

Embracing growth

Annual Report 2021



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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 and Prime Minister

Vision and Mission statements



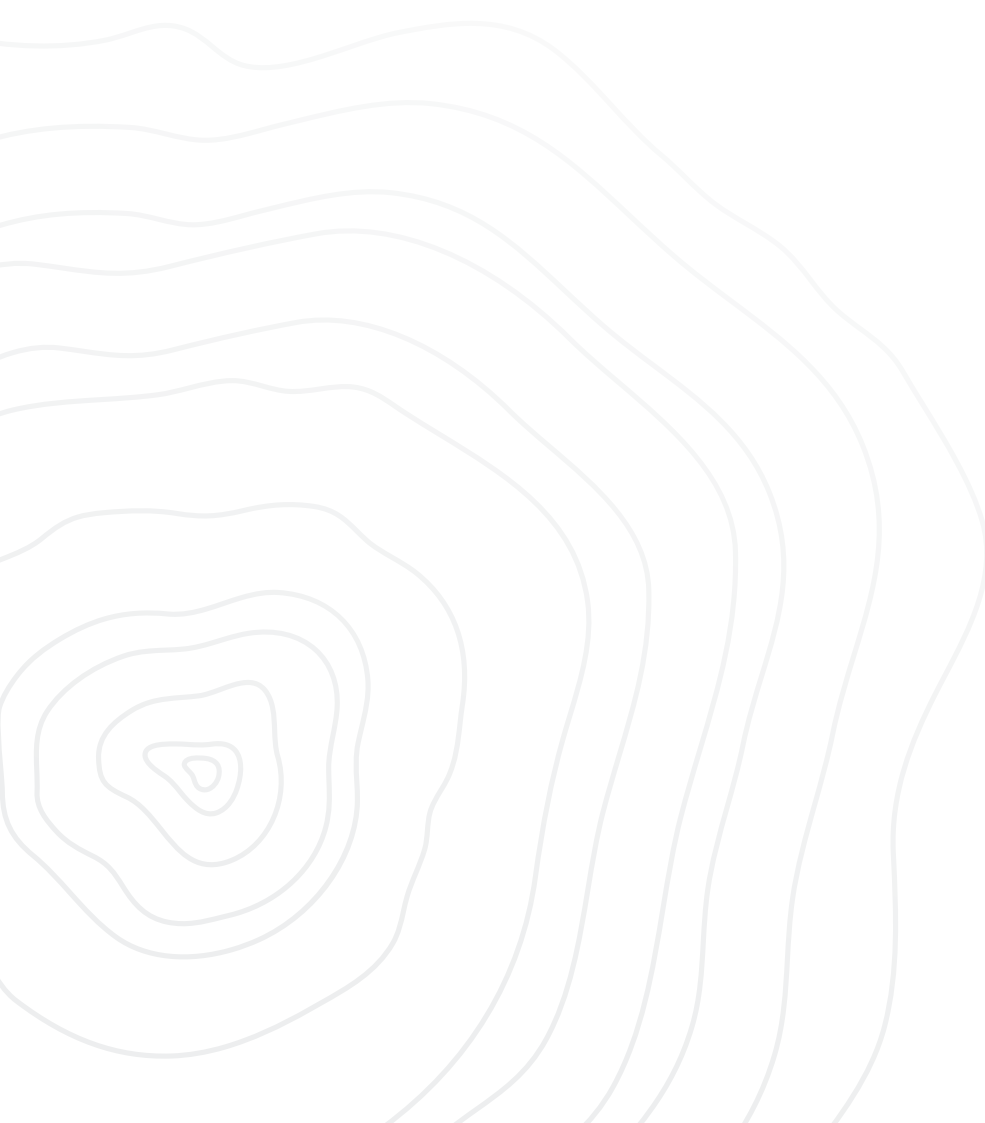
Vision

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.



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



Jassim Mohamed Alseddiqi, Chairman

**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 to you the annual financial statements of Khaleeji Commercial Bank (the “Bank”) for the year ended 31st December 2021.

Throughout the past year, the Bank has succeeded in establishing a solid infrastructure to launch towards broader horizons of excellence and success, based on an effective strategy aimed at maximising the outstanding and tangible achievements that contributed to strengthening its distinguished position among Islamic banks in the Kingdom. This has been reflected through the noteworthy results recorded last year, where the Bank achieved a net profit of BD 10.85 million for the year ended 31st December 2021.

Today, we are taking steady strides by relying on principles based on creativity, innovation, and future foresight in order to continue our leadership in Islamic banking. This has been demonstrated in our implementation of a series of initiatives, particularly in continuing to digitise our services and benefiting from the advantages offered by FinTech (Financial Technology) to enhance the exceptional banking experience we provide to clients, with an interest in developing our own methods and means to add an exclusive and personal touch to each client.

Khaleeji Commercial Bank continues to live up to the aspirations and expectations of its valued clients, in order to ensure a tailored and customized experience that is

client-centric, by utilising the latest innovative technologies in the field to deliver a more innovative self-service and data-driven client experience.

The Bank has been keen to follow a clear and flexible risk policy that ensures a quick response to emergencies and the application of swift, smooth, and effective solutions and adaptation procedures, taking into account that we work in an environment characterized by its dynamic and constant fluctuations.

We are also optimistic as we look to the future, considering the step taken by GFH Financial Group to raise its stake in the Bank to 81.17%, which will deepen the support that Khaleeji Commercial Bank enjoys from the parent company, as it will certainly have a positive impact on the stability of the Bank’s operations and ability to achieve its strategic goals, taking into consideration the Group’s high position as a recognized financial institution with a prestigious international standing.

Khaleeji Commercial Bank has sought to build partnerships with various government and private institutions during 2021, with a goal of achieving common and mutual gains and benefits. This is a key pillar of our strategic plans aimed at strengthening our close cooperation with key players in the Kingdom’s public and private sectors, due to the successes that it has resulted in and its positives impact on our financial performance. During 2022, we will sustain the



Chairman's Report (continued)

same approach, as we are looking forward to more partnerships and collaborations with leading institutions that have a distinguished position.

Moreover, the Bank has continued its important role as a real contributor to various national efforts concerned with promoting the well-being of society, including the environmental, academic, and youth and sports fields, by supporting a variety of initiatives and activities that stems from our confidence in the importance of unity and solidarity as key principles emanating from Islamic Shari'a.

On behalf of the Board of Directors, the Executive Management, and the employees of Khaleeji Commercial Bank, I would like to take this opportunity to express gratitude and appreciation to His Majesty King Hamad bin Isa Al Khalifa, King of Bahrain, may God protect him, and His Royal Highness Prince Salman bin Hamad Al Khalifa, Crown Prince and Prime Minister, may God protect him, for their wise guidance and decisions to ensure the recovery and sustainability of the financial market, the business community, and all sectors from the repercussions of the outbreak of the Coronavirus (COVID-19) pandemic, including the economic recovery plan and its strategies, which come as a continuation of the Kingdom's transcendence of the consequences caused by the pandemic. This has been evident in the positive indicators and figures that companies and institutions are achieving.

I would also like to express my great appreciation and gratitude to the Central Bank of Bahrain for its support of the banking sector and contributing to its stability under these unprecedented circumstances. I also extend thanks to the ministries, government bodies, and Bahrain Bourse for their continuous support and assistance.

It gives me great pleasure to also thank Khaleeji Commercial Bank's Executive Management and employees for their great efforts exerted to ensure the Bank's excellence and sustainability of its success by consolidating the pillars that we set in the past period to achieve strong results and continue to meet the aspirations of our valued clients. I would also like to extend my special thanks to our valued shareholders and partners for their endless confidence and loyalty in Khaleeji Commercial Bank as one of the leaders in the Islamic banking sector.

Jassim Mohamed Alseddiqi
Chairman of the Board of Directors



Chairman's Report (continued)

Board of Directors' Disclosures

Within our commitment to the provisions of the Commercial Companies Law No. (21) of 2001 and its amendments, and pursuant to the provisions of Article No. (188) of the Commercial Companies Law and Article No. (125) of the Executive Regulations of Resolution No. (3) for the year 2022,

and as part of the Bank's obligation to maintain utmost transparency with our valued shareholders, we are pleased to attach the table on page 13 that shows the remuneration of members of the Board of Directors and the Executive Management for the fiscal year ending 31st December 2021.

First: Board of Directors' Remuneration Details

Name	Fixed Remunerations				Totals
	Remunerations of the chairman and BOD	Total allowance for attending Board and committee meetings	Salaries	Others	
First: Independent Directors:					
1 - Sh. Ahmed Bin Isa Al Khalifa	10,560	24,000	-	-	34,560
2 - Hussain Sayed Ali Al Hussaini	880	28,500	-	-	29,380
3- Reyadh Eid Al Yaqoob	10,560	30,000	-	-	40,560
4 - Isa Abdulla Zainal	3,520	24,000	-	-	27,520
5 - Mazen Ibrahim Abdulkarim	3,520	39,000	-	-	42,520
6 - Abdulla Abdulkarim Showaiter *	2,640	-	-	-	2,640
7 - Dr. Khalid Mohammed Al Khazraji *	2,640	-	-	-	2,640
8 - Yousef Ibrahim Al Ghanim *	7,920	-	-	-	7,920
Second: Non-Executive Directors:					
1 - Mosabah Saif Al Mutairy	3,520	22,500	-	-	26,020
2 - Mohammad Abdulmohsen Al Rashed *	7,920	-	-	-	7,920
Third: Executive Directors:					
1 - Jassim Mohamed Alseddiqi	10,560	7,500	-	-	18,060
2 - Hisham Ahmed Al Rayes	10,560	21,000	-	-	31,560
3 - Salah Abdulla Sharif	1,760	21,000	-	-	22,760
4 - Mustafa Ghazi Kheriba **	10,560	-	-	-	10,560
5 - Fawad Tariq Khan *	9,680	-	-	-	9,680
Total	96,800	217,500	-	-	314,300

Note: All amounts must be stated in Bahraini Dinars.

* These directors either resigned or their term ended during the year 2020. The remuneration they received during the year 2021 relates to the year 2020.

** This director resigned during the year 2021. The remuneration he received during the year 2021 relates to the year 2020.

Notes:

- The Bank does not have any variable remuneration payments, end of service benefits, or expense allowances paid to its directors.
- Board remuneration represents payments made during the year 2021 based on approval of the Annual General Meeting dated 24th March 2021.

