profit rates. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for re-pricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by the RMD in its day-to-day monitoring activities.

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered on a monthly basis include a 200 basis points (bps) parallel fall or rise across all yield curves. An analysis of the Bank's sensitivity to an increase or decrease in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) is as follows:

	200bp parallel increase/ decrease
At 31 st December 2020	±1,390
At 31 st December 2019	±865

6.3 Counterparty credit risk

Counterparty credit risk is the risk that a counterparty to a contract in the profit rate, foreign exchange, equity and credit markets defaults prior to maturity of the contract. The Bank does not engage in proprietary trading of equity, foreign exchange or its derivatives. However, the Bank manages such risk through natural hedges to hedge its risks arising out of mismatch in its asset liability portfolios. Clear policies for such transactions are in place. For other credit market transactions (primarily interbank placements), the Bank has established a matrix of counterparty limits based on external credit rating of such counterparties. Such limits are constantly monitored by the RMD.

6.4 Concentration risk

Concentration risks arises when a number of obligors, counterparties or investees 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. Accordingly, such concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or region. To manage this risk, the Bank has established exposure limits to various geographic regions and industry sectors. Such limits are monitored by the RMD and deviations, if any, are reported to the Board on quarterly basis. As at 31 December 2020, there have been some concentration to few clients that have been within the Bank's strategy and within Board and CBB approvals. For break-up of exposure geography and industry/ sector wise, please refer to notes 4.3.1 and 4.3.2 above.



Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

6. OTHER RISKS (CONTINUED)

6.5 Reputational risk

Reputational risk is the risk that negative perception regarding the Bank's business practices or internal controls, whether true or not, will cause a decline in the Bank's investor base that could have an adverse impact on liquidity or capital of the Bank. This may also lead to litigation against the bank which apart from avoidable legal expenses will also damage Bank's credibility which in turn will adversely affect business growth and profitability. Being an Islamic Bank, reputation is an important asset and one of the issues that could affect the Bank's reputation is the inability to exit from investments, lower than expected returns on investments, growth of non-performing asset portfolio and poor communication to investors. The Bank has a well-developed and coherently implemented communication strategy to cover such contingencies. The Bank also allocates additional capital for such risks under its ICAAP.

6.6 Displaced commercial risk

Displaced commercial risk refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by equity of investment account holders. This can be due to the return on such assets being lower than that of competitors. The Bank has adequate policies and procedures in place to identify, monitor and address all potential risks that may arise from such activities. Please refer to the section on IAH for further details.

6.7 Other risks

Other risks include strategic risk, fiduciary risks, and regulatory risks, etc. which are inherent in all business and are not easily measurable or quantifiable. The Bank's Board has overall responsibility for approving and reviewing the risk strategies and amendments to the risk policies. The Bank senior management is responsible for implementing the risk strategy approved by the Board. The management also ensures that internal systems of corporate governance and regulatory compliance for management of fiduciary and reputational risks are robust and effective. The Bank also allocates additional capital for such risks under its ICAAP.

7. PRODUCT DISCLOSURES

7.1 Product descriptions & consumer awareness

The Bank has a disclosure policy which applies to all modes of communication to the public including written, oral and electronic communications. These disclosures are made on a timely basis in a manner required by applicable local and regulatory requirements.

The Bank offers a comprehensive mix of Shari'a compliant commercial and investment banking products. This include, apart from traditional financing products, a range of innovative structured investment products like funds, repackaged investments and restricted Mudharaba's. The Investment Department of the Bank has expertise in creating innovative high-end and value added products offering a wide range of structures, expected returns, tenors and risk profiles.

Proposal for any new product is initiated by individual business lines within the Bank. The Executive Credit & Investment Committee ("ECICOM") and Management Committee ("ManCom") of the Bank reviews such proposal to ensure that the new product/ business are in line with the Bank's business and risk strategy. All new products will need the approval of the Board of Directors and the Shari'a Supervisory Board of the Bank.

Information on new products or any change in existing products will be placed on the Bank's website www.khcbonline.com and/or published in the media. Product details are also shared with customers and the general public through brochures and/ or, advertisements.



Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

7. PRODUCT DISCLOSURES (CONTINUED)

7.2 Complaint handling

The Bank takes disputes and complaints from all customers very seriously. These have the potential for a breakdown in relationships and can adversely affect the Bank's reputation. Left unattended these can also lead to litigation and possible censure by the regulatory authorities. The Bank has a comprehensive policy on handling of external complaints, approved by the Board. All employees of the Bank are aware of and abide by this policy.

The Bank has a designated an officer for handling of all external complaints and his contact details are displayed on the website and also at the Branch and in all printed publicity materials. Complaints are normally investigated by persons not directly related to the subject matter of the complaint. The Bank endeavors to address all complaints within five working days. Wherever this is not possible, the customer is contacted directly and a time frame for rectification of his complaint is advised. A periodical report on status of complaints is also submitted to the Board.

7.3 Equity of investment account holders (IAH's)

The Bank accepts funds in the form of Mudharaba from small investors and high net worth individuals and other entities. Equity of investment account holders ("IAH") represents funds offered by customers to the Bank to be invested in a Shari'a compliant manner, at the Bank's discretion as Mudharib. All IAH accounts are on profit sharing basis, but the Bank does not guarantee any particular level of return. Any loss arising from the investment will be borne by the customer except in the case of the Bank's negligence or misconduct. The Bank charges a Mudharib fee as its share of profit.

The Bank accepts IAH funds in Bahraini Dinar, US Dollar and other international and GCC currencies for maturity periods ranging from 1 month to 36 months including saving accounts. The Bank completes its full range of KYC due diligence prior to accepting any investment. The customer also signs a written agreement covering all terms and conditions of the investment including tenor, basis of profit allocation, early withdrawal, etc.

Since 2009, the Bank offers a savings account product called "Al-Waffer" which entitles the investors to certain prizes in cash and in kind, decided based on a raffle draws held on monthly, quarterly and annual basis apart from the normal share of profits declared and distributed after reducing the Mudharib fees.

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 individuals, respectively as of 31 December 2019. All funds raised using Wakala structure, together called "Wakala pool" are comingled with the Bank's jointly financed pool of funds based on an underlying equivalent 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 any restrictions as to where, how and for what purpose the funds should be invested. After adopting FAS 31 on 1 January 2020, the Wakala pool is now classified as part of the Mudaraba pool of funding under equity of investment account holders and the profit paid on these contracts is reported as part of determination of return on investment of equity of investment account holders.

IAH is a significant funding source for the Bank and the returns offered to investors are in line with the market. However, any shortfall in yield on the investments made out of these funds exposes the Bank to displaced commercial risk. The Bank regularly monitors rate of return offered by competitors to evaluate the expectations of its IAH's. Bank's policy also provides for whole or partial waiver of the Mudharib share of income from investments due to it, to provide a reasonable return to its investors. The Bank also has other profit smoothing mechanisms that is approved by the Board in the bank's policies such as Profit Equalization Reserves ("PER") and Investment Risk Reserve ("IRR").

Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

7. PRODUCT DISCLOSURES (CONTINUED)

7.3 Equity of investment account holders (IAHs) (Continued)

The Bank comingles its own funds and IAH funds and these are invested together. The Bank has identified two pools of assets where the IAH funds are invested and the income from which is allocated to such accounts. One pool is short term in nature to meet IAH short term investment requirements. The other pool is long term in nature to meet their long term investment requirements. Out of the gross income the investor's share is computed after deducting the Mudharib share. The profit allocation schedule signed by the customer prior to investment contains the scheme of allocation of the Mudharib share. Administrative expenses incurred for management of the funds are borne directly by the Bank and are not charged separately to investment accounts. Equity of IAH's are carried at their book value.

Subject to the provisions thereof, deposits held with the Bank are covered by the Deposit Protection Scheme established by the CBB regulation concerning the establishment of a Deposit Protection Scheme and a Deposit Protection Board.

The details of income distribution to (IAH) for the last five years are given below:

	2020	2019	2018	2017	2016
Allocated income to IAH	21,574	23,544	14,221	14,884	16,286
Distributed profit	12,285	15,087	8,602	7,447	7,156
Mudharib fees *	9,289	8,457	5,619	7,437	9,130
As at 31st December					
IAH ¹	435,886	467,268	343,849	383,561	380,975
Profit Equalisation Reserve (PER)	-	-	-	-	-
Investment Risk Reserve (IRR)	-	-	-	-	-
Profit Equalisation Reserve-to-IAH (%)	-	-	-	-	-
Investment Risk Reserve-to-IAH (%)	-	-	-	-	-

Represents average balance.

** Includes contribution towards deposit protection scheme.*

Ratio of financing of the IAH by type of IAH contracts as at 31 December 2020:

Type of IAH contracts	Ratio of financing
1 Month Mudharaba ¹	42.4%
3 Months Mudharaba	5.0%
6 Months Mudharaba	4.4%
12 Months Mudharaba	19.3%
18 Months Mudharaba	0.1%
24 Months Mudharaba	6.2%
36 Months Mudharaba	0.9%
VIP Mudharaba	21.7%
Total	100.0%

¹ Includes saving account, Al Wafer account and call mudharaba accounts.

Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

7. PRODUCT DISCLOSURES (CONTINUED)

7.3 Equity of investment account holders (IAHs) (Continued)

Ratio of profit distributed to PSIA by type of IAH (based on tenor):

Mudharaba Tenor	Profit distribution amount in BD					Ratio of profit paid as a percentage of total				
	2020	2019	2018	2017	2016	2020	2019	2018	2017	2016
1 Month ¹	2,170	1,657	1,029	959	834	17.7	8.9	11.79	12.9	11.6
3 Months	633	763	290	297	405	5.1	4.1	3.38	4.0	5.7
6 Months	656	658	536	1,012	1,346	5.3	3.5	6.23	13.6	18.8
12 Months	3,797	4,592	3,936	3,024	3,039	30.9	24.7	45.75	40.6	42.5
18 Months	9	6	6	6	8	0.1	0.0	0.07	0.1	0.1
24 Months	1,312	1,078	122	239	25	10.7	5.8	1.42	3.2	0.4
36 Months	106	514	367	3	–	0.9	2.8	4.26	–	–
VIP	3,552	5,819	2,316	1,907	1,499	28.9	30.7	26.92	25.6	20.9
Wakala	50	3,515	–	–	–	0.4	0.6	–	–	–
Total	12,285	18,602	8,602	7,447	7,156	100.0	100.0	100.0	100.0	100.0

¹ Includes saving account, Al-Wafer account and call mudharaba accounts.