Second: Executive Management Remuneration Details for Top 6 Executives:

Executive management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/ in kind remuneration for 2021	Aggregate Amount
Remunerations of top 6 executives, including CEO and Head of Finance & Administration	857,128	207,834¹	-	1,064,962

Notes:

1. The total bonus included BD 114,084 as cash based remuneration and BD 93,750 as shares based remuneration.
2. Remuneration details exclude any Board remuneration earned by executive management from their role in investee companies or other subsidiaries.

Jassim Mohamed Alseddiqi
Chairman of the Board of Directors





Today, we are taking steady strides by relying on principles based on creativity, innovation, and future foresight in order to continue our leading position in Islamic banking.





Executive Management Report



Sattam Sulaiman Algozaibi, Chief Executive Officer

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

Dear Honourable Shareholders,

The year 2021 witnessed a gradual recovery from the effects of the Corona Virus pandemic on various sectors in the Kingdom, especially the economic sector. Thus, we were keen to take advantage of opportunities to continue our strong financial performance, which is reflected in achieving a net profit of BD 10.85 million for the financial year ended 31st December 2021, compared to BD 7.99 million in 2020, an increase of 35.90%.

The upwards curve in our financial results, despite all the circumstances experienced by the financial sector, is a testament to our efforts to maintain our path towards success and excellence. We are confident that the future will be better based on the positive growth witnessed by the Kingdom of Bahrain with the launch of the economic recovery plan by the esteemed government under the royal patronage of His Majesty King Hamad bin Isa Al Khalifa, the King of Bahrain may God protect him, and the leadership of His Royal Highness Prince Salman bin Hamad Al Khalifa, Crown Prince and Prime Minister may God protect him, and the subsequent qualitative strategies that contributed to achieving a noticeable improvement in all sectors, in addition to the rise of oil prices which represents an important boost to Bahrain's economy towards broader horizons of growth and development during the next period.

During this period, the Bank has dedicated its efforts and endeavors to maintain its leading position in Islamic Banking as one of the pioneers of digital transformation through reaching new heights in digitalising our banking products and services to facilitate our clients' access to them and meet their aspirations in providing a modern banking experience through the use of state-of-the-art financial technologies. This includes the introduction of the "Khaleeji 360" platform which allows clients to link their accounts with other banks and view aggregate information with ease, as well as the launch of a new version of the "Khaleeji Mobile App" which carries essential updates and services that meet our clients' expectations.

In addition, we have continued our work on the geographical redistribution of our Branch and ATM Networks with the inauguration of our new branch at Wadi Al Sail Mall, which falls in line with our ambitions to be closer to our valued clients living in the Southern Governorate. It is also important to note the outstanding success of last year's edition of the "Al Waffer" Account, which has attracted a large number of clients as a result of the valuable monthly cash prizes we have allocated, and the account continues to attract new clients from the Bank's base for whom we have allocated cash prizes with a value that now exceeds BD 1.2 million during the year 2022 to contribute to making a positive change in their lives.





Executive Management Report (continued)

In 2022, we will strive to achieve further positive results and attain the desired goals by implementing a number of strategic goals. Among them is the continued development of our banking solutions, advancing digital transformation in our operations, and entering into more strategic partnerships that will strengthen our financing portfolio, so that we may continue to achieve excellence in all our banking operations with commitment to transparency and efficiency, ensuring sustainability for our valued clients and shareholders.

In conclusion, my sincere thanks and appreciation to the Kingdom's Respected Government for their continuous support and guidance, which has led the banking sector towards safety through effective management of the COVID-19 Crisis. This placed the Kingdom of Bahrain among the forefront of countries that were able to overcome the health and socio-economic repercussions of the pandemic, garnering wide global praise and recognition. I would also like to express my gratitude and appreciation for

the trust of our valued shareholders in us and our teams, as well as the support of the Board of Directors which had a great impact on the Bank's strong performance. I would also like to extend my thanks to all our employees for their dedication, which contributed to consolidating KHCB's leading position in the Islamic banking sector, creating a base for our path to more achievements and successes over the coming years.

Sattam Sulaiman Alghosaibi

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



Salah Abdulla Sharif
Board Member



Isa Abdulla Zainal
Board Member



Mazen Ibrahim Abdulkarim
Board Member



Mosabah Saif Al Mutairy
Board Member



Reyadh Eid Al Yaqoob
Board Member



Husain Sayed Ali Al Husaini
Board Member



Mustafa Ghazi Kheriba
Board Member
(Resigned his office on 25 January 2021)



Management Team



Sattam Sulaiman Algozaibi
Chief Executive Officer



Husam Ghanem Saif
Assistant General Manager
Treasury & Investment



Mohammed Abdulla Saleh
Assistant General Manager
Legal & Compliance



Abdunasser Omar Al Mahmood
Head of Shari'a Coordination
& 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 & Debt Capital Markets



Osama Ali Hassan

Chief Technology Officer



Ameera Ahmed Al Abbasi

Head of Business Banking



Mohammed Hamad Fakhri

Head of Internal Audit



Aman Ullah Khan

Head of Finance & Administration



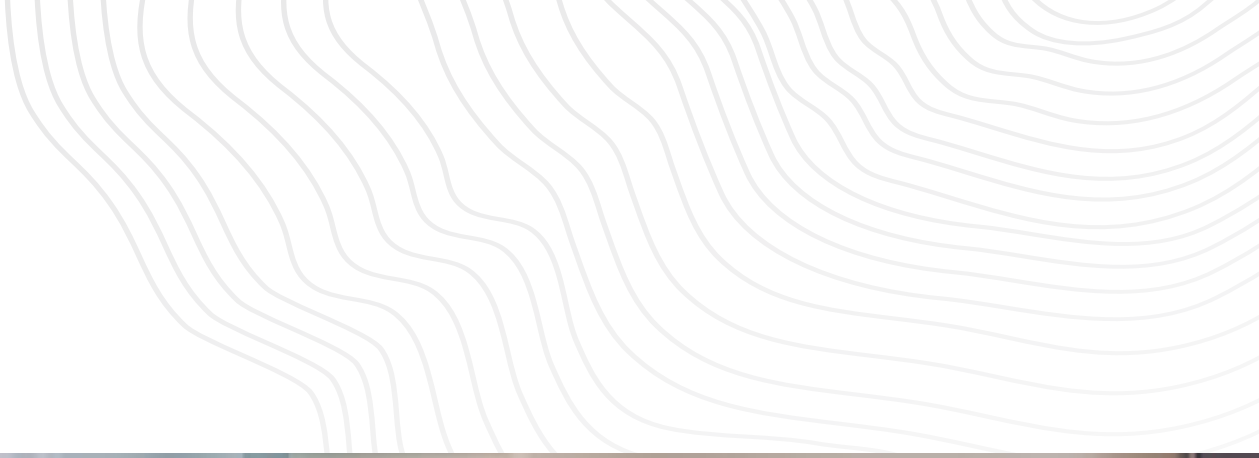
Subah Abdulrahman Al Zayani

Head of Marketing & Corporate Communications



Nawaf Abdulsalam Al Hosani

Head of Internal Shari'a Audit and Shari's Board Secretary







Corporate Governance

I. Corporate Governance Structure

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 is 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.

II. Board Of Directors

The Board of Directors comprises of 9 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.

III. Board Committees Structure

The Board of Directors has constituted three permanent 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.
- **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

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.

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.
- Moreover, during 2021, the Board formed an Ad hoc Board Independent Committee, which was responsible for considering the voluntary takeover offer received from GFH Financial Group B.S.C., and to advise KHCB Shareholders as to whether the offer is, or is not, fair and reasonable and to recommend whether to accept or reject the offer.

The Chairman, the Board of Directors and the Board Committees have direct access to the Corporate Secretary, heads Internal Audit, Risk Management, Regulatory Compliance, Head of Anti Financial Crimes (the MLRO), Internal Sharia Audit, and Shari'a 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 six times in 2021. The Bank held its Annual General Assembly (AGM) on 24th March 2021. In addition to physical meetings, several written resolutions were circulated to the Directors during 2021 for approval by email.

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

Committee (BNRGC) held five meetings, and the Board Independent Committee (IBC) held six meetings.

IV. 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 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.
Executive Risk Management Committee	Risk Management policies, Risk review, and Compliance.
Human Resources Committee	Approving the policies and strategy of human resources





Risk Management

Managing risk is a critical underpinning to the execution of KHCB's strategy. The material risks and uncertainties faced by the Bank across various portfolios are the key areas of management's focus.

We at KHCB consider the dissemination of Risk Culture as an important aspect that drives our business with respect to risk awareness, risk taking, and risk management. Whereas our entire staff is responsible for risk management, the ultimate accountability resides with the Board of Directors.

The Bank always strives to achieve sustainable and continuously enhanced Stakeholder Value at an acceptable and calculated level of risk within the framework of Islamic Shari'a. This includes our social responsibility of being good citizens and treating our stakeholders with fairness and transparency.

All business decisions in the Bank are made after a thorough risk and reward analysis that is commensurate with the size and nature of the business being considered.

By 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.

Our Enterprise Risk Management Framework enables us to closely manage enterprise-wide risks with the objective of maximizing risk-adjusted returns while not exceeding our Risk Appetite. The Framework relies on identification,

assessment, management and mitigation of risk. Capital and liquidity are at the core of our Enterprise Risk Management Framework, with forward-looking statements informed by stress testing.

Identification and assessment of potentially adverse risk events is an essential first step in managing the risk of any activity and to facilitate that, the Bank maintains a dynamic risk-scanning process with inputs from the internal and external risk environment, as well as of potential threats and opportunities from a business and client perspective, enabling us to proactively manage our portfolio.

The Enterprise Risk Management Framework promotes ongoing monitoring and risk awareness. It also encourages sound operational and strategic decision making, and 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, as described above.

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



Risk Management (continued)

that could affect the Bank's business and operations. In doing so, the Risk Management Division, in coordination with Executive 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 2021

Much like 2020, the year 2021 presented several risk management challenges. The year started with new COVID-19 variants and reported cases continuing to rise. While the global economic recovery in 2021 eased financial difficulties for some of our clients, future impacts remain uncertain.

Like 2020, we continued to actively manage the risks resulting from the COVID-19 outbreak and its impact on our clients and operations during 2021, as well as other key risks arising from the economic impact of the COVID-19 pandemic. We regularly conducted stress tests to assess the resilience of our balance sheet and to provide actionable insights into how key elements of our portfolios may behave during crises.

Risk management activities were focused on the material threats arising from the pandemic itself in addition to those

that are strongly correlated with it, especially credit, liquidity, and operational risk pertaining to operations during the pandemic.

Through proactive management and persistent risk management actions, the Bank was able to reduce the non-performing ratio to historic low levels. In addition to the improved risk ratios in various silos, we enhanced the 2021 risk management framework in the following areas:

- We have developed a Risk Adjusted Return on Capital ("RAROC") pricing model which enhances the Bank's Stakeholder Value by maximizing risk and return tradeoffs
- We continued 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, and profit rate risk in the banking book as well as other risks
- We continued to focus on improving the existing risk models including ICAAP and stress testing models along with the Bank's credit risk rating models
- We continued to support the business and our clients throughout the global pandemic, while continuing our focus on managing credit risk
- We have regularly performed several reviews on segments of our financing portfolio which were likely to be impacted by the economic slowdown. A number of internal stress

Our Enterprise Risk Management Framework enables us to closely manage enterprise-wide risks with the objective of maximizing risk-adjusted returns while not exceeding our risk appetite.

tests were conducted under different scenarios in order to assess the potential impact of the COVID-19 outbreak on provisions

- We have developed an internal approach to implement the transition from LIBOR to other profit-rate benchmarks, and we continued to work closely with regulators in this regard
- We continued to automate the risk management reports to help Management and the Board of Directors take informed decisions on key risk topics in an efficient manner
- We have set up additional risk committees and taskforces such as the Executive Risk Management Committee, the Information Security Steering Committee, the Business Continuity Steering Committee, and the Remedial Committee to review the material areas of the Bank's activities including those that are impacted by the COVID-19 economic slowdown
- We have implemented the National Institute of Standards and Technology's ("NIST") cybersecurity related enhancements by developing and implementing appropriate policies, systems, and processes
- We continued to enhance employees' skills and knowledge in different risk areas such as information security, risk management, and credit risk by providing bespoke training



Shari'a Supervisory Board Report to the Shareholders

On the Activities of Khaleeji Commercial Bank B.S.C.
For the financial year ending 31 December 2021

02 February 2022
1 Rajab 1443 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 2021.

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. The SSB in collaboration with 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 2021.

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 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 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 Hadi
Vice-Chairman & Executive Member



Shaikh Dr. Nizam Yaqoobi
Board Member

Independent Auditor's Report

To the Shareholder of Khaleeji Commercial Bank B.S.C.
PO Box 60002, Manama, Kingdom of Bahrain

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 31 December 2021, 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 31 December 2021, 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 31 December 2021.

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)

31 December 2021

Key Audit Matters (continued)

Impairment allowance on financing assets and ijarah assets	
Refer to accounting policy in note 5 (j), use of estimates and judgements in note 27 and management of credit risk in note 37	
The key audit matter	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 ijarah assets representing 41% of total assets. • The estimation of expected credit losses (“ECL”) on financing assets and ijarah assets 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.

Independent Auditors Report to the Shareholders (continued)

31 December 2021

Key Audit Matters (continued)

Impairment allowance on financing assets and ijarah assets (continued)	
Refer to accounting policy in note 5 (j), use of estimates and judgements in note 27 and management of credit risk in note 37	
The key audit matter	How the matter was addressed in our audit
	<p>Use of specialists</p> <ul style="list-style-type: none"> • We involved our information technology specialists in testing the relevant general IT and applications controls over the key systems used in the ECL process; • We involved our credit risk specialists to assist us in: <ul style="list-style-type: none"> - evaluating the appropriateness of the Groups' ECL methodologies (including the staging criteria used); - on a test basis, re-performing the calculation of certain components of the ECL model (including the staging criteria); - evaluating the appropriateness of the Group's methodology for determining the economic scenarios used and the probability weighing applied to them; and - evaluating the overall reasonableness of the management economic forecast by comparing it to external market data. <p>Disclosure Evaluating the adequacy of the Group's disclosures related to ECL on financing assets and ijarah assets by reference to the relevant accounting standards.</p>

Valuation of unquoted equity investments	
Refer to accounting policy in note 5 (c), use of estimates and judgements in note 27 and fair value in note 36	
The key audit matter	How the matter was addressed in our audit
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>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. <p>Disclosure Evaluating the adequacy of the Group's disclosures related to valuation of unquoted equity instruments by reference to the relevant accounting standards.</p>

Independent Auditors Report to the Shareholders (continued)

31 December 2021

Key Audit Matters (continued)

Valuation of investment in real estate	
Refer to accounting policy in note 5 (h), and use of estimates and judgements in note 27	
The key audit matter	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> <p>Use of specialists</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 input 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. <p>Disclosure</p> <p>Evaluating the adequacy of the Group's disclosures related to valuation of investment in real estate by reference to the relevant accounting standards.</p>

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 Board of Directors for the Consolidated Financial Statements

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

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

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

Independent Auditors Report to the Shareholders (continued)

31 December 2021

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 judgement and maintain professional scepticism throughout the audit. We also:

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

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

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

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

Independent Auditors Report to the Shareholders (continued)

31 December 2021

Report on Other Regulatory Requirements

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

- a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- b) the financial information contained in the 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 Mahesh Balasubramanian.



KPMG Fakhro
Partner Registration Number 137
7 February 2022



Consolidated Financial Statements

31 December 2021



Consolidated Statement of Financial Position

As at 31 December 2021

BD '000s

	Note	31 December 2021	31 December 2020
ASSETS			
Cash and bank balances	6	124,115	83,017
Placements with financial institutions	7	26,391	17,720
Investment in sukuk	8	323,846	261,132
Financing assets	9	324,373	307,717
Ijarah assets	10	152,394	139,754
Investment securities	11	30,884	55,892
Assets held-for-sale	12	63,103	-
Investment in real estate	13	80,919	83,303
Equity accounted investees	14	25,268	31,963
Other assets	15	13,192	27,646
Property and equipment	16	1,699	7,450
Total assets		1,166,184	1,015,594
LIABILITIES			
Placements from financial institutions		130,199	79,545
Placements from non-financial institutions and individuals	17	183,217	214,243
Term financing from financial institutions	18	71,617	75,477
Customers' current accounts		52,936	55,676
Other liabilities	19	25,629	13,269
Total liabilities		463,598	438,210
Equity of investment account holders			
- From financial institutions		125,707	26,154
- From non-financial institutions and individuals		419,488	399,195
Total equity of investment account holders	20	545,195	425,349
OWNERS' EQUITY			
Share capital	21	89,212	89,212
Subordinated Mudaraba (AT1)	22	47,222	47,222
Statutory reserve		10,110	9,024
Treasury shares		(11,926)	(11,859)
Investment fair value reserve		187	348
Retained earnings		11,493	7,863
Total owners' equity		146,298	141,810
Non-controlling interest		11,093	10,225
Total liabilities, equity of investment account holders, owners' equity and non-controlling interest		1,166,184	1,015,594

The consolidated financial statements were approved by the Board of directors on 7 February 2022 and signed on its behalf by:

Jassim Mohamed Alseddiqi
Chairman

Sh. Ahmed Bin Isa Al Khalifa
Vice Chairman

Sattam Sulaiman Algoaibi
Chief Executive Officer

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

Consolidated Income Statement

For the year ended 31 December 2021

BD '000s

	Note	2021	2020
Income from financing assets and ijarah assets		29,908	29,921
Income from placements with financial institutions		166	551
Income from sukuk		20,087	15,242
Income from investment securities		580	366
Share of loss from equity accounted investees	14	(1,133)	(320)
Fees and other income		2,879	2,437
Total income before return to investment account holders		52,487	48,197
Less: Return to investment account holders before Bank's share as Mudarib	20	(25,939)	(21,575)
Bank's share as a Mudarib	20	13,984	9,289
Return to investment account holders		(11,955)	(12,286)
Finance expense on placements from financial institutions, non-financial institutions and individuals		(12,371)	(12,472)
Finance expense on term financing from financial institutions		(1,272)	(796)
Total income		26,889	22,643
Staff cost	23	5,655	5,874
Other operating expenses	24	5,636	4,523
Total expenses		11,291	10,397
Profit before impairment allowances		15,598	12,246
Net impairment charge	25	(4,785)	(4,341)
PROFIT FOR THE YEAR		10,813	7,905
Attributable to:			
Shareholders of the Parent		10,853	7,986
Non-controlling interest		(40)	(81)
		10,813	7,905
Earnings per share			
Basic and diluted earnings per share (fils)	30	6.039	6.409

Jassim Mohamed Alseddiqi
Chairman

Sh. Ahmed Bin Isa Al Khalifa
Vice Chairman

Sattam Sulaiman Algoaibi
Chief Executive Officer

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

Consolidated Statement of Changes in Owners' Equity

For the year ended 31 December 2021

BD '000s

2021	Equity attributable to shareholders of the parent							Non-Controlling Interest	Total Equity
	Share Capital	Subordinated mudaraba (AT1)	Statutory reserve	Treasury shares	Investment fair value reserve	Retained earnings	Total		
Balance at 1 January 2021	89,212	47,222	9,024	(11,859)	348	7,863	141,810	10,225	152,035
Impact of adoption of FAS 32 (note 5(l)(b))	-	-	-	-	-	23	23	-	23
Balance as restated	89,212	47,222	9,024	(11,859)	348	7,886	141,833	10,225	152,058
Net changes in fair value (note 11)	-	-	-	-	(161)	-	(161)	-	(161)
Profit for the year	-	-	-	-	-	10,853	10,853	(40)	10,813
Total recognised income and expense for the year	-	-	-	-	-	10,853	10,853	(40)	10,813
Purchase of Treasury shares	-	-	-	(67)	-	-	(67)	-	(67)
Issue of shares under staff incentive scheme	-	-	-	-	-	69	69	-	69
Profit distribution on AT 1 Capital	-	-	-	-	-	(6,000)	(6,000)	-	(6,000)
Acquisition of a subsidiary	-	-	-	-	-	-	-	908	908
Transfer to statutory reserve	-	-	1,086	-	-	(1,086)	-	-	-
Transfer to Zakah fund	-	-	-	-	-	(229)	(229)	-	(229)
Balance at 31 December 2021	89,212	47,222	10,110	(11,926)	187	11,493	146,298	11,093	157,391