Distribution of profits by type of IAH products:

Year	Avg. profit earned from IAH assets (%age of asset)	PER set aside as a %age of IAH assets	IRR set aside as a %age of IAH assets	Mudharib fees as a %age of IAH assets	Profit paid as a %age of IAH assets
2020	4.95	–	–	2.13	2.82
2019	5.04	–	–	1.81	3.23
2018	4.14	–	–	1.63	2.5
2017	3.88	–	–	1.94	1.94
2016	4.27	–	–	2.40	1.88

Following are the average profit rates declared and distributed to the investors by the Bank:

	2020	2019	2018	2017	2016
1 Month Mudharaba ¹	1.32%	1.03%	0.86%	0.64%	0.64%
3 Months Mudharaba	3.28%	3.66%	2.51%	1.79%	1.55%
6 Months Mudharaba	3.45%	3.69%	2.96%	3.07%	2.85%
12 Months Mudharaba	3.71%	3.86%	3.37%	2.81%	2.62%
18 Months Mudharaba	3.70%	3.44%	2.81%	2.73%	2.67%
24 Months Mudharaba	5.88%	5.48%	3.26%	3.49%	3.01%
36 Months Mudharaba	2.10%	5.22%	4.93%	3.39%	–
VIP Mudharaba	4.18%	4.94%	3.10%	2.39%	2.32%
Wakala	0.96%	–	–	–	–

¹ Includes saving account, Al-Wafer account and call mudharaba accounts.

The Bank refers to the group of commercial Islamic banks incorporated in the Kingdom of Bahrain so as to benchmark the rate of return on IAH.

Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

7. PRODUCT DISCLOSURES (CONTINUED)

7.3 Equity of investment account holders (IAH's) (Continued)

IAH account by type of assets:

The following table summarises the movement in type of assets in which the IAH funds are invested and allocated among various type of assets for the year ended 31 December 2020:

Particular	Allocation at 1 st January 2019	Movement	Allocation at 31 st December 2020	Proportion of total assets (%)	% of funding by IAH as at 31 st December 2020
Cash and bank balances	68,030	(19,335)	48,695	11.45%	58.66%
Placements with financial institutions	65,509	(47,789)	17,720	4.17%	100.00%
Financing assets:	183,234	(85,839)	97,395	22.90%	31.48%
-Murabaha	181,501	(85,450)	96,051	42.67%	58.67%
-Istisna	1,733	(389)	1,344	0.41%	0.56%
Investment securities – Sukuk	195,062	66,477	261,539	61.49%	100.16%
Total	511,835	(86,486)	425,349		

Variations in Mudarib's agreed profit-sharing ratio from the contractually agreed ratio

	2020	2019	2018	2017	2016
Average mudarib share as a percentage of total income allocated to IAH	60.72%	46.56%	41.82%	41.86%	53.57%
Average mudarib share contractually agreed with IAH	63.89%	59.38%	62.20%	58.80%	64.80%
Average mudarib fees sacrificed by the Bank	3.17%	12.82%	20.38%	16.94%	11.23%

7.4 Restricted Investment Accounts (RIA's)

The Bank offers Restricted Investment Accounts ("RIA's") to both small investors and high net worth individuals in the GCC. The Bank structures its RIA products to offer its customers an opportunity to choose from a wide range of returns, maturity periods, sectors, asset classes and risk levels. No RIA product was introduced/ marketed by the Bank in 2020.

All RIA offering documents ("Offering Document") are drafted and issued with input from the Bank's Investment Banking, Shari'a, Financial Control, Legal and Risk Management Departments to ensure that the Investors have sufficient information to make an informed decision after considering all relevant risk factors.

The Board of Directors is responsible for providing clear guidelines for the development, management and risk mitigation of its RIA investments and to ensure that there exist sound management and internal control systems to ensure that the interests of the IAH's are protected at all times. Wherever it is necessary for the Bank to establish Special Purpose Vehicles ("SPV's") for management of the investment, the Board ensures that the management of such SPV's is conducted in a professional and transparent manner by a duly appointed Board.



Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

7. PRODUCT DISCLOSURES (CONTINUED)

7.4 Restricted Investment Accounts (RIAs) (Continued)

The Bank is aware of its fiduciary responsibilities in management of the RIA investments and has clear policies on discharge of these responsibilities. The Bank's Policy regarding its fiduciary responsibilities to the RIA investors and their funds, includes the following:

- Ensuring that the investment structure, Offering Documents and the investment itself are fully compliant with Islamic Shari'a principles and the CBB regulations;
- Appropriately advising investors, as part of the RIA Offering Document, of all the relevant and known risk factors and making it clear that the investment risk is to be borne by the investor before accepting the investment funds;
- Completing all necessary legal and financial due diligence on investments undertaken on behalf of the investors with the same level of rigor as the Bank requires for its own investments;
- Ensuring that the funds are invested strictly in accordance with the provisions outlined in the Offering Documents;
- Putting in place suitable resources and systems to manage and administer the investment and any necessary RIA SPV(s) and to proactively manage all risks;
- Preparing and disseminating periodical investment updates to investors on a regular basis during the tenor of the investment;
- Distributing the capital and profits to the investor in a just and equitable manner as Mudharib; and
- In all matters related to the RIA, RIA SPV(s) and the investment, act with the same level of care, good faith and diligence as the Bank would apply in managing its own investments.

Within the Bank, the above mentioned responsibilities and functions are provided, managed and monitored by the Board of Directors along with qualified and experienced professionals from the Investment Banking, Shari'a, Financial Control, Legal, Investment Administration and the Risk Management Departments.

Investment update reports are prepared and disseminated by the Bank to the RIA Investors on a periodic (at least on a half yearly) basis outlining any material contracts/decisions, investment performance, distribution (if any) or exit criteria/information.

Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

7. PRODUCT DISCLOSURES (CONTINUED)

7.4 Restricted Investment Accounts (RIAs) (Continued)

RIA name	Details	Launch date	Projected returns	Return frequency	Return annualized (%)				
					2020	2019	2018	2017	2016
RIA 1 – Safana	<p>An investment structure designed to participate in the equity interest of Safana Investment WLL. A company established for the purpose of acquiring reclaimed land to subdivide and sell. In 2011, the Bank made an offer to buy back < BD 20,000 of each investors funds in RIA 1 at par. This offer was formalized in a letter to investors dated 25 May 2011. A total of 74 of the 95 RIA 1 investors accepted the offer at a cost of BD 1,220,000 to the Bank and resulting in a total of 39 investors being fully exited from the RIA. As a result, total investors funds have reduced to BD 8.34 million.</p> <p>KHCB and NS12 (special purpose vehicle incorporated by the Bank on behalf of investors with the principle purpose of holding plots of lands in the Nurana Project) recently appointed Key Point to work out an in-kind exit scheme for the RIA investors by offering the 19 plots. Scheme documents has been received from Key Point and approved by KHCB and NS 12 management to be circulated to investors.</p> <p>Approved Scheme Documents have been circulated by Key Point to all investors and followed by a workshop conducted at KHCB offices on the 24th August 2016, to explain and answer any queries or information needed to exercise the Plots Application Forms.</p> <p>Last date of returned Application Forms was 7th September 2016, along with the Opening Date which was held at 24th Floor, KHCB Offices managed and monitored by Key Point and witnessed By KHCB employs; the result was 6 plots were allotted out of 19 plots.</p> <p>The in-kind exit scheme has been completed and an open auction held on 22nd November, 2016 to allow maximum opportunities to the Investors to re-participate once again on the remaining plots. KPMG was engaged By KHCB to audit the whole In-kind exit process.</p> <p>Following the 3 allotment rounds of which RIA 1 investors participated, 6 plots have been allocated.</p> <p>Total revise fund BD 5,176,246 which included KHCB and total remaining NS 12 BD 6,979,665 as at 31 December 2020.</p>	2007	61.78% over product tenor	Bullet payment on maturity	–	–	–	–	–

Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

7. PRODUCT DISCLOSURES (CONTINUED)

7.4 Restricted Investment Accounts (RIAs) (Continued)

RIA name	Details	Launch date	Projected returns	Return frequency	Return annualised (%)				
					2020	2019	2018	2017	2016
RIA 5 - North Gate	<p>A restricted investment product which owns a 6.0% stake in Shaden Real Estate Investment WLL which in turn (through its subsidiaries), holds a parcel of reclaimed land measuring approximately 3.875 million Sq. Meters (located in Al-Hidd, Muharraç). The mixed-use plot will be sold to end users subsequent to the completion of infrastructure works.</p> <p>During Q1 2015, the Bank effected a buy-back option to all RIA investors for up to an amount of BD 30,000 plus 5% premium for all investors. RIA investors holding BD 30,000 and below was exited in full. A detailed letter was sent to all RIA investors in this regard. The offer was made valid up to 15 June 2015 AND during Q3 2015 the Bank paid 5.62% as partial redemption to the remaining investors.</p> <p>Moreover, during December 2018 dividend declared amount of BD 259,500 to all RIA investors and it was paid by following quarter.</p>	2008	90.66% over product tenor	Bullet return at maturity	-	-	-	-	-
RIA 6 – Locata	<p>A Restricted Mudaraba product which entitles the investors beneficial ownership of 25% equity share capital of Locata Corporation Pty Ltd., a company incorporated in Australia. The Company has invented a new and patented wireless radiolocation technology and shall use this funding to scale up its production capacity, sales/marketing channels and further product enhancement capabilities.</p>	2009	110.54% over product tenor	Bullet return at maturity	-	-	-	-	-



Public Disclosures (Continued)

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8. CORPORATE GOVERNANCE & OTHER DISCLOSURES

8.1 Corporate governance structure

The Bank is governed by the Bahrain Commercial Companies Law No. 21 of 2001 and its amendments (the “Companies Law”), the Kingdom of Bahrain Corporate Governance Code (the “CGC”), volume 2 and volume 6 of the Rulebook of the CBB (and in particular the High-Level Controls (“HC Module”)), and the Bahrain Stock Exchange Law of 1987 (collectively, the “Regulations”).