2020	Equity attributable to shareholders of the parent							Non-Controlling Interest	Total Equity
	Share Capital	Subordinated mudaraba (AT1)	Statutory reserve	Treasury shares	Investment fair value reserve	(Accumulated losses) / retained earnings	Total		
Balance at 1 January 2020	105,000	-	8,225	(11,730)	-	(15,788)	85,707	2,200	87,907
Net changes in fair value (note 11)	-	-	-	-	348	-	348	-	348
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 22)	-	60,000	-	-	-	12,000	72,000	-	72,000
Issuance costs of AT1 (Note 22)	-	(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 21)	(15,788)	-	-	-	-	15,788	-	-	-
Purchase of Treasury shares	-	-	-	(129)	-	-	(129)	-	(129)
Issue of shares under staff incentive scheme	-	-	-	-	-	111	111	-	111
Profit distribution on AT 1 Capital	-	-	-	-	-	(2,834)	(2,834)	-	(2,834)
Acquisition of a subsidiary (note 29)	-	-	-	-	-	-	-	8,106	8,106
Transfer to statutory reserve	-	-	799	-	-	(799)	-	-	-
Transfer to Zakah fund	-	-	-	-	-	(218)	(218)	-	(218)
Balance at 31 December 2020	89,212	47,222	9,024	(11,859)	348	7,863	141,810	10,225	152,035

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

BD '000s

	Note	2021	2020
OPERATING ACTIVITIES			
(Payments) / receipts from financing assets, net		(320)	3,828
(Payments) / receipts from ijarah assets, net		(5,801)	11,509
Receipt of profit on short-term placements		166	551
Returns paid to investment account holders		(12,638)	(15,615)
Receipts/(withdrawals) from investment account holders, net		119,845	(97,296)
Payment of profit on placements		(12,370)	(12,472)
Payment for expenses		(10,770)	(13,137)
Other receipts		2,879	2,048
Payment for charity		(466)	(276)
Withdrawals from customers' current accounts, net		(2,740)	(2,430)
Receipts / (payments) towards placements from financial institutions, net		50,653	(37,552)
(Payments) / receipts from placements from non-financial institutions and individuals, net		(31,026)	79,589
Net receipt to CBB reserve account		124	10,016
Net cash generated / (used) from operating activities		97,536	(71,237)
INVESTING ACTIVITIES			
Purchase of sukuk		(212,871)	(102,254)
Proceeds from redemption / sale of sukuk		154,726	29,989
Income from sukuk received		14,866	15,165
Purchase of investment securities		-	(15,080)
Proceeds from disposal / redemption of investment securities		7,321	-
Proceeds from disposal of investment in real estate, net		780	728
Receipt of dividends / income from investment securities		666	316
Purchase of property and equipment, net		(1,350)	(249)
Payment for acquisition under restructuring program		(582)	-
Net cash used in investing activities		(36,444)	(71,385)
FINANCING ACTIVITIES			
Purchase of treasury shares, net		(67)	(129)
Proceeds from ATI Capital		-	11,447
Profit distribution on AT 1 Capital		(6,000)	(2,834)
(Repayment) of term financing from financial institutions, net		(3,860)	75,524
Finance expense on term financing from financial institutions		(1,272)	(517)
Net cash (used in) / from financing activities		(11,199)	83,491
Net increase / (decrease) in cash and cash equivalents		49,893	(59,131)
Cash and cash equivalents at 1 January		85,323	144,454
Cash and cash equivalents at 31 December		135,216	85,323
Cash and cash equivalent comprise:*			
Cash and bank balances (excluding CBB reserve)	6	108,825	67,603
Placements with financial institutions with original maturities of 90 days or less	7	26,391	17,720
		135,216	85,323

* Cash and cash equivalents is net of the expected credit loss of BD 2 thousand (2020: BD 2 thousand).

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

Consolidated Statement of Changes in Restricted Investment Accounts

For the year ended 31 December 2021

BD '000s

2021	Balance at 1 January 2021			Movements during the year						Balance at 31 December 2021		
	No of units (‘000)	Average value per share BD	Total BD ‘000	Invest- ment (with- drawals) BD ‘000	Revalu- ation BD ‘000	Gross income/ (loss) BD ‘000	Divi- dends paid BD ‘000	Bank’s fees as an agent BD ‘000	Admin- istration expens- es BD ‘000	No of units (‘000)	Average value per share BD	Total BD ‘000
Safana Investment WLL (RIA 1) and NS12	6,254	1.00	6,254	(5,007)	-	-	-	-	-	1,247	1.00	1,247
Shaden Real Estate Investment WLL (RIA 5)	3,434	1.00	3,434	(3,165)	-	-	-	-	-	269	1.00	269
Locata Corporation Pty Ltd (RIA 6)	2,633	0.38	993	(993)	-	-	-	-	-	-	-	-
			10,681	(9,165)	-	-	-	-	-			1,516
2020	Balance at 1 January 2020			Movements during the year						Balance at 31 December 2020		
	No of units (‘000)	Average value per share BD	Total BD ‘000	Invest- ment (with- drawals) BD ‘000	Revalu- ation BD ‘000	Gross income/ (loss) BD ‘000	Dividends paid BD ‘000	Bank’s fees as an agent BD ‘000	Adminis- tration expens- es BD ‘000	No of units (‘000)	Average value per share BD	Total BD ‘000
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 40 form an integral part of these consolidated financial statements.

Consolidated Statement of Sources and Uses of Zakah and Charity Fund

For the year ended 31 December 2021

BD '000s

	Note	2021	2020
Sources of zakah and charity fund			
At 1 January		696	714
Contributions by the Bank	32	229	218
Non-shari'a compliant income		12	40
Total sources		937	972
Uses of zakah and charity fund			
Contributions to charitable organisations		(466)	(276)
Total uses		(466)	(276)
Undistributed zakah and charity fund at 31 December		471	696

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

BD '000s

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 is 69.06% owned by GFH Financial Group BSC ("the Parent"), a Bahraini incorporated investments bank operating under an Islamic wholesale banking license issued by the Central Bank of Bahrain ("CBB") and listed on Bahrain Bourse, Boursa Kuwait and Dubai Financial Markets ("DFM").

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.

During the year, on 4 November 2021, the Parent made a public announcement on Bahrain Bourse of a voluntary conditional offer to acquire 100% of the issued and paid up ordinary shares of the Bank. This represents up to 187,589,034 ordinary shares of the Bank (constituting voting rights), not currently owned by the Parent, representing up to 21.03% stake of the Bank's issued and paid up share capital. The offer would be carried out through exchange of shares in the ratio of 0.384 shares of the Parent plus cash of BD 0.024 for each share of the Bank, at the discretion of each shareholder of the Bank and subject to satisfaction or waiver of the conditions precedent by the Parent, where applicable. As of 31 December 2021, shareholders holding 91,501,901 shares have confirmed their participation in this offer.

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 2021	% holding 2020	Nature of business
Harbour West 2 Real Estate W.L.L.	Bahrain	100.00%	100.00%	To hold real estate property.
Harbour West 4 Real Estate W.L.L.	Bahrain	100.00%	100.00%	To hold real estate property.
Surooh Limited	Cayman Islands	75.70%	19.08%	To construct and sell properties at "Oryx Hills".
HH Hotel Properties W.L.L.	Bahrain	86.00%	-	Hospitality business
KHCB Tier 1 Sukuk Limited	Cayman Islands	100.00%	100.00%	To issue additional tier 1 certificates
NS12 W.L.L.	Bahrain	82.52%	28.41%	To hold real estate property.
Amlak II Company	Cayman Islands	61.88%	23.51%	To hold real estate property.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

BD '000s

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:

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

The modification loss is 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

- b) recognition of financial assistance received from the government and/ or regulators in response to its COVID-19 support measures that meets the government grant requirement, in equity, instead of the profit or loss account as required by the statement on "Accounting implications of the impact of COVID-19 pandemic" issued by AAOIFI 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 recognised in the profit or loss account. Any other financial assistance is recognised in accordance with the requirements of FAS;
- c) recognition of specific impairment allowances and expected credit losses in line with the specific CBB guidelines for application of staging rules issued as part of its COVID-19 response measures.

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 were applied in the previous year applied retrospectively and did not result in any change to the comparatives.

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").

Impact of COVID-19 concessionary measures

Modification of financial assets

During the second quarter of 2020, based on a regulatory directive issued by the CBB as concessionary measures to mitigate the impact of COVID-19, the one-off modification losses amounting to BD 14,711 thousand arising from the 6-month payment holidays provided to financing customers without charging additional profit was recognized directly in equity. The modification loss was calculated as the difference between the net present value of the modified cash flows calculated using the original effective profit rate and the current carrying value of the financial assets on the date of modification. The Group had provided payment holidays on financing exposures amounting to BD 44,583 thousand (first deferral - March 2020 to September 2020) as part of its support to impacted customers. As at 31 December 2021, the Group has customers with financing facilities of BD 186,133 thousand under continuing deferral arrangement.

Financial assistance

Governments and central banks across the world have responded with monetary and fiscal interventions to stabilize economic conditions. The Government of Kingdom of Bahrain has announced various economic stimulus programmes ("Packages") to support businesses in these challenging times. As per the regulatory directive during 2020, financial assistance amounting to BD 791 thousand (representing specified reimbursement of a portion of staff costs, waiver of fees, levies and utility charges) and zero cost funding received from the government and/or regulators, in response to its COVID-19 support measures, was recognized directly in equity.

Notes to the Consolidated Financial Statements (continued)

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2. STATEMENT OF COMPLIANCE (continued)

Fair valuation

The COVID-19 pandemic has resulted in a global economic slowdown with uncertainties in the economic environment. The global capital and commodity markets have also experienced great volatility and a significant drop in prices. The Group's fair valuation exercise primarily relies on quoted prices from active markets for each financial instrument (i.e. Level 1 input) or using observable or derived prices for similar instruments from active markets (i.e. Level 2 input) and has reflected the volatility evidenced during the period and as at the end of the reporting date in its measurement of its financial assets and liabilities carried at fair value. Where fair value measurements was based in full or in part on unobservable inputs (i.e. Level 3), management has used its knowledge of the specific asset/ investee, its ability to respond to or recover from the crisis, its industry and country of operations to determine the necessary adjustments to its fair value determination process.

3. BASIS OF MEASUREMENT

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

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 27.

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:

i) New Standards, amendments and interpretations issued and effective for annual periods beginning on or after 1 January 2021

FAS 32 - Ijarah

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

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

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

(a) Change in accounting policy

Identifying an Ijarah

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

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

BD '000s

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

FAS 32 Ijarah (continued)

(a) Change in accounting policy (continued)

Measurement

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

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

(i) *Right-of-use (usufruct) asset*

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

- the prime cost of the right-of-use asset;
- initial direct costs incurred by the lessee; and
- dismantling or decommissioning costs.

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

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

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

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

- extension periods if it is reasonably certain that the Bank will exercise that option; and/ or
- termination options if it is reasonably certain that the Bank will not exercise that option.

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

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

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

BD '000s

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

FAS 32 Ijarah (continued)

(a) Change in accounting policy (continued)

Measurement (continued)

(ii) Net ijarah liability

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

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

- fixed ijarah rentals less any incentives receivable;
- variable ijarah rentals including supplementary rentals; and
- payment of additional rentals, if any, for terminating the ijarah (if the ijarah term reflects the lessee exercising the termination option).

Variable ijarah rentals are ijarah rentals that depend on an index or rate, such as payments linked to a consumer price index, financial markets, regulatory benchmark rates, or changes in market rental rates. Supplementary rentals are rentals contingent on certain items, such as additional rental charge after provision of additional services or incurring major repair or maintenance. As of 31 December 2021, the Group did not have any contracts with variable or supplementary rentals.

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

- increasing the net carrying amount to reflect return on the ijarah liability (amortisation of deferred ijarah cost)
- reducing the carrying amount of the gross ijarah liability to reflect the ijarah rentals paid
- re-measuring the carrying amount in the event of reassessment or modifications to ijarah contract, or to reflect revised ijarah rentals

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

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

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

BD '000s

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

FAS 32 Ijarah (continued)

(a) Change in accounting policy (continued)

Measurement (continued)

(ii) *Net Ijarah liability (continued)*

Ijarah contract modifications

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

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

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

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

Expenses relating to underlying asset

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

Recognition exemptions and simplified accounting for the lessee

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

- short-term Ijarah; and
- Ijarah for which the underlying asset is of low value.

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

Impact as lessor on accounting for Ijara Muntahia Bittamleek ("Ijarah Assets") contracts

There is no change in the accounting for Ijarah Muntahia Bittamleek portfolio upon adoption of this standard.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

BD '000s

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

FAS 32 Ijarah (continued)

(b) Impact on adoption of FAS 32

As permitted by FAS 1, the Group has adopted a modified retrospective application of FAS 32 where the cumulative effect of the adoption of the standard is reflected in the opening retained earnings and statement of financial position of the current period. The lease contracts comprise ATM sites and branches. The impact of adoption of FAS 32 as at 1 January 2021 has resulted in the following changes at 1 January 2021.

	Total Assets	Total Liabilities	Retained Earnings
Closing balance (31 December 2020)	1,015,594	438,210	141,810
Impact on adoption:			
Right-of-use asset	1,234	-	-
Net Ijarah liability	-	1,119	-
Derecognition of prepayments	-	92	-
Opening impact of FAS 32	-	-	23
	1,234	1,211	23
Balance on date of initial application of 1 January 2021	1,016,828	439,421	141,833

Right of Use Asset

	31 December 2021
Recognition of right-of-use assets on initial application of FAS 32	1,234
Additional right-of-use assets for the period, net of adjustments	114
Amortisation charge for the year	(528)
Total	820

Net Ijarah Liability

	31 December 2021		
	Gross Ijarah liability	Deferred Ijarah	Net Ijarah liability
Maturity analysis			
Less than one year	566	(16)	550
One to five years	260	(4)	256
Total	826	(20)	806

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

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5. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The following new standards and amendments to standards are effective for financial years beginning after 1 January 2022 with an option to early adopt. However, the Group has not early adopted any of these standards.

1) FAS 38 Wa'ad, Khiyar and Tahawwut

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

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

- a) "ancillary Wa'ad or Khiyar" which is related to a structure of transaction carried out using other products i.e. Murabaha, Ijarah Muntahia Bittamleek, etc.; and
- b) "product Wa'ad and Khiyar" which is used as a stand-alone Shariah compliant arrangement.

Further, the standard prescribes accounting for constructive obligations and constructive rights arising from the stand-alone Wa'ad and Khiyar products and accounting for Tahawwut (hedging) arrangements based on a series of Wa'ad and Khiyar contracts.

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

2) FAS 39 Financial Reporting for Zakah

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

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

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

The Group is assessing the impact of adoption of this standard.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

BD '000s

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

3) FAS 1 General Presentation and Disclosures in the Financial Statements

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

The revision of FAS 1 is in line with the modifications made to the AAOIFI conceptual framework for financial reporting.

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

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

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

(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. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable tangible and intangible assets acquired and liabilities assumed. 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.

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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

BD '000s

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of consolidation (continued)

(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.

Non-controlling interests (NCI)

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

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 28.

(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 31 December 2021

BD '000s

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; however, the Bahraini dinar is effectively pegged to the US dollar. 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 into following categories:

i) *Equity-type instruments* - instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities and quasi-equity balances, including ordinary equity instruments and such other structured investment instruments that classify as equity instrument in line with the requirements of FAS 29 "Sukuk in the books of the originator".

ii) *Debt-type instruments:*

Monetary debt-type instruments - instruments whereby the transaction structure results in creation of a financial liability / debt such as Murabaha payable.

Non-monetary debt-type instruments - instruments whereby the transaction structure results in creation of a non-financial liability, such as goods (Salam or Istisna'a) or usufruct (Ijarah Mawsufah fi al-Dhimmah) or services (service Ijarah) to be delivered in future.

iii) *Other investment instruments*

The Group classifies its investments on initial recognition as measured at: (a) amortised cost, (b) fair value through equity ("FVTE") or (c) fair value through income statement ("FVIS").

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

BD '000s

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Investment securities (continued)

(i) Classification (continued)

Amortised cost

An investment shall be measured at amortised cost if both of the following conditions are met:

- a) the investment is held within a business model whose objective is to hold such investment in order to collect expected cash flows till maturity of the instrument; and
- b) the investment represents either a debt-type instrument or other investment instrument having reasonably determinable effective yield.

Fair value through equity

An investment shall be measured at fair value through equity if both of the following conditions are met:

- a) the investment is held within a business model whose objective is achieved by both collecting expected cash flows and selling the investment; and
- b) the investment represents a non-monetary debt-type instrument or other investment instrument having reasonably determinable effective yield.

Irrevocable classification at initial recognition

On initial recognition, an institution may make an irrevocable election to designate a particular investment, at initial recognition, being

- a) an equity-type instrument that would otherwise be measured at fair value through income statement – to present subsequent changes in fair value in equity
- b) a non-monetary debt-type instrument or other investment instrument – as measured at fair value through income statement if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or correlated liabilities or quasi-equity or recognizing the gains and losses on them on different bases. This shall, however, be subject to the Shari'a requirements with regard to the attribution of, and distribution of such gains to the respective stakeholders.

Fair value through income statement

All other investments are measured at FVTIS.

Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profit, maintaining practical profit rate profile and realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Investments that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTIS.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

BD '000s

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Investment securities (continued)

(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.

(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.

Following Measurement principles are followed:

A. *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.

B. *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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

BD '000s

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Investment securities (continued)

(iii) Measurement (continued)

B. Fair value measurement (continued)

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.

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.

Modification of financing assets

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

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

The above policy is applied for all reporting periods except for contracts that were subject CBB directives on COVID-19 related concessionary measures (refer note 2).

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

(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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

BD '000s

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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) Ijarah assets

Ijarah assets (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 using rates that systematically reduce the cost of the leased assets over the period of the lease in a pattern of economic benefits arising from these assets. The Group assesses at each reporting date whether there is objective evidence that the ijarah assets are impaired. Impairment loss is the amount by which the carrying amount of an asset exceeds its estimated 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.

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 as follows:

Buildings	Up to 25 years
Furniture and fixtures	3 to 5 years
Computers	3 to 5 years
Motor vehicles	3 to 5 years
Hotels	Up to 40 years
Other equipment's	3 to 5 years

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

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

BD '000s

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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;
- Ijarah assets;
- 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 (refer note 37).

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.

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').

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

BD '000s

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment of financial instruments (continued)

i) Exposures subject to credit risk (continued)

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 ijarah assets 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 ijarah assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- 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.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost and ijarah assets 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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

BD '000s

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 allocates 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.

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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

BD '000s

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 ijarah assets (Ijarah Muntahia Bittamleek) are recognised applying the effective rate of return method over the lease term.

Income from sukuk and structured note 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.

Gain on sale of investment in equity securities and structured note is recognised on trade date at the time of derecognition of the investment securities. The gain or loss is the difference between the carrying value on the trade date and the consideration received or receivable.

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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

BD '000s

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Earnings prohibited by Shari'a

The Group is committed to avoid recognising any income generated from non-shari'a compliant sources. Accordingly, all income prohibited by shari'a is credited to a charity account where the Group uses these funds for social welfare 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 31 December 2021

BD '000s

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. An annual contribution is made to the scheme and is recognised as an expense when due.

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 financing from financial institutions

Term financing from financial institutions represents borrowing obtained through murabaha contract recognized on the origination date and carried at amortized cost.

(cc) Onerous contracts

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

(dd) Assets under management

The Group acts as a trustee / manager and in other capacities that result in holding or placing of assets on behalf of a trust or other institution. These assets and income arising thereon are not included in the Group's financial statements as they are not assets of the Group.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

BD '000s

6. CASH AND BANK BALANCES

	31 December 2021	31 December 2020
Cash	3,193	5,031
Balances with banks	50,580	33,280
Balances with the Central Bank:		
- Current account	55,052	29,292
- Reserve account	15,291	15,415
Less: impairment allowance	(1)	(1)
	124,115	83,017

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

7. PLACEMENTS WITH FINANCIAL INSTITUTIONS

	31 December 2021	31 December 2020
Gross Murabaha and Wakala receivable	26,393	17,721
Less: Deferred profits on Murabaha	(1)	-
Less: Impairment allowance	(1)	(1)
	26,391	17,720

The average profit rate on placement with financial institutions for 2021 was 1.12% per annum (31 December 2020: 1.55% per annum).