The Bank acknowledges its responsibility to all of its stakeholders and is committed to the highest standards of corporate governance. The Bank believes good corporate governance enhances stakeholder value and provides an appropriate guidance to the Board, its committees, and the Bank’s Executive Management to carry out their duties in the best interest of the Bank and its stakeholders. The Bank maintains the highest levels of transparency, accountability and good management through the adoption and monitoring of corporate strategies, goals and policies to comply with its regulatory and ethical responsibilities.

8.2 Code of conduct

The Board has approved a code of conduct for all staff of the Bank and the Board members. The Code includes the process of dealing with conflict of interests. It also binds the Directors, Executive Management and staff to the highest standard of professionalism and diligence on discharging their duties. All Board members and senior management of the Bank have affirmed compliance with the Code of Conduct. A declaration is made by the Board members prior to each Board meeting confirming that they have disclosed all external appointments and notified the Chairman if there have been any changes to their external appointments since the previous meeting. Board members are excluded from dealings in matters related to an external entity where they hold an appointment at that entity.

8.3 Compliance with regulations

The Bank ensures compliance with the regulations applicable to an Islamic licensed bank at all times. It would report any non-compliance with the guidelines should there be any. The Bank’s obligations to comply with the Regulations have been addressed through following a Corporate Governance Handbook in accordance with the corporate governance (“CG”) and the High-Level Controls Module of the CBB Rulebook. The CG Handbook was developed to manage the Board and committees Charter, Management Committee Charters, Board and Management Code of Conduct, Conflict of Interest Policy, Whistle Blowing Policy, Corporate Governance Guidelines, Social Responsibility, Directors’ Appointment Agreement, Board and Directors’ Evaluation, and a Key Persons’ Dealing Policy.

The Bank is committed to continuously review and develop its corporate governance policies to ensure compliance with the changing requirements of the Regulations and to ensure compliance with the international corporate governance best practice. The Bank, through its Board and Board Committees, endeavors to deliver the highest standards of governance for the benefit of its stakeholders.

8.4 Board of Directors

As at 31 December 2020, the Board of the Bank comprise ten members. Members of the Board were elected/ appointed for a three year renewable term during the Annual General Meeting (“AGM”) meeting held on 23 September 2020. The current composition of the Board complies with the requirements of the Regulations, except for the requirements stated in paragraph 16 below.

The Board Nominations, Remunerations and Governance Committee (“BNRGC”) reviews the skills and qualifications required of directors on periodic basis for potential nominee director. A nominee director may be elected by the shareholders upon receiving majority of votes during the election process. Positions at the Board are filled in compliance with the Bank’s Articles of Association and the Commercial Companies Law. A Director’s membership to the Board shall terminate in the cases provided for by the Companies Law and the Articles of Association of the Bank.

The Chairman of the Board of Directors is charged with regular supervision and assessment of executive management and is responsible for leading the Board, ensuring its effectiveness, monitoring the performance of the CEO and maintaining a dialogue with the Bank’s stakeholders. The Board has constituted certain committees with specific delegated authorities to oversee and guide the management in specific areas of the Bank’s operations and decision-making. The Board, either directly or through its various committees, will oversee the management of the Bank.



Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

8. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

8.4 Board of Directors (Continued)

The Board has formalized the division of work responsibilities between the Board and the Bank's management. Working in consultation with the Bank's management team, the Board provides oversight for the overall management of the Bank's business. The Board reviews and approves the corporate strategy for the Bank and has overall responsibility for risk management, financial reporting and corporate governance issues. Matters that specifically require Board approval include, amongst other things, the financial statements and the acquisition and disposal of companies. The Board also ensures that the Bank upholds the Bank's core values including the values set out in the Bank's internal policies.

The Board Audit and Risk Management Committee ("BARMC") in addition to the functions of control, ensures that all policies prescribed are reviewed and updated on annual basis. The Risk management department in conjunction with the Internal Audit and Control unit ensures the policies and procedures are updated and adhered to under the oversight of the related management committees. The Board is also responsible for approving any related party transaction as per the Bank's authority matrix. In addition, any material transaction defined by the Bank (10% of the Banks' capital) should be approved by the Board. The preparation of the consolidated financial statements of the Bank and the Group's undertaking to operate in accordance with Islamic Sharia rules and principles is the responsibility of the Board of Directors. The duties, functions, and responsibilities are detailed in the Bank's Corporate Governance Framework.

In compliance with the CBB requirements, the position of the Chairman and that of the Chief Executive Officer are segregated and there is no amalgamation of responsibilities in these two positions.

Members of the Board have access to the Bank's management at all times. The CEO together with the Bank's senior management monitors the Bank's performance against pre-set corporate objectives and manages the Bank's day-to-day affairs based upon the policies, objectives, strategies and guidelines lay down and approved by the Board from time to time.

The Board of Directors of the Bank comprises of Executive and Non-Executive Directors. The Board has five independent members (out of a total of ten Directors).

Upon appointment, each Director is provided with a comprehensive, formal and tailored induction which includes, amongst other things, a review of the Board's role and duties and the relevant Director's roles and duties to the Bank; meetings with the bank's senior management; visits to the Bank's branches and other sites; presentations to explain the Bank's strategic plans and significant financial, accounting, risk and legal issues and compliance programs; and meetings with internal and external auditors and legal counsel. In accordance with paragraph 1.9.1 of the HC module of CBB Rulebook, the Board and its committees are also individually evaluated and assessed for their performance effectiveness. The Board has conducted an evaluation of its performance and the performance of each committee and each individual director during the year 2020.

Each independent Director of the Bank is a professional in their field and possesses a background in the financial and banking field.

The Board of Directors and its committees receive regular reports on various aspects of the Bank's business from senior management as well as from Internal Audit, Risk Management, Financial Control, Compliance & AML, Sharia Coordination and Implementation Department, Internal Sharia Audit, and Operations Departments.

The Chairman, the Board of Directors, and the Board Committees have direct access to the heads of Internal Audit, Risk Management, Regulatory Compliance, Internal Sharia Audit, and Shari'a Sharia Coordination and Implementation.



Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

8. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

8.4 Board of Directors (Continued)

The names, title, and other positions held by the Board of Directors are set out below:

Mr. Jassim Mohamed Alseddiqi

Chairman

Experience:

- Director since April 2018 (Non-Independent and Executive)
- Over 16 Years of experience in the fields of Engineering, Investment & Management
- CEO of Shuaa Capital – UAE
- Chairman of GFH Financial Group – Bahrain
- Chairman of Eshraq Properties – UAE
- Chairman of The Entertainer – UAE
- Chairman of Salama Insurance Company – UAE
- Board Member of First Abu Dhabi Bank – UAE
- Board Member of Abu Dhabi Capital Group – UAE
- Board Member of ADNOC Distributions - UAE
- Board Member of Dana Gas - UAE

Qualification:

- MS in Electrical Engineering from Cornell University – USA
- BS in Electrical Engineering from the University of Wisconsin – USA

Sh. Ahmed Bin Isa Al Khalifa

Vice Chairman

Experience:

- Director since March 2017 (Independent and Non-Executive)
- Over 32 years of experience in governance and Project & information management
- Currently the Assistant Undersecretary of Nationality, Passports & Residence Affairs - Ministry of Interior – Bahrain

Qualification:

- Master Certificate in Project Management from the George Washington University – USA
- BSc in Computer Science from Saint Edwards University – USA



Public Disclosures (Continued)

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8. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

8.4 Board of Directors (Continued)

Hussain Sayed Ali Al Hussaini
Board Member

Experience:

- Director since December 2020 (Independent and Non-Executive)
- Over 35 Years of experience in the financial and banking sector
- Previously occupied many positions such as Chairman, Vice Chairman, and Member of various Boards and Committees for companies, financial institutions and investment firms

Qualification:

- MBA in Marketing and Management from DePaul University – USA
- BA in Economics from Concordia University – Canada
- PMD from Harvard Business School – USA

Reyadh Eid Al Yaqoob
Board Member

Experience:

- Director since October 2018 (Independent and Non-Executive)
- 32 Years of experience in the field of Leadership, Management & Project Supervision within the Government Sector

Qualification:

- MSc in Systems Management from the Naval Postgraduate School, USA
- National Diploma in Aerospace Studies from the Brunel
- Certificate in Operation Research (OR) from the Royal Military College of Science – UK



Public Disclosures (Continued)

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8. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

8.4 Board of Directors (Continued)

Salah Sharif

Board Member

Experience:

- Director since November 2020 (Non-Independent and Executive)
- Over 30 Years of experience in many fields in the Banking Sector
- CAO of GFH Financial Group – Bahrain
- Responsible for ensuring that the highest standards of operational excellence are achieved for GFH Financial Group's Special Purpose Vehicles and Project Companies – Bahrain
- Board Member in several Projects and Operating Companies that fall under the GFH Financial Group Brand

Qualification:

- MBA with Distinction from Glamorgan University – Wales

Isa Abdulla Zainal

Board Member

Experience:

- Director since September 2020 (Independent and Non-Executive)
- Over 36 Years of experience in the fields of Audit, Business Advisory and Islamic Investment Banking
- Vice Chairman of Global Banking Corporation BSC
- Chairman of Bahrain Bay Utilities Company BSC
- Board Member of Banque Al Baraka D'Algerie – Algeria
- Board Member of Nuyu (Women Fitness Company) – KSA
- Board Member of Eazy Financial Services BSC

Qualification:

- BA with Honors in Accounting from University of Bahrain
- CPA from the State of Georgia – USA



Public Disclosures (Continued)

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8. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

8.4 Board of Directors (Continued)

Mazen Ibrahim Abdulkarim
Board Member

Experience:

- Director since September 2020 (Independent and Non-Executive)
- Over 26 Years of experience in the fields of Banking and financial Investments
- Board Member of Esterad Investment Company BSC, kingdom of Bahrain.
- Board Member of Gulf Investment Corporation GIC – Kuwait.