8. INVESTMENT IN SUKUK

	31 December 2021	31 December 2020
Debt type instruments – at amortized cost		
- Quoted sukuk *		
At 1 January 2021	262,790	195,782
Acquisitions	212,871	170,209
Disposals and redemptions	(148,804)	(103,201)
At 31 December 2021	326,857	262,790
Unamortized premium	(2,409)	(1,251)
Less: Impairment allowance	(602)	(407)
- Unquoted sukuk		
At 1 January 2021	1,317	1,317
Less: Impairment allowance	(1,317)	(1,317)
At 31 December 2021	-	-
	323,846	261,132

* Quoted Sukuk of BD 152,419 thousand (2020: BD 113,952 thousand) are pledged against term financing from financial institutions of BD 71,617 thousand (2020: BD 75,477 thousand) (refer note 18).

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

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9. FINANCING ASSETS

	31 December 2021	31 December 2020
Murabaha	343,706	322,220
Mudharaba	971	1,014
Wakala	90	90
Musharaka	-	104
Istisna	-	1,344
Gross financing assets	344,767	324,772
Less: Impairment allowance	(20,394)	(17,055)
Net financing assets	324,373	307,717

Murabaha financing assets are net of deferred profits of BD 17,391 thousand (2020: BD 18,862 thousand).

The movement on impairment allowances is as follows:

2021	Stage 1	Stage 2	Stage 3	POCI*	Total
At 1 January 2021	7,230	1,934	7,891	-	17,055
Net movement between stages	395	47	(442)	-	-
Net charge	(1,601)	(230)	4,804	612	3,585
Write-off	-	-	(5)	-	(5)
Disposal	-	-	(241)	-	(241)
At 31 December 2021	6,024	1,751	12,007	612	20,394
2020	Stage 1	Stage 2	Stage 3	POCI*	Total
At 1 January 2020	4,581	2,730	30,735	-	38,046
Net movement between stages	85	(1,701)	1,616	-	-
Net charge	2,672	905	1,180	-	4,757
Write back	-	-	(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

* Purchased or originated credit impaired (POCI) assets are initially recognised at their fair values and subsequently remeasured for any change in ECL or expected recoverable amounts. The POCI assets are currently carried at 13.69% (31 December 2020: 16.33%) compared to their original contractual outstanding amounts. On a cumulative basis, the impaired assets (Stage 3 and POCI) are carried at 34.38% (31 December 2020: 50.77%) compared to their original contractual outstanding amounts.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

BD '000s

10. IJARAH ASSETS

	31 December 2021	31 December 2020
Cost		
At 1 January	186,209	168,309
Additions during the year	57,482	51,421
Settlements/adjustments during the year	(38,955)	(33,521)
At 31 December	204,736	186,209
Accumulated depreciation		
At 1 January	42,472	39,212
Charge for year	21,245	17,494
Settlements during the year	(16,687)	(14,234)
At 31 December	47,030	42,472
Less: Impairment allowance	(5,312)	(3,983)
Net book value at 31 December	152,394	139,754

The movement on impairment allowances is as follows:

2021	Stage 1	Stage 2	Stage 3	Total
At 1 January 2021	545	424	3,014	3,983
Net movement between stages	(89)	286	(197)	-
Net charge	(214)	219	1,394	1,399
Disposal	-	-	(70)	(70)
At 31 December 2021	242	929	4,141	5,312
2020	Stage 1	Stage 2	Stage 3	Total
At 1 January 2020	140	376	2,705	3,221
Net movement between stages	231	(673)	442	-
Net charge	174	721	(133)	762
Disposal	-	-	-	-
At 31 December 2020	545	424	3,014	3,983

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

BD '000s

11. INVESTMENT SECURITIES

	31 December 2021	31 December 2020
<i>At fair value through income statement</i>		
- Structured notes		
At 1 January 2021	15,080	15,080
Accrued profit	451	-
At 31 December 2021	15,531	15,080
<i>At fair value through equity</i>		
- unquoted equity securities*		
At 1 January 2021	40,812	43,433
Acquisitions	9,201	8,205
Disposals and redemptions	(34,499)	(11,174)
Net changes in fair value	(161)	348
At 31 December 2021	15,353	40,812
	30,884	55,892

* includes impairment charge for the year of BD Nil thousand (2020: BD 500 thousand) (Refer note 25).

12. ASSETS HELD FOR SALE

GFH Group is carrying out a group restructuring program (the 'program') which involves the spinning off of its infrastructure and real estate assets under a newly established entity "Infracorp" ("the Company"), which will be capitalized with more than US\$1 billion in infrastructure and development assets. Infracorp will specialise in investments focusing on accelerating growth and development of sustainable infrastructure assets and environments across the Gulf and global markets.

Under this program certain real estate and infrastructure assets will be transferred from the group entities, including the Bank, to Infracorp for an in-kind consideration in the form of Sukuk and/or equity shares issued by Infracorp.

In anticipation of this program, the Board of directors of KHCB, in its meeting dated 6 May 2021 approved the consolidation and aggregation of its real estate and infrastructure exposures by offering a structured exit to its asset under management investors through a combination of cash and in-kind consideration.

As of 31 December 2021, the Group has acquired shares in and assets held by various real estate entities under management amounting to BD 22.27 million, which will be part of the assets to be transferred to Infracorp.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

BD '000s

12. ASSETS HELD FOR SALE (continued)

As of 31 December 2021, KHCB Board is committed to a plan for transfer assets amounting to BD 55.62 million to Infracorp under the terms of the program BD 4.5 million to its asset management investors (as in-kind consideration). In addition, the Group has entered into sale contracts for sale of investments in real estate with carrying value of BH 3 million. Accordingly, the following assets have been classified as held-for-sale as at 31 December 2021:

	31 December 2021
Investment securities	34,499
Investment in real estate	12,198
Property and equipment	6,714
Equity accounted investees	8,871
Other assets	821
	63,103

The above transfers are subject to requisite corporate and regulatory approvals and are expected to be concluded within 12 months of the end of the reporting period.

Of the total assets held-for sale BD 976 thousands is attributable to NCI.

13. INVESTMENT IN REAL ESTATE

	31 December 2021	31 December 2020
Development property	71,032	65,522
Investment property	9,887	15,081
Trading properties	-	3,000
Impairment allowance	-	(300)
	80,919	83,303

(i) *Development property*

Development property comprise mainly a property under construction in Bahrain Financial Harbour in the Kingdom of Bahrain acquired from the Parent part of a swap transaction during 2020 (refer note 29).

(ii) *Investment property*

Investment property comprise plots of land in the Kingdom of Bahrain and United Arab Emirates, net of impairment allowance of BD nil thousand (2020: BD 300 thousand). During the year, properties held-in-use with carrying value of BD 4,895 thousand has been reclassified to assets held-for-sale.

The fair value of investment property as of 31 December 2021 was BD 9,761 thousand (31 December 2020: 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. Based on management assessment, there are no indicators of impairment as of year-end; hence, no impairment provision have been considered.

Notes to the Consolidated Financial Statements (continued)

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13. INVESTMENT IN REAL ESTATE (continued)

(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.

The balance of BD 3,000 thousand has been transferred to Assets held-for-sale during the year.

14. EQUITY ACCOUNTED INVESTEEES

	31 December 2021	31 December 2020
At 1 January	31,963	4,524
Additions	5,803	27,759
Derecognition on acquisition of controlling stake	(8,106)	-
Transfer to Assets held-for-sale	(3,259)	-
Share of loss for the year	(1,133)	(320)
At 31 December	25,268	31,963

Name	Country of incorporation	% holding		Nature of business
		2021	2020	
Amlak II Company*	Cayman Islands	61.88%	23.51%	Investment in real estate
Capital Real Estate Projects Company	Kingdom of Bahrain	30.00%	30.00%	Real estate development
NS 12 W.L.L.*	Kingdom of Bahrain	82.52%	28.41%	Investment in real estate
Lagoon Real Estate Development**	Kingdom of Bahrain	22.97%	22.97%	Investment in real estate
Al Areen Hotels W.L.L.	Kingdom of Bahrain	50.00%	50.00%	Hospitality business
Travelex Bahrain W.L.L.	Kingdom of Bahrain	25.00%	-	Exchange Company

* Derecognised from equity accounted investees as the Group gain control of company and consolidated this entity as subsidiary.

** Transferred to assets held for sale.

Notes to the Consolidated Financial Statements (continued)

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15. OTHER ASSETS

	31 December 2021	31 December 2020
Profit accrued on Sukuk	4,293	3,836
Right of use asset	820	-
Prepaid expenses	577	608
Due from investments	249	1,044
Repossessed assets	-	15,708
Receivable from customers	4,564	4,564
Other receivables*	2,689	1,886
	13,192	27,646

* This is net of impairment allowance of BD Nil thousand (2020: BD 1,742 thousand).

During the year, all repossessed assets have been reclassified as held-for-use and transferred to investment in real estate due to change in likelihood of immediate sale of such assets.

16. PROPERTY AND EQUIPMENT

	Land	Furniture and fixtures	Computers	Motor vehicle and Other equipment	Work-in- progress	2021 Total	2020 Total
Cost							
At 1 January	6,714	4,375	5,487	576	194	17,346	17,190
Additions	-	203	342	53	774	1,372	271
Disposals	-	(25)	-	-	(1)	(26)	(114)
Transfer	-	-	82	-	(82)	-	-
Transfer to assets held-for-sale	(6,714)	-	-	-	-	(6,714)	-
At 31 December	-	4,553	5,911	629	885	11,978	17,347
Accumulated Depreciation							
At 1 January	-	4,305	5,049	543	-	9,897	9,440
Charge for year (note 24)	-	53	312	21	-	386	549
Disposals	-	(4)	-	-	-	(4)	(92)
At 31 December	-	4,354	5,361	564	-	10,279	9,897
Net book value							
At 31 December 2021	-	199	550	65	885	1,699	7,450
At 31 December 2020	6,714	70	438	34	194	7,450	

Notes to the Consolidated Financial Statements (continued)

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17. PLACEMENTS FROM NON-FINANCIAL INSTITUTIONS AND INDIVIDUALS

	31 December 2021	31 December 2020
Individuals	116,029	117,608
Non-financial institutions	67,188	96,635
	183,217	214,243

These represent placements in the form of Murabaha contracts and are net of deferred profit of BD 2,273 thousand (2020: BD 5,622 thousand).

18. TERM FINANCING FROM FINANCIAL INSTITUTIONS

Represents term Murabaha facilities of BD 71,617 thousand (2020: BD 75,477 thousand) secured by pledge over sukuk of BD 152,419 thousand (2020: BD 113,952 thousand) (refer note 8). The average rate of borrowings is 2.09% (2020: 3.74%) with an average maturity ranging upto six months.

19. OTHER LIABILITIES

	31 December 2021	31 December 2020
Payable to Investors*	13,597	-
Mudaraba profit accrual	4,898	5,581
Net ijarah liability	806	-
Advance received from customers	556	443
Zakah and charity payable	471	696
Employee related accruals	258	269
Payable for Istisna'a contracts	27	27
Other payables and accrued expenses**	5,016	6,253
	25,629	13,269

* relates to cash settlement with investors on account of restructuring (note 12)

** includes impairment allowance on commitments and financial guarantees of BD 85 thousand (2020: BD 237 thousand)

20. EQUITY OF INVESTMENT ACCOUNT HOLDERS

	31 December 2021	31 December 2020
Placements and borrowings from financial institutions – Mudaraba	545,195	425,349
	545,195	425,349

Notes to the Consolidated Financial Statements (continued)

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20. EQUITY OF INVESTMENT ACCOUNT HOLDERS (continued)

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

	31 December 2021	31 December 2020
Balances with banks	50,580	33,280
CBB reserve account	15,290	15,414
Placements with financial institutions	26,391	17,720
Debt type instruments – sukuk	172,029	261,132
Financing assets	280,905	97,803
	545,195	425,349

As at 31 December 2021, the balance of profit equalisation reserve and investment risk reserve was Nil (2020: 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.

	2021		2020	
	Mudarib share	IAH shares	Mudarib share	IAH shares
1 month Mudharaba *	82.97%	17.03%	87.96%	12.04%
3 months Mudharaba	63.20%	36.80%	75.35%	24.65%
6 months Mudharaba	58.49%	41.51%	71.57%	28.43%
12 months Mudharaba	51.13%	48.87%	62.50%	37.50%
18 months Mudharaba	46.85%	53.15%	60.09%	39.91%
24 months Mudharaba	53.01%	46.99%	67.35%	32.65%
36 months Mudharaba	43.31%	56.69%	55.72%	44.28%

* Includes savings, Al Waffer and Call Mudaraba accounts.

During the year, average mudarib share as a percentage of total income allocated to IAH was 53.73% (2020: 60.72%) as against the average mudarib share contractually agreed with IAH. Hence the Group sacrificed average mudarib fees of 9.97% (2020: 3.17%).

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

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21. SHARE CAPITAL

	31 December 2021	31 December 2020
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 (2020: 892,119,480 shares) of BD 0.100 each	89,212	89,212

In their Extra -ordinary meeting held 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 2021, the Group holds 88,473,159 as treasury shares (2020: 92,048,004 shares).

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

31 December 2021

Categories*	Number of Shares	Number of Shareholders	% of total outstanding shares
Less than 1%	108,434,519	498	12.15%
1% up to less than 5%	79,154,515	5	8.87%
5% up to less than 10% **	88,473,159	1	9.92%
50% and above	616,057,287	1	69.06%
	892,119,480	505	100.00%

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

** Includes treasury shares.

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%
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.

Notes to the Consolidated Financial Statements (continued)

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21. 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 2021

	Nationality	Number of shares	% of total outstanding shares
GFH Financial Group*	Bahrain	616,057,287	69.06%
Khaleeji Commercial Bank B.S.C	Bahrain	88,473,159	9.92%

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

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.

Subsequent to the year end, on 5 January 2022 GFH Financial Group has announced completion of acquisition of KHCB Shares through a buy-back comprising 108,046,105 shares representing 12.11% thereby increasing their shareholding to 81.17%.

22. SUBORDINATED MUDARABA (AT 1)

	31 December 2021	31 December 2020
Subordinated mudaraba (AT 1)	47,222	47,222
	47,222	47,222

The Bank issued a Subordinated Mudaraba (Basel III compliant Additional Tier 1 capital securities) of face value of US\$ 159 million (BD 60 million) at a premium of USD 31.8 million (BD 12 million). Such capital was raised in order to meet minimum regulatory requirements relating to total equity as prescribed by Central Bank of Bahrain. The carrying value is net of issuance costs.

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22. SUBORDINATED MUDARABA (AT 1) (continued)

Summary of key terms and conditions are as follows:

- 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 recognized under the owners' equity in the condensed interim consolidated statement of financial position and the profits paid to rab al-maal (security holder) are accounted for as appropriation of profits.
- Subordinated Mudaraba is invested in a general mudaraba pool of assets on a unrestricted comingled basis.
- Security holder will not have a right to claim the profits and such event will not be considered as event of default.
- In the event of non-viability, the certificates will be converted either in full or in part on a pro-rata basis in accordance with the terms of the certificate which require conversion at the fair value of the Bank's share at the time of such non-viability event.
- The Certificates carry a call option after 5 years from the date of issue.

23. STAFF COST

	2021	2020
Salaries and short-term benefits	4,785	4,943
Social insurance	742	835
Indemnity expenses	69	31
Other staff expenses	59	65
	5,655	5,874

24. OTHER OPERATING EXPENSES

	2021	2020
Professional fees	1,208	743
Distribution channel expenses	916	663
Information technology expenses	635	549
Net ijarah cost (note 10)	600	-
Board expenses	441	216
Depreciation expense	386	549
Advertisement and marketing expenses	258	157
Premises cost	192	773
Communication expenses	134	135
Other operating expenses	866	738
	5,636	4,523

Notes to the Consolidated Financial Statements (continued)

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25. NET IMPAIRMENT CHARGE

	2021	2020
Financing assets (note 9)	3,585	2,711
Ijarah assets (note 10)	1,399	762
Investments in sukuk (note 8)	195	401
Balances and placements with banks and financial institutions	-	(2)
Investment securities (note 11)	-	500
Commitments and financial guarantees (note 19)	(394)	(31)
	4,785	4,341

26. 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 2021, 104,734 shares were held by the Trust (2020: 3,636,464 shares). During the year, 1,995,000 shares (2020: 2,827,275 shares) were awarded to the employees as awards under the terms of the Scheme, which were subject to a three-year deferment period.

During the year, the Group transferred 1,457,931 shares to employees in October 2021 related to the annual vesting of deferred share awards (2020: 896,634 shares) and 4,068,799 shares to employees in November 2021 related to a decision taken by the BNRGC to accelerate the vesting conditions for all unvested deferred share awards pursuant to the rules of the Scheme, associated with the firm intention from GFH Financial Group B.S.C (c) to make an offer to acquire up to 100% of the issued and paid up shares of the Group.

Notes to the Consolidated Financial Statements (continued)

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27. 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 37.

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, during 2020 the Group had introduced deferral of payments without profit for retail and small business customers for an initial period of six months from March 2020 to September 2020 (first deferral). In September 2020, December 2020 and May 2021, the CBB issued another regulatory directive to extend the concessionary measures until end of December 2020 (second deferral), June 2021 (third deferral) and December 2021 (fourth deferral) respectively. The fifth deferral is effective from 1 January 2022 to 30 June 2022.

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.

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27. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

I. Judgements (continued)

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

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

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

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) monetary or non-monetary 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 is based on business model assessment by management 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 37; and
- Key assumptions used in estimating recoverable cash flows

b) Measurement of fair value of unquoted equity investments (level 3) -refer to Note 5 (c) (iii) and Note 36

c) Assessment of impairment of investment in real estate (Note 5(h),5(k)) and Note 13)

28. 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 201.41 million (31 December 2020: BD 267.98 million). During the year, the Group has not charged any management fees (2020: BD Nil) for the management of these assets. The Group has outsourced the day to day management of the assets under management to its Parent.

29. 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.

Details of Directors' interests in the Bank's ordinary shares as at the end of the year were nil (2020: Nil).

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29. RELATED PARTY TRANSACTIONS (continued)

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:

	2021	2020
Board member fees and allowances	468	236
Salaries and other short-term benefits	767	1,452

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

	2021	2020
Balances due to key management as compensation	234	228

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

31 December 2021	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	-	3,227	6,061	-	9,288
Investment securities	-	-	2,284	4,754	7,038
Equity accounted investees	25,828	-	-	-	25,828
Investment in real estate	60,000	-	-	-	60,000
Assets held-for-sale	55,620	-	-	-	55,620
Other assets	117	-	-	30	147
Liabilities					
Placement from financial institutions, Non-FIs and individuals	-	1,666	-	-	1,666
Customers' current accounts	866	340	5,952	24	7,182
Equity of investment account holders	409	102	138,833	292	139,636
Other liabilities	-	-	-	-	-

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29. RELATED PARTY TRANSACTIONS (continued)

31 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
Investment in real estate	60,000	-	-	-	60,000
Assets held-for-sale	-	-	-	-	-
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

During 2020, 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 transfer date.

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
Subordinated 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

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29. RELATED PARTY TRANSACTIONS (continued)

2021	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 ijarah assets	-	1,133	1,143	96	2,372
Income from investment securities	-	-	-	263	263
Share of loss from equity accounted investees	(1,133)	-	-	-	(1,133)
Fees and other income	-	-	-	-	-
Expenses					
Finance expense on placements from financial institutions, non-financial institutions and individuals	-	24	-	-	24
Return to investment account holders	12	1	3,797	7	3,817
Staff cost	-	767	-	-	767
Other expenses	-	468	-	102	570
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 ijarah assets	-	100	987	-	1,087
Income from investment securities	-	-	-	-	-
Share of loss from equity accounted investees	(320)	-	-	-	(320)
Fees and other income	-	-	2	-	2
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

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30. 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	2021	2020
Profit attributable to shareholders of parent for the year	10,853	7,986
Less: Profit distribution on AT 1 Capital	6,000	2,834
Profit attributable to the shareholders of the parent for basic and diluted earnings per share computation for the year	4,853	5,152
Weighted average number of shares outstanding during the year, net of treasury shares (thousand)	803,599	803,874
Basic and diluted earnings per share (in fils)	6.039	6.409

The Group did not have any dilutive instruments as of 31 December 2021 and December 2020.

31. 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.