Qualification:

- BSc with Honours in Finance from Bentley University – USA

Mosabah Saif Al Mutairy
Board Member

Experience:

- Director since September 2020 (Non-Independent and Non- Executive)
- Over 27 Years of experience in the fields of Administration, Accounting, and Investment
- Board Member of the Royal Guard of Oman Pension Fund
- Board Member of Hotel Management Company (Chedi)
- Board Member of Oman National Investment Development Company SAOC – Tanmia
- Board Member of Bank Muscat Money Market Fund – Oman
- Board Member of united Security GCC Fund – Oman
- Board Member of Takaful Oman Insurance – Oman
- Board Member of Bank Nizwa – Oman
- Board Member of Oman Monition Production Company
- Chairman of Audit Committee for Hotel Management Company (Chedi)
- Chairman of Audit Committee for Tanmia
- Chairman of Audit Committee for Takaful Oman Insurance
- Chairman Audit Oman Monition Production Company
- Audit Committee Member of Bank Nizwa – Oman

Qualification:

- MBA in Finance from the University of Lincolnshire & Humberside – UK
- Postgraduate Qualification in Accounting from South Bank University – U



Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

8. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

8.4 Board of Directors (Continued)

Hisham Ahmed Al Rayes
Board Member

Experience:

- Director since June 2012 (Non-Independent and Executive)
- Over 23 years of experience in the financial and banking sector
- Chief Executive Officer and Board Member of GFH Financial Group – Bahrain
- Chairman Tunis Bay Project Co. – Tunisia
- Chairman Royal Ranches Marrakesh – Morocco.
- Chairman Global Banking Corporation (GBCORP) – Bahrain
- Director of GFH Capital Limited – UAE

Qualification:

- Master in Business Administration from University of DePaul – USA
- Bachelor of Science in Electrical / Electronic Engineering from University of Bahrain

Mustafa Ghazi Kheriba
Board Member

Experience:

- Director since April 2018 (Non-Independent and Executive)
- Over 25 Years of experience in the field of Professional Banking & Management
- Currently the Deputy Chief Executive Officer and Group Head of Asset Management of SHUAA Capital psc
- Executive Director of Northacre – UK
- Board Member of Reem Finance – UAE
- Board Member of SALAMA Islamic Arab Insurance Company – UAE
- Board Member and Managing Director of Gulf Finance Corporation – UAE and KSA
- Board Member of ADCorp Ltd – UAE

Qualification:

- Master in Business Administration from Ohio Dominican University with Magna Cum Laude honors– USA
- Bachelor of Arts (BA), University of Toronto, Economics & Business Communication

** The qualifying criteria for 'Independent Directors' are as per the Corporate Governance guidelines of the CBB.*

Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

8. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

8.5 Quorum required for adoption of Board resolutions

The required quorum for the meetings of the BOD and AGM shall be in accordance with the provisions of the Articles of Association of the Bank. The BOD may pass its resolutions by post, e-mail, fax, conference calls, video calls or any other means of audio or video communication pursuant to the provisions of Article 34-(2) of the Articles of Association of the Bank.

8.6 Board of Directors' interests

As of the year ended 31 December 2020, the members of the Board collectively held zero shares in the Bank.

Director's name	No. of Shares As of Dec. 2019	No. of Shares As of Dec. 2020	Movement During the Year	% of SubTotal Shares
Jassim Mohamed Alseddiqi	-	-	-	-
Sh. Ahmed Bin Isa Al Khalifa	-	-	-	-
Husain Alhusaini	-	-	-	-
Reyadh Eid Al Yaqoob	-	-	-	-
Salah Abdulla Sharif	-	-	-	-
Isa Abdulla Zainal	-	-	-	-
Mosobah Saif Almotairy	-	-	-	-
Mazen Ibrahim Abdulkarim	-	-	-	-
Mustafa Ghazi Kheriba	-	-	-	-
Hisham Ahmed Al-Rayes	-	-	-	-
Total	-	-	-	-

Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

8. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

8.7 Board committees

The Board of Directors has constituted three Committees with specific delegated authorities.

Committee	Members	Primary responsibilities
Board Nominations, Remunerations and Governance Committee (BNRGC)	<ul style="list-style-type: none"> • Reyadh Eid Al Yaqoob • Mazen Ibrahim Abdulkarim • Mosobah Saif Almutairy • Sh. Dr. Fareed Yaqoob Al Muftah 	<ul style="list-style-type: none"> • Human Resources • Compensation and incentives • Administration • Corporate Governance
Board Audit and Risk Management Committee (BARMC)	<ul style="list-style-type: none"> • Sh. Ahmed Bin Isa Al Khalifa • Isa Abdulla Zainal • Mazen Ibrahim Abdulkarim 	<ul style="list-style-type: none"> • Internal Audit • External Audit • Compliance • Anti-Money Laundering • Risk management • Policies related to risk management
Board Investment and Credit Committee (BICC)	<ul style="list-style-type: none"> • Hisham Ahmed Al-Rayes • Mustafa Ghazi Kheriba • Salah Abdulla Sharif • Husain Alhusaini • Sattam Sulaiman Algozaibi (non-voting member) 	<ul style="list-style-type: none"> • Investment & credit approval • Setting limits • Investment policies • Asset Liability Management • Banking relationship • Oversight of Off-Balance Sheet Vehicles

Meetings of the Board and its committees are held as and when required but in accordance with the Regulations the Board meets at least once a quarter. The Board of Directors met eight times in 2020. The Bank held its Annual General Assembly (AGM) and the Extraordinary General Meeting (EGM) on 25 March 2020. Moreover, the Bank held its Ordinary General Meeting (OGM) on 23 September 2020. In addition to physical meetings, several written resolutions were circulated to the Directors during 2020 for approval by mail and facsimile.

During the year, the Board Audit and Risk Management Committee (BARMC) held five meetings, the Board Investment and Credit Committee (BICC) held four meetings, and the Board Nominations, Remunerations and Governance Committee (BNRGC) held five meetings.

8.8 Election system of directors and any termination arrangements

The system for the election and termination of Directors is governed by the Companies Law and Articles 24 - 28 of the Bank's AOA. Also, Articles 28 and 29 of the AOA define the cases in which the Bank may terminate the Director's membership. Furthermore, in line with the Article 179 of Companies Law and Articles 30 the of AOA, in case of vacancy for one or more Board members, the Board shall elect by a secret ballot or otherwise, a substitute amongst certain number of candidates, proposed by at least two Board members until the first General Meeting is held.

Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

8. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

8.9 Board and Subcommittees meeting dates and attendance

• Board of Directors meetings

	9 Feb.	07-May	29 Jun.	9 Aug.	23 Sep.	29 Sep.	8 Nov.	25 Nov.	Attendance %
Jassim Alseddiqi	–	√	N/A	√	√	√	√	–	75%
Sh. Ahmed Al Khalifa	√	√	√	√	√	√	√	√	100%
Reyadh Al Yaqoob	√	√	√	√	√	√	√	√	100%
Mustafa Kheriba	–	√	N/A	√	√	√	√	√	75%
Hisham Al Rayes	√	√	√	√	√	√	√	√	100%
Mohamed Al Rashed	√	√	N/A	√	N/A	N/A	N/A	N/A	100%
Yousif Al Ghanim	√	√	√	–	N/A	N/A	N/A	N/A	75%
Dr. Khalid Al Khazraji ¹	√	N/A	N/A	N/A	N/A	N/A	N/A	N/A	100%
Abdulla Showaiter ²	√	N/A	N/A	N/A	N/A	N/A	N/A	N/A	100%
Isa Zainal ³	N/A	N/A	N/A	N/A	√	√	√	√	100%
Mazen Abdulkarim ⁴	N/A	N/A	N/A	N/A	√	√	√	√	100%
Mosobah Al Mutairy ⁵	N/A	N/A	N/A	N/A	√	√	√	√	100%
Salah Sharif ⁶	N/A	N/A	N/A	N/A	N/A	N/A	N/A	√	100%
Fawad Khan ⁷	√	√	√	√	√	√	√	N/A	100%
Husain Alhusaini ⁸	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

¹ Resigned his office on 26 March 2020

² Resigned his office on 26 March 2020

³ Joined the board on 23 Sep. 2020

⁴ Joined the board on 23 Sep. 2020

⁵ Joined the board on 23 Sep. 2020

⁶ Joined the board on 19 Nov. 2020

⁷ Resigned his office on 22 Nov. 2020

⁸ Joined the board on 10 Dec. 2020 to replace Mr. Fawad Khan

Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

8. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

8.9 Board and Subcommittees meeting dates and attendance (Continued)

• BARMC meetings

	8 Jan.	8 Feb.	06-May	22 Sep.	5 Nov.
Dr. Khalid Al Khazraji ¹	√	√	N/A	N/A	N/A
Sh. Ahmed Al Khalifa	√	√	√	√	N/A
Reyadh Al Yaqoob	√	√	√	√	√
Mohamed Al Rashed ²	√	√	√	√	N/A
Sh. Dr. Fareed Al Muftah	-	√	√	√	√
Mazen Abdulkarim ³	N/A	N/A	N/A	N/A	√
Mosobah Almutairy ⁴	N/A	N/A	N/A	N/A	√

¹ Resigned his office on 26 March 2020

² His term ended on 23 Sep. 2020

³ Joined the Committee on 23 Sep. 2020

⁴ Joined the Committee on 23 Sep. 2020

• BARMC meetings

	27 Jan.	8 Feb.	06-May	05-Aug	5 Nov.
Sh. Ahmed Al Khalifa	√	√	√	√	√
Yousif Al Ghanim ¹	-	√	√	√	N/A
Abdulla Showaiter ²	√	√	N/A	N/A	N/A
Mazen Abdulkarim ³	N/A	N/A	N/A	N/A	√
Isa Zainal ⁴	N/A	N/A	N/A	N/A	√

¹ His term ended on 23 Sep. 2020

² Resigned his office on 26 March 2020

³ Joined the Committee on 23 Sep. 2020

⁴ Joined the Committee on 23 Sep. 2020

Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

8. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

8.9 Board and Subcommittees meeting dates and attendance (Continued)

• BICC meetings*

	9 Feb.	07-May	22 Sep.	8 Nov.
Hisham Al Rayes	√	√	√	√
Mustafa Kheriba	–	–	√	√
Fawad Khan	√	√	√	√
Sattam Algosaihi	√	√	√	√
Salah Sharif ¹	N/A	N/A	N/A	N/A
Husain Alhusaini ²	N/A	N/A	N/A	N/A

¹ Joined the Committee on 19 Nov. 2020

² Joined the Committee on 10 Dec. 2020

8.10 Shari'a Supervisory Board (SSB)

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

Sh. Dr. Fareed Yaqoob Al-Miftah *Chairman*

Experience:

- Member of the Supreme Council of Islamic Affairs
- Undersecretary – Court of Cassation, Supreme Judicial Council – Bahrain
- Member, International Islamic Fiqh Academy
- Former judge of the high Shari'a Court
- Former Lecturer at the University of Bahrain

Qualification:

- BA & Master degree from Imam Muhammad ibn Saud University – KSA
- Ph.D. from the University of Edinburgh – United Kingdom

Sh. Dr. Fareed Mohammed Hadi *Vice Chairman and Executive Member*

Experience:

- Assistant Professor at the College of Business Administration, University of Bahrain
- Founder of Islamic Banking and Finance B.Sc. and Master Programs, University of Bahrain
- Member – Board of Directors BCC Waqf Fund, Central Bank of Bahrain
- Chairperson and member of a number of Shari'a Supervisory Board in Islamic banks & insurance companies

Qualification:

- BA & Master degree from Imam Muhammad ibn Saud University – KSA
- Ph.D. in Ibn Hazm's Methodology of Jahala, University of Edinburgh – UK
- Ph.D. in Al-Bukhari's Methodology, University of Mohammed V – Morocco

Public Disclosures (Continued)

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8. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

8.10 Shari'a Supervisory Board (SSB) (Continued)

Sh. Dr. Nizam Mohammed Saleh Yaqoobi *Member*

Experience:

- Member of the Shari'a Council of AAOIFI, Bahrain
- Member of Centralized Shari'a Supervisory Board of the Central Bank of Bahrain
- Chairperson and member of a number of Shari'a Supervisory Board in Islamic banks & insurance companies

Qualification:

- BA in Economics and Comparative Religion from the McGill University – Canada
- Ph.D. in Islamic Studies

8.11 Executive management committees

The Board of Directors delegates the authority for day-to-day management of the business to the Chief Executive Officer (CEO) who is responsible for implementing the Bank's strategic plan. The CEO manage the Bank through the following management committees:

Committee	Primary Responsibilities
Management Committee	Strategy, Performance review, Budget, Human Resources, Administration
Asset Liability Management Committee	Balance sheet management, Funding, Liquidity, Banking Relationships, review of liquidity and ALM policies
Executive Credit & Investment Committee	Review of Credit proposal, Review of investments, Exit and credit proposals, Monitoring of investments, Risk Management policies, Risk review, Provisions and impairment.
Human Resources Committee	Approving the policies and strategy of human resources

8.12 Executive management & other senior management

Some of the most significant changes that occurred at the executive management level during 2020 were the resignation of the following: Mr. Tawfeeq Mohamed Bastaki, the Chief Risk Officer, Mr. Mahdi Abdulnabi Mohammed, Deputy General Manager - Support Services. On the other hand, the following members were appointed as follows: Mr. Mazen Salman Sater, as an Assistant General Manager – Digital Banking, Mr. Abdulkarim Mohamed Al Zakari, as a Chief Risk Officer. Mr. Mohamed Ebrahim Al Hashimi, as a Head of Operations, Miss Fatima Ahmed Al Bin Ali, as a Head of Human Resources, Mr. Subah Abdulrahman Al Zayani, as a Head of Corporate Communications, and Mr. Abdunasser Ahmed Al Rayes, as a Head of Retail Banking.

The names and title of each member of executive and other Senior Management are set out below:

Sattam Sulaiman Algozaibi *Chief Executive Officer*

Experience:

- Over 22 years of experience in the Islamic Banking industry
- Joined the Bank in 2018

Qualification:

- Masters in Business Administration from DePaul University – USA
- BSc in Accounting Science from King Fahad University of Petroleum & Minerals – KSA



Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

8. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

8.12 Executive management & other senior management (Continued)

Husam Ghanem Saif

Assistant General Manager – Treasury & Investment

Experience:

- Over 31 years of experience in Treasury and Islamic Banking
- Joined the Bank in 2007

Qualification:

- BSc in Business Administration and Management from Western International University, London – UK

Mazen Salman Sater

Assistant General Manager – Digital Banking

Experience:

- Over 24 years of experience in Islamic Banking
- Joined the Bank in 2016

Qualification:

- Masters in Business Administration, Major Marketing & Change Management from DePaul University - USA
- BSc in Business Administration , major Marketing from St. Edward's University – USA

Mohammed Abdulla Saleh

Assistant General Manager – Legal & Compliance

Experience:

- Over 18 years of experience in Management, Islamic Banking, Law, Corporate Governance, Compliance, Anti-Money Laundering, and Human Resources
- Joined the Bank in 2009

Qualification:

- Masters in IT, Media, and eCommerce Law from the University of Essex - UK
- BSc in Law from Dubai Police Academy - UAE
- Advanced Diploma in Islamic Finance from Bahrain Institute of Banking and Finance “BIBF”
- Diploma in Business Management from the University of Bahrain
- Diploma in Police Sciences from Dubai Police Academy – UAE
- ICA International Diploma in Compliance from the International Compliance Association “ICA”
- Attended the Waqf Fund - Leadership Grooming Program for Islamic Banks at Ivey Business School in Western University (Canada & Hong Kong)
- Certified Board Secretary



Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

8. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

8.12 Executive management & other senior management (Continued)

Abdulnasser Omar Al Mahmood

Head of Shari'a Coordination & Implementation

Experience:

- Over 30 years of experience in Shari'a Audit and Islamic Banking
- Joined the Bank in 2008

Qualification:

- Masters in Business Administration with thesis in Shari'a Control and Review in Islamic Banks from Gulf University – Kingdom of Bahrain
- BSc in Shari'a and Islamic Studies from Qatar University
- Associate Diploma in Shari'a Control from Cambridge University of Training - UK
- Advanced Diploma in Islamic Commercial Jurisprudence "ADICJ" from Bahrain Institute of Banking and Finance "BIBF"

Muna Ghuloom Al Bastaki

Head of Credit Management

Experience:

- Over 24 years of experience in Banking Credit and Risk
- Joined the Bank in 2005

Qualification:

- National Diploma in Computer Studies from Bahrain Training institute
- Advanced Diploma in Banking Studies from Bahrain Institute of Banking and Finance "BIBF"
- Associate Professional Risk Manager "APRM" from Professional Risk Managers' International Association "PRMIA" – USA
- IFS Accredited Credit Program (Level I, II and III)

Mohamed Ebrahim Al Hashimi

Head of Operations

Experience:

- Over 18 years of experience in Islamic Banking Operations
- Joined the Bank in 2006

Qualification:

- BSc in Business Information System from the University of Bahrain
- Certified Islamic Professional Accountant Program "CIPA"
- Attended Executive Leadership Development Program at Darden School of Business in the University of Virginia - USA



Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

8. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

8.12 Executive management & other senior management (Continued)

Fatima Ahmed Al Bin Ali
Head of Human Resources

Experience:

- Over 20 years of experience in Human Recourse Management
- Joined the Bank in 2008

Qualification:

- Masters in Business Administration specialized in Management from AMA International University - Bahrain
- BSc in Office Management from University of Bahrain
- Chartered Membership of the Chartered Institute of Personnel and Development "CIPD"
- Advance Diploma in Islamic Finance "ADIF" from Bahrain Institute of Banking and Finance "BIBF"

Abdulkarim Mohamed Al Zakari
Chief Risk Officer

Experience:

- Over 13 years of experience in Risk Management, Quantitative Modeling & Analytics, and Credit Review Management in Islamic Banking
- Joined the Bank in 2020

Qualification:

- BSc in Investment and Financial Risk Management from City University, CASS Business School – UK
- Chartered Financial Analyst "CFA" from the CFA Institute – USA
- Certificate in Quantitative Finance "CQF" from the CQF Institute – UK
- Holder of the Professional Risk Manager "PRM" certificate from the PRMIA Institute – USA
- Attended a Transformational Leadership Program at Harvard Business School – USA
- Attended an Executive Program at INSEAD University – France

Abdulnasser Ahmed Al Rayes
Head of Retail Banking

Experience:

- Over 19 years of experience in Marketing, Product Development, and Islamic Banking
- Joined the Bank in 2006

Qualification:

- Masters in Business Administration from University of Strathclyde - UK
- BSc in International Business Administration from University of Northumbria - UK
- Attended the Waqf Fund - Leadership Grooming Program for Islamic Banks at Ivey Business School in Western University (Canada & Hong Kong)



Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

8. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

8.12 Executive management & other senior management (Continued)

Mohammed Hamad Fakhri
Head of Internal Audit

Experience:

- Over 14 years of experience in Internal Audit, Risk Management, Governance, and controls both in Islamic Retail and Investment Banking
- Joined the Bank in 2012

Qualification:

- BSc in Accounting from University of Bahrain
- Chartered Financial Analyst "CFA" from the Chartered Financial Analyst Institute "CFA" - USA
- Certified Internal Auditor "CIA" from the Institute of Internal Auditors – USA

Aman Ullah Khan
Head of Finance & Administration

Experience:

- Over 15 years of experience in Audit, Consultancy, and Islamic Banking
- Joined the Bank in 2018

Qualification:

- B.Sc in Commerce from University of Karachi - Republic of Pakistan
- Chartered Financial Analyst "CFA" from the Chartered Financial Analyst "CFA" Institute – USA
- Fellow Member "FCCA" of Association of Chartered Certified Accountants "ACCA" – UK
- Associate Member "ACA" of Institute of Chartered Accountants of Pakistan "ICAP" – Republic of Pakistan

Nawaf Abdulsalam Al Hosani
Head of Internal Shari'a Audit and Shari's Board Secretary

Experience:

- Over 12 years of experience in Shari'a Audit, Compliance, and Governance of Islamic Banks and Investment Structures
- Joined the Bank in 2008

Qualification:

- Masters in Business Administration with concentration on Islamic Finance from University College of Bahrain
- BSc in Islamic Studies "Shari'a" from the University of Bahrain
- Certified Shari'a Advisor & Auditor "CSAA" from Accounting & Auditing Organization for Islamic Financial Institution "AAOIFI"
- Certified Islamic Professional Accountant "CIPA" from Accounting and Auditing Organization for Islamic Financial Institution "AAOIFI"
- Advanced Diploma in Islamic Commercial Jurisprudence "ADICJ" from Bahrain Institute of Banking and Finance "BIBF"

Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

8. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

8.12 Executive management & other senior management (Continued)

Subah Abdulrahman Al Zayani
Head of Corporate Communications

Experience:

- Over 16 years of experience in Media, Public Relations, and Corporate Communications
- Joined the Bank in 2016

Qualification:

- Masters with Honours in Business Administration from Ahlia University - Bahrain
- BSc in Management Information System from University of Bahrain

8.13 Executive and senior management interests

The following table indicates the executive and senior management shareholding as 31 December 2020:

Executive and senior management	Number of outstanding shares at 31st December 2020	Number of outstanding shares at 31st December 2019
Sattam Sulaiman Algosaibi	76,484	Nil
Hussam Ghanem Saif	373,035	373,244
Mazen Salman Sater	111,677	68,706
Mohammed Abdulla Saleh	Nil	Nil
Abdul-Nasser Omar Al-Mahmood	Nil	Nil
Muna Ghuloom Al Bastaki	270,562	264,553
Mohamed Ebrahim Alhashimi	38,147	Nil
Fatima Ahmed Al Bin Ali	49,492	87,503
Abdulkarim Mohamed Alzakri	Nil	Nil
Abdulnaser Ahmed Alrayes	31,899	65,763
Mohamed Hamad Fakhri	4,318	5,083
Aman Ullah Khan	Nil	Nil
Nawaf Abdulsalam Al Hosani	Nil	Nil
Subah Abdulrahman Alzayani	Nil	Nil
Total	955,614	864,852

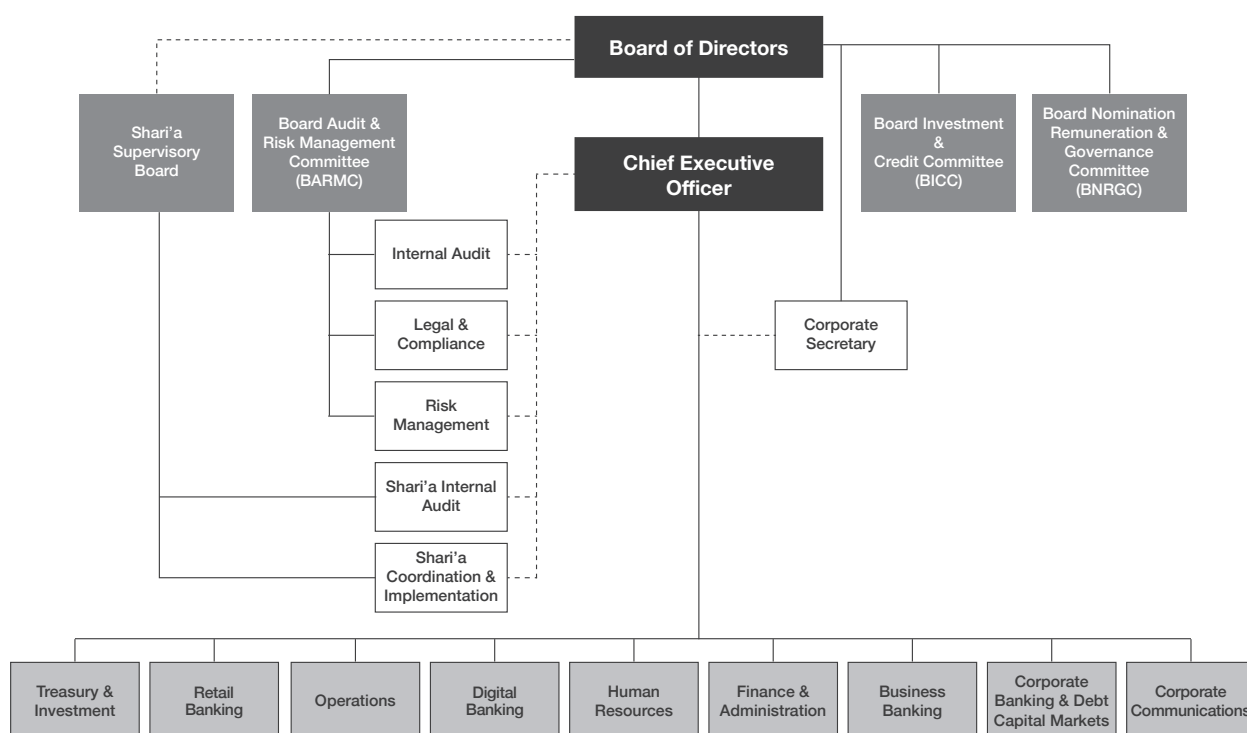
Public Disclosures (Continued)

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8. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

8.14 Organisational chart

Set out below is the Bank's organization chart, which outlines the different committees and the lines of reporting, as of 31 December 2020.



8.15 Executive compensation

The Bank has both a short-term and long-term compensation structure for its executive management which has been developed based on current market surveys and industry norms. The Bank also had an incentive scheme where eligible employees were awarded a combination of shares and cash incentives on achievement of pre-determined performance targets. For further details please refer note 22 of the consolidated financial statements for the year ended 31 December 2020. The Bank's board remuneration is determined in line with the provisions of Article 188 of the Companies Law, and their annual remuneration is subject to the approval of the shareholders at the end of each year. The Board of Directors is also entitled to sitting fees.

8.16 Shari'a compliance, Regulatory compliance and Anti-Money Laundering

Compliance with Shari'a laws, regulatory and statutory requirements is an ongoing process and the Bank is conscious of its responsibilities in observing all applicable provisions and best international practices in its functioning. The Bank has established the Shari'a Compliance Function and the Regulatory Compliance Function in keeping with Basel and CBB guidelines. The respective units act as a focal point for all Shari'a and regulatory compliance and for adapting other best practice compliance principles.

Anti-Money Laundering measures form an important area of the Compliance Function. The Bank has an Anti-Money Laundering and Combating Terrorist Financing Policy and Procedure approved by the Board, which contains sound Customer due diligence measures, procedure for identifying and reporting suspicious transactions, a program for periodic awareness training to staff, record-keeping, and a designated Money Laundering Reporting Officer (MLRO). The Bank's Anti-Money Laundering measures are reviewed by independent external auditors every year and their report is submitted to the CBB. The Bank is committed to combating money laundering and is in compliance with the guidelines issued by the CBB in relation to Anti-Money Laundering requirements.



Public Disclosures (Continued)

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8. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

8.16 Shari'a compliance, Regulatory compliance and Anti-Money Laundering (Continued)

As per rule HC-A.1.8 and HC-8.2.1 (c) of the HC Module with reference to the disclosure of the noncompliance events (Comply or Explain Principle), which stipulates the need to elucidate the non-compliance cases and provide clarification on the same in event non-compliance with the rules and guidelines of the HC Module, the Bank wishes to clarify the following:

- The Chairman of the Board, Mr. Jassim Alseddiqi is an Executive Director, hence he is not an Independent Director as per rules HC-1.4.6 and HC-1.4.8. An exemption was granted from the CBB in this regard.
- Contrary to guidance note HC-7.2.2, which requires all Board Members to attend the meeting, Mr. Hisham Alrayes, Board member, the Chairman of Board Credit and Investment Committee (BICC), the CEO, and other members of the Executive Management, have attended the annual shareholders meetings held on 25 March 2020, and 23 September 2020. They were delegated by the Board to attend the meetings, due to the pandemic circumstances, and to comply with the efforts and precautionary measures taken by the Kingdom of Bahrain to prevent and limit the spread of Corona Virus (Covid- 9).

8.17 Audit fees charged by the external auditor and other non-audit services provided by the external auditor and fees paid

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

8.18 Penalties paid to the Central Bank of Bahrain

During 2020, no penalty was charged to the Bank.

8.19 Related party Transactions

For detailed discussion on the related party transactions, kindly refer to notes (no. 27) on the consolidated financial statement for the year ended 31 December 2020. All related party transactions are approved by the Board of Directors and disclosed to the shareholders in the Annual General Meeting.

8.20 Board approved policy on the employment of relatives of approved persons

The Bank does not permit the employment of immediate relatives of current employees. Employment of other relatives is permitted. However, employees who are relatives shall not be placed within the same department or same direct line of supervision. In case of marriage, the Bank reserves the right to terminate the employment of one of the spouses. The HR will disclose to the board of directors on an annual basis relatives of any approved persons (including SSB members) occupying controlled functions within the Bank up to the 4th degree of kinship.

8.21 Board Evaluation

During 2020, the Board conducted an evaluation of its performance and the performance of each committee and each individual director. The evaluation process included assessing how the Board operates, evaluating the performance of each committee in light of its specific purposes and responsibilities, reviewing each director's work, his attendance at Board and committee meetings, and his constructive involvement in discussions and decision making, and reviewing the Board's current composition against its desired composition with a view toward maintaining an appropriate balance of skills and experience and a view toward planned and progressive refreshing of the Board.

Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

8. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

8.22 Distribution of ownership of shares

a) by nationality

The Bank's Register of Shareholders as at 31 December 2020 indicates a total of 551 shareholders who collectively owned 892,119,480 (Eight Hundred Ninety-Two Million One Hundred Nineteen Thousand Four Hundred Eighty) share with a nominal value of BD 0.100 (One Hundred Fils) each. None of the Bank's shares were held by the Government of the Kingdom of Bahrain. The breakdown of shareholders in the Bank by nationality is as follows:

Nationality	No. of equity shares held	% of shareholders
Bahraini	639,012,154	71.63
Non-Bahraini	253,107,326	28.37
Total	892,119,480	100.00

b) by size of shareholder

	No. of Shareholders	No. of Shares	% of total outstanding shares
Less than 1%	543	117,417,814	13.16
1% to less than 5%	5	104,880,910	11.76
5% to less than 10%	2	175,490,264	19.67
10% to less than 20%	–	–	0.00
20% to less than 50%	1	494,330,492	55.41
Total	551	892,119,480	100.00

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 shares:

	Nationality	Number of shares	% of total outstanding shares
GFH Financial Group *	Bahrain	494,330,492	55.41
Khaleeji Commercial Bank B.S.C	Bahrain	88,411,540	9.91
Goldilocks Investment Company Limited	UAE	87,078,724	9.76

*As at 31 December 2020, these shares representing 55% (2019: 47%) were held by KHCB Asset Company on behalf of GFH Financial Group, which is considered as the parent of the Bank for financial reporting purposes.



Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

8. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

8.23 Earnings prohibited by Shari'a and the annual Zakah contribution

For detailed discussion on how non-Shari'a-compliant earnings and expenditure occur and the manner in which they are disposed of; and the annual zakah contributions of the bank, kindly refer to notes (no. 5) on the consolidated financial statement for the year ended 31 December 2020.

8.24 Review of internal control processes and procedures

Internal Controls are systems designed, introduced and maintained by the Bank's management and top-level executives, to provide a substantial degree of assurance in achieving business objective, while complying with the policies and regulations, safeguarding the assets, maintaining efficiency and effectiveness in regular operations and reliability of financial statements.

All KHCB staff members share responsibility of implementing adequate internal controls measures within their respective work context.

Further, Internal Audit conducts risk based reviews to ensure the existence of sound implementation of internal controls across Bank's various activities and operations.

Board Audit Risk Management Committee (BARMC) assists the Board of Directors in fulfilling its oversight responsibilities by reviewing the systems of internal controls which are established by Management and approved by the Board of Directors.

8.25 Governance Arrangements to Ensure Shari'a Compliance

Effective implementation of Shari'a Governance is pivotal basis for controlling and drafting the Shari'a compliance in KHCB. The Bank endeavors to continually update and adopt best practices in the areas of Sharia governance and compliance with Islamic Shari'a rules and principles in its activities. This adherence is embodied in KHCB by adopting an effective framework for Sharia Governance that commensurate and proportionate to the size and nature of the Banks business in accordance with the Rulebook, V-2 issued by the Central Bank of Bahrain.

KHCB has adopted four main components that formed its Sharia Governance framework and is considered as the highest degree of commitment to the Shari'a Governance Framework issued by the Central Bank of Bahrain. These components are:

- i. Shari'a Supervisory Board;
- ii. Internal Shari'a Audit function;
- iii. Shari'a Coordination and Implementation Function; and
- iv. Independent External Shari'a Compliance Audit.

This Shari'a Governance framework and arrangements ensure that the Bank is in compliance with Shari'a rules and principles, SSB's Fatwas and decisions, Shari'a related policies and procedures, AAOIFI's Shari'a standards, relevant rulings of the CSSB and the regulations, resolutions and directives issued by the CBB.

8.26 Dealing with the Complaints

KHCB takes its customer complaints very seriously. The customers may provide their feedback, suggestion or complaint through different channels, such as call center, branches, or through email Complaints@khcbonline.com.

If the complaints team is unable to resolve the matter immediately; the complaints team will send a written acknowledgment of the complaints to the client within 5 working days. Complaints are addressed promptly in accordance with their urgency, in equitable, objective and efficient manner. The complaint team will investigate independently the matter, and will provide the client with an update on her/his complaints through contacting them on the contact numbers, written letters or emails. The customer is also outlined with the options that are open to pursue the matter further.

Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

8. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

8.27 Consumer awareness programmes for information on new products and services

Throughout the year 2020, the Bank has continued to make strides to spread consumer and investor awareness about its line-up of products and services through the many channels available in the market today. On the printed/offline side, KHCB has utilized newspaper publications, branch branding, and participation in Exhibitions & conferences to launch new products and services.

On the online side, KHCB has pushed electronic awareness even strong than ever using tools like the public website www.khcbonline.com, sponsored advertisement, Search Engine Optimization "SEO", Social Media Management Platforms and much more

8.28 Social functions and charitable contributions of the Bank

Throughout the year 2020, and as part of its Corporate Social Responsibility and solid commitment to give back to the community, KHCB has made various contributions to different sectors in the Kingdom of Bahrain. This commitment has been an integral part of its policies since its establishment in 2004.

Additionally, and as part of its Islamic Duty, the Bank has worked closely with different Charitable Organizations and Institutes in the Kingdom to make various donations and help those in need.

KHCB will continue this approach in the coming years, as it is a pillar of its work to contribute to the development of social entities and directly support the less privileged in the community.

9. FINANCIAL PERFORMANCE

Following are basic quantitative indicators of the financial performance:

	2020	2019	2018	2017	2016
Return on average equity	9.14%	(14.99)%	0.56%	0.71%	4.77%
Return on average assets	0.86%	(1.62)%	0.08%	0.11%	0.77%
Finance income to finance expense	119.25%	119.57%	146.03%	221.37%	264.91%
Cost-to-income *	45.92%	72.58%	64.34%	60.80%	44.82%

* Cost excludes impairment allowances.

For detailed discussion on the performance for the year, kindly refer to Chairman's report on the consolidated financial statement for the year ended 31 December 2020.



Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

10. REMUNERATION RELATED DISCLOSURES

The Bank's total compensation policy, which includes the variable remuneration policy, sets out the Bank's policy on remuneration for directors and senior management and the key factors that were taken into account in setting the policy.

In 2014, the Bank has adopted the Sound Remuneration Practices issued by the Central Bank of Bahrain and has proposed revisions to its variable remuneration framework. The revised policy framework and incentive components were approved by the shareholders in the annual general meeting held on March 2015. The policy is effective starting 2014 annual performance incentives and would be fully implemented for future periods.

During the year, the Bank reviewed and updated its policy and these changes were approved by the shareholders in the annual meeting held on 24th March 2021.

The key features of the remuneration framework have been summarized below.

10.1 Remuneration strategy

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

The quality and long-term commitment of all of our employees is fundamental to our success. We therefore aim to attract, retain and motivate the very best people who are committed to maintaining a career with the Bank, and who will perform their role in the long-term interests of shareholders. The Bank's reward package comprise the following key elements:

1. Fixed pay;
2. Benefits;
3. Annual performance bonus; and
4. The long-term performance incentive plan

A robust and effective governance framework ensures that the Bank operates within clear parameters of its compensation strategy and policy. All compensation matters, and overall compliance with regulatory requirements, are overseen by the Nomination, Remuneration and Governance Committee of the Board (BNRGC).

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

In order to ensure alignment between what we pay our people and our business strategy, we assess individual performance against annual and long-term financial and non-financial objectives summarised in line with our performance management system. This assessment also takes into account adherence to the Bank's values, risk and compliance measures above all and acting with integrity. Altogether, performance is therefore judged not only on what is achieved over the short and long-term but also importantly on how it is achieved, as the BNRGC believes the latter contributes to the long-term sustainability of the business.

Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

10. REMUNERATION RELATED DISCLOSURES (CONTINUED)

10.2 BNRGC role and focus

The BNRGC has oversight of all reward policies for the Bank's employees. The BNRGC is the supervisory and governing body for compensation policy, practices and plans. It is responsible for determining, reviewing and proposing variable remuneration policy for approval by the Board. It is responsible for setting the principles and governance framework for all compensation decisions. The BNRGC ensures that all persons must be remunerated fairly and responsibly. The remuneration policy is reviewed on a periodic basis to reflect changes in market practices and the business plan and risk profile of the Bank.

The responsibilities of the BNRGC as regards the variable compensation policy of the Bank, as stated in its mandate, include, but are not limited to, the following:-

- Approve, monitor and review the remuneration system to ensure the system operates as intended
- Approve the remuneration policy and amounts for each Approved Person and Material Risk-Taker, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits.
- Ensure remuneration is adjusted for all types of risks and that the remuneration system takes into consideration employees that earn same short-run profit but take different amount of risk on behalf of the bank.
- Ensure that for Material Risk Takers, variable remuneration forms a substantial part of their total remuneration.
- Review the stress testing and back testing results before approving the total variable remuneration to be distributed including salaries, fees, expenses, bonuses and other employee benefits.
- Carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The BNRGC will question payouts for income that cannot be realized or whose likelihood of realization remains uncertain at the time of payment.
- Ensure that for approved persons in risk management, internal audit, operations, financial controls and compliance functions the mix of fixed and variable remuneration is weighted in favor of fixed remuneration
- Recommend Board member remuneration based on their attendance and performance and in compliance with Article 188 of the Bahrain Commercial Companies Law.
- Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves not to use personal hedging strategies or remuneration-and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

As outlined in the Corporate Governance section of the Annual Report, the Board is satisfied that all non-executive directors are independent including the BNRGC members. The BNRGC comprises of the following members:

	Appointment Date	8 Jan.	8 Feb.	06-May	22 Sep.	5 Nov.
Dr. Khalid Al Khazraji ¹	March 2017	√	√	N/A	N/A	N/A
Sh. Ahmed Al Khalifa	March 2017	√	√	√	√	N/A
Reyadh Al Yaqoob	October 2018	√	√	√	√	√
Mohamed Al Rashed ²	March 2017	√	√	√	√	N/A
Sh. Dr. Fareed Al Muftah	February 2015	–	√	√	√	√
Mazen Abdulkarim ³	September 2020	N/A	N/A	N/A	N/A	√
Mosobah Almutairy ⁴	September 2020	N/A	N/A	N/A	N/A	√

¹ Resigned his office on 26 March 2020

² His term ended on 23 Sep. 2020

³ Joined the Committee on 23 Sep. 2020

⁴ Joined the Committee on 23 Sep. 2020

The aggregate remuneration paid to the BNRGC members during the year in the form of sitting fees amounted to BHD 31,800.



Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

10. REMUNERATION RELATED DISCLOSURES (CONTINUED)

10.2 BNRGC role and focus (Continued)

External consultants

Consultants were appointed to advise the Bank on amendments to its variable remuneration policy to be in line with the CBB's Sound Remuneration Practices and industry norms. This included assistance in designing an appropriate Share-based Incentive Scheme for the Bank. The BNRGC had appointed consultants to perform a pay benchmarking exercise to assist them in reviewing the total compensation offered by the Bank.

10.3 Scope of application of the remuneration policy

The remuneration policy has been adopted on a bank-wide basis and shall not apply to its non-banking subsidiaries and operations.

10.4 Board remuneration

The Bank's board remuneration is determined in line with the provisions of Article 188 of the Bahrain Commercial Companies Law, 2001. The board of directors' remuneration will be capped so that the total remuneration (excluding sitting fees) does not exceed 10% of the Bank's net profit, after all the required deductions outlined in Article 188 of the Companies law, in any financial year. The board remuneration is subject to approval of the shareholders in the Annual General Meeting. Remuneration of non-executive directors do not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits.

10.5 Variable remuneration for staff

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

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

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

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

The BNRGC carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. BNRGC demonstrates that its decisions are consistent with an assessment of the Bank's financial condition and future prospects.

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

For the overall Bank to have any funding for distribution of bonus pool; thresholds of financial targets have to be achieved. The performance measures ensure that the total variable remuneration is generally considerably contracted where subdued or negative financial performance of the Bank occurs. Furthermore, the target bonus pool as determined above is subject to risk adjustments in line with the risk adjustment and linkage framework.



Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

10. REMUNERATION RELATED DISCLOSURES (CONTINUED)

10.5 Variable remuneration for staff (Continued)

Remuneration of control functions

The remuneration level of staff in the control and support functions allows the Bank to employ qualified and experienced personnel in these functions. The Bank ensures that the mix of fixed and variable remuneration for control and support function personnel should be weighted in favor of fixed remuneration. The variable remuneration of control functions is based on function-specific objectives and is not determined by the individual financial performance of the business area they monitor.

The Bank's performance management system plays a major role in deciding the performance of the support and control units on the basis of the objectives set for them. Such objectives are more focused on non-financial targets that include risk, control, compliance and ethical considerations as well as the market and regulatory environment apart from value adding tasks which are specific to each unit.

Variable compensation for business units

The variable compensation for the business units is primarily decided by the key performance objectives set through the performance management system of the Bank. Such objectives contain financial and non-financial targets, including risk control, compliance and ethical considerations as well as market and regulatory environment. The consideration of risk assessment in the performance evaluation of individuals ensures that any two employees who generate the same short-run profit but take different amounts of risk on behalf of the bank are treated differently by the remunerations system.

10.6 Risk assessment framework

The purpose of the risk linkages is to align variable remuneration to the risk profile of the Bank. In its endeavor to do so, the Bank considers both quantitative measures and qualitative measures in the risk assessment process. Both quantitative measures and human judgment play a role in determining risk adjustments. The risk assessment process encompasses the need to ensure that the remuneration policy designed reduces employees' incentives to take excessive and undue risk is symmetrical with risk outcomes and has an appropriate mix of remuneration that is consistent with risk alignment.

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

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

The bonus pool takes into account the performance of the Bank which is considered within the context of the Bank's risk management framework. This ensures that the variable pay pool is shaped by risk considerations and Bank-wide notable events.

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

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

The BNRGC keeps itself abreast with the Bank's performance against the risk management framework. The BNRGC will use this information when considering remuneration to ensure the return, risk and remuneration are aligned.



Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

10. REMUNERATION RELATED DISCLOSURES (CONTINUED)

10.6 Risk assessment framework (Continued)

Risk adjustments

The Bank has an ex-post risk assessment framework which is a qualitative assessment to back-test actual performance against risk assumptions.

In years where the Bank suffers material losses in the financial performance, the risk adjustment framework would work as follows:

- There would be considerable contraction of the Bank's total variable remuneration.
- At the individual level, poor performance by the Bank would mean individual KPIs are not met and hence employee performance ratings would be lower
- Reduction in value of deferred shares or awards
- Possible changes in vesting periods and additional deferral applied to unvested rewards
- Lastly, if the qualitative and quantitative impact of a loss incident is considered significant, a malus or clawback of previous bonus awards may be considered.

The BNRGC, with Board's approval, can rationalise and make the following discretionary decisions:

- Increase/ reduce the ex-post adjustment
- Consider additional deferrals or increase in the quantum of share awards
- Recovery through malus and clawback arrangements

Malus and Clawback framework

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

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

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

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

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

Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

10. REMUNERATION RELATED DISCLOSURES (CONTINUED)

10.7 Components of Variable remuneration

Variable remuneration has following main components:

Upfront cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred Cash	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a period of 3 years
Upfront share awards	The portion of variable compensation that is awarded and issued in the form of shares on conclusion of the performance evaluation process for each year.
Deferred shares	The portion of variable compensation that is awarded and paid in the form of shares on a pro-rata basis over a period of 3 years

All deferred awards are subject to malus provisions. All share awards are released to the benefit of the employee after a six month retention period from the date of vesting. The number of equity share awards is linked to the Bank's share price as per the rules of the Bank's Share Incentive Scheme. Any dividend on these shares is released to the employee along with the shares (i.e. after the retention period).

10.8 Deferral of variable remuneration

All highly paid (earning total remuneration above BD 100,000 in a year) shall be subject to deferral of variable remuneration as follows:

Element of variable remuneration	CEO, Deputy and other 5 most highly paid business line employees	Other Covered Staff	Deferral period	Retention	Malus	Clawback
Upfront cash	40%	50%	immediate	–	–	Yes
Upfront shares	–	10%	immediate	6 months	Yes	Yes
Deferred cash	10%	–	Over 3 years	–	Yes	Yes
Deferred share awards	50%	40%	Over 3 years	6 months	Yes	Yes

The BNRGC, based on its assessment of role profiles and risk taken by an employee could increase the coverage of employees that would subject to deferral arrangements.



Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

10. REMUNERATION RELATED DISCLOSURES (CONTINUED)

10.9 Details of remuneration paid

(a) Board of Directors

	2020	2019
Sitting Fees	193	212
Remuneration	Nil	Nil
Others*	22	31

* This represents airfare, accommodation, transportation and food and beverages paid on behalf of the Board members.

(b) Shari'a's Supervisory Board

	2020	2019
Sitting Fees	43	42
Remuneration	Nil	Nil
Others*	–	1

Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

10. REMUNERATION RELATED DISCLOSURES (CONTINUED)

10.9 Details of remuneration paid (Continued)

(c) Employee remuneration

	2020								
	Number of staff	Fixed remuneration		Variable remuneration					Total
				Upfront		Deferred			
		Cash	Others	Cash	Shares	Cash	Shares	Others	
Approved persons									
- Business lines	3	484	145	67	-	17	84	-	797
- Control & support	18	585	249	86	2	-	6	-	928
Other material risk takers	4	146	54	16	-	2	9	-	227
Other staff	219	2317	1209	265	-	-	-	-	3,791
TOTAL	244	3,532	1,657	434	2	19	99	-	5,743

	2019								
	Number of staff	Fixed remuneration		Variable remuneration					Total
				Upfront		Deferred			
		Cash	Others	Cash	Shares	Cash	Shares	Others	
Approved persons									
- Business lines	4	517	183	60	-	15	75	-	850
- Control & support	16	741	293	36	3	-	13	-	1,086
Other material risk takers	6	301	128	10	-	2	12	-	453
Other staff	220	2,885	1,514	167	-	-	7	-	4,573
TOTAL	246	4,444	2,118	273	3	17	107	-	6,962

Public Disclosures (Continued)

as at 31st December 2020 / BD 000's

10. REMUNERATION RELATED DISCLOSURES (CONTINUED)

10.9 Details of remuneration paid (Continued)

(d) Deferred awards

	2020				
	Cash (Amount)	Shares (Number)	Shares (Amount)	Others (Amount)	Total (Amount)
Opening balance	40	4,756,139	270	–	310
Awarded during the period	18	1,995,000	100	–	118
Paid out / released during the period	(10)	(896,634)	75	–	64
Capital Reduction	–	(297,862)	–	–	–
Service, performance and risk adjustments	–	(40,271)	(3)	–	(3)
Closing balance	47	5,516,372	442	–	489

	2019				
	Cash (Amount)	Shares (Number)	Shares (Amount)	Others (Amount)	Total (Amount)
Opening balance	35	3,430,749	276	–	311
Awarded during the period	18	2,827,275	110	–	128
Paid out / released during the period	(13)	(1,465,997)	(113)	–	(126)
Corporate action	–	–	–	–	–
Service, performance and risk adjustments	–	(35,888)	(3)	–	(3)
Closing balance	40	4,756,139	270	–	310

(e) Severance pay

During the years 2019 and 2020, the Bank paid BD 1,223,555 as a Voluntary Early Retirement Package. Total of 48 employees benefited from the Package with the highest compensation being BD 237,199.