32. 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 438 thousand (2020: BD 246 thousand) of which BD 395 thousand (2020: 229 thousand) represents the Zakah computed on the statutory reserve and cumulative retained earnings as at 31 December 2021, payable by the Group. The remaining Zakah balance amounting to BD 43 thousand or 0.048 fils per share (2020: BD 16 thousand or 0.018 fils per share) is due and payable by the shareholders. The Group will pay Zakah of BD 4 thousand (2020: BD 2 thousand) on the treasury shares held as of 31 December 2021 based on 0.048 fils per share (2020: 0.018 fils per share).

33. 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, Mudaraba, 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.

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33. SEGMENT REPORTING (continued)

Investments

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 manages 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 35 (b) to the consolidated financial statements.

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 December 2021	Investments	Corporate and Retail Banking	Unallocated	Total
Cash and bank balances	2	124,113	-	124,115
Placements with financial institutions	595	25,796	-	26,391
Investment in sukuk	-	323,846	-	323,846
Financing assets	-	324,373	-	324,373
Ijarah assets	-	152,394	-	152,394
Investment securities	30,884	-	-	30,884
Assets held-for-sale	63,103	-	-	63,103
Investment in real estate	80,919	-	-	80,919
Equity accounted investees	25,268	-	-	25,268
Other assets	241	5,257	7,694	13,192
Property and equipment	-	-	1,699	1,699
Total segment assets	201,012	955,779	9,393	1,166,184
Placements from financial institutions	-	130,199	-	130,199
Placements from non- financial institutions and individuals	-	183,217	-	183,217
Term financing from financial institutions	-	71,617	-	71,617
Customers' current accounts	594	52,342	-	52,936
Other liabilities	15,234	6,470	3,925	25,629
Total segment liabilities	15,828	443,845	3,925	463,598
Equity of investment account holders	-	545,195	-	545,195
Restricted investment accounts	1,516	-	-	1,516

Notes to the Consolidated Financial Statements (continued)

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33. SEGMENT REPORTING (continued)

2021	Investments	Corporate and Retail Banking	Unallocated	Total
Income from financing assets and ijarah assets	-	29,908	-	29,908
Income from placements with financial institutions	4	162	-	166
Income from sukuk	-	20,087	-	20,087
Income from investment securities	580	-	-	580
Share of loss from equity accounted investees	(1,133)	-	-	(1,133)
Fees and other income	35	2,844	-	2,879
Total income before return to investment account holders	(514)	53,001	-	52,487
Less: Return to investment account holders before Bank's share as Mudarib	-	(25,939)	-	(25,939)
Bank's share as a Mudarib	-	13,984	-	13,984
Return to investment account holders	-	(11,955)	-	(11,955)
Less:				
Expense on placements from financial institutions, non-financial institutions and individuals	-	(12,371)	-	(12,371)
Finance expense on term financing from financial institutions	-	(1,272)	-	(1,272)
Total segment income	(514)	27,403	-	26,889
Staff cost	566	2,262	2,827	5,655
Other expenses	177	1,181	4,278	5,636
Total segment expenses	743	3,443	7,105	11,291
Segment results before impairment allowances	(1,257)	23,960	(7,105)	15,598
Net impairment charge	(195)	(4,590)	-	(4,785)
Segment results	(1,452)	19,370	(7,105)	10,813

Notes to the Consolidated Financial Statements (continued)

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33. SEGMENT REPORTING (continued)

31 December 2020	Investments	Corporate and Retail Banking	Unallocated	Total
Cash and bank balances	2	83,015	-	83,017
Placements with financial institutions	902	16,818	-	17,720
Investment in sukuk	-	261,132	-	261,132
Financing assets	-	307,717	-	307,717
Ijarah assets	-	139,754	-	139,754
Investment securities	55,892	-	-	55,892
Investment in real estate	83,303	-	-	83,303
Assets held-for-sale	-	-	-	-
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 financing from financial institutions	-	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)

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33. SEGMENT REPORTING (continued)

2020	Investments	Corporate and Retail Banking	Unallocated	Total
Income from financing assets and ijarah assets	(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
Share of loss from equity accounted investees	(320)	-	-	(320)
Fees and other income	12	2,425	-	2,437
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 financing from financial institutions	-	(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)

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34. MATURITY PROFILE

The maturity profile of placements with and from financial institutions, financing assets, ijarah assets 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 December 2021	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	117,405	2,553	3,638	519	-	124,115
Placements with financial institutions	26,391	-	-	-	-	26,391
Investment in sukuk	267,491	-	56,355	-	-	323,846
Financing assets	103,624	13,200	26,198	113,931	67,420	324,373
Ijarah assets	12,805	5,027	9,966	39,708	84,888	152,394
Investment securities	-	-	15,531	6,699	8,654	30,884
Assets held-for-sale	63,103	-	-	-	-	63,103
Investment in real estate	-	-	-	-	80,919	80,919
Equity accounted investees	-	-	-	-	25,268	25,268
Other assets	1,006	319	19	11,848	-	13,192
Property and equipment	-	-	-	-	1,699	1,699
Total assets	591,825	20,799	111,707	172,705	268,848	1,166,184
Liabilities						
Placements from financial institutions	56,131	67,514	6,554	-	-	130,199
Placements from non-financial institutions and individuals	68,224	48,659	46,400	15,573	4,361	183,217
Term financing from financial institutions	45,138	-	26,479	-	-	71,617
Customers' current account	16,275	5,152	5,595	6,393	19,521	52,936
Other liabilities	14,953	1,404	1,348	7,924	-	25,629
Total liabilities	200,721	122,729	86,376	29,890	23,882	463,598
Equity of investment account holders	122,554	101,525	142,145	88,820	90,151	545,195
Restricted investment accounts	-	-	-	1,516	-	1,516
Commitments and financial guarantees	43	1,247	6,510	37,145	6,079	51,024

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34. MATURITY PROFILE (continued)

31 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
Investment in sukuk	249,716	11,416	-	-	-	261,132
Financing assets	43,397	18,839	37,549	123,057	84,875	307,717
Ijarah assets	5,266	3,724	7,457	32,884	90,423	139,754
Investment securities	-	-	22,622	15,549	17,721	55,892
Assets held-for-sale	-	-	-	-	-	-
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 financing from financial institutions	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)

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

(a) Industry sector

31 December 2021	Banks and financial institutions	Real estate	Others	Total
Assets				
Cash and bank balances	124,115	-	-	124,115
Placements with financial institutions	26,391	-	-	26,391
Investment in sukuk	-	2,262	321,584	323,846
Financing assets	4,583	72,292	247,498	324,373
Ijarah assets	-	128,202	24,192	152,394
Investment securities	15,531	10,598	4,755	30,884
Assets held for sale	-	63,103	-	63,103
Investment in real estate	-	80,919	-	80,919
Equity accounted investees	-	25,268	-	25,268
Other assets	757	5,018	7,417	13,192
Property and equipment	-	-	1,699	1,699
Total assets	171,377	387,662	607,145	1,166,184
Liabilities				
Placements from financial institutions	130,199	-	-	130,199
Placements from non-financial institutions and individuals	2,702	298	180,217	183,217
Term financing from financial institutions	71,617	-	-	71,617
Customers' current accounts	293	6,411	46,232	52,936
Other liabilities	-	396	26,161	26,557
Total liabilities	204,811	7,105	252,610	464,526
Equity of investment account holders	116,392	22,797	406,006	545,195
Restricted investment accounts	-	1,516	-	1,516
Commitments and financial guarantees	-	18,328	32,696	51,024

Notes to the Consolidated Financial Statements (continued)

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35. CONCENTRATION OF ASSETS, LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND RESTRICTED INVESTMENT ACCOUNTS (continued)

(a) Industry sector (continued)

31 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
Investment in sukuk	1,137	21,177	238,818	261,132
Financing assets	4,420	89,532	213,765	307,717
Ijarah assets	-	127,333	12,421	139,754
Investment securities	22,785	28,952	4,155	55,892
Assets held-for-sale	-	-	-	-
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 financing from financial institutions	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)

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35. CONCENTRATION OF ASSETS, LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND RESTRICTED INVESTMENT ACCOUNTS (continued)

(b) Geographic sector

31 December 2021	GCC countries	Europe	America	Asia	Australia	Total
Assets						
Cash and bank balances	111,341	2,303	10,456	15	-	124,115
Placements with financial institutions	26,391	-	-	-	-	26,391
Investment in sukuk	323,846	-	-	-	-	323,846
Financing assets	318,364	6,009	-	-	-	324,373
Ijarah assets	152,394	-	-	-	-	152,394
Investment securities	10,599	15,531	-	-	4,754	30,884
Assets held-for-sale	39,229	-	-	23,874	-	63,103
Investment in real estate	80,919	-	-	-	-	80,919
Equity accounted investees	25,268	-	-	-	-	25,268
Other assets	13,163	15	-	13	1	13,192
Property and equipment	1,699	-	-	-	-	1,699
Total assets	1,103,213	23,858	10,456	23,902	4,755	1,166,184
Liabilities						
Placements from financial institutions	130,199	-	-	-	-	130,199
Placements from non-financial institutions and individuals	183,132	-	-	85	-	183,217
Term financing from financial institutions	44,994	26,623	-	-	-	71,617
Customers' current accounts	51,375	566	-	995	-	52,936
Other liabilities	26,557	-	-	-	-	26,557
Total liabilities	436,257	27,189	-	1,080	-	464,526
Equity of investment account holders	536,893	42	1	8,259	-	545,195
Restricted investment accounts	1,516	-	-	-	-	1,516
Commitments and financial guarantee	51,024	-	-	-	-	51,024

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)

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35. CONCENTRATION OF ASSETS, LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND RESTRICTED INVESTMENT ACCOUNTS (continued)

(b) Geographic sector (continued)

31 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
Investment in sukuk	261,132	-	-	-	-	261,132
Financing assets	305,606	-	-	2,111	-	307,717
Ijarah assets	139,626	-	-	128	-	139,754
Investment securities	22,275	15,080	-	14,383	4,154	55,892
Assets held-for-sale	-	-	-	-	-	-
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 financing from financial institutions	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

Notes to the Consolidated Financial Statements (continued)

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36. 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 324,448 thousand (31 December 2020: BD 261,539 thousand) is BD 333,124 thousand as at 31 December 2021 (31 December 2020: BD 275,366 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 December 2021	Level 1	Level 2	Level 3	Total
Structured notes at fair value through income statement	-	15,531	-	15,531
Unquoted equity type securities carried at fair value through equity	-	-	15,353	15,353
	-	15,531	15,353	30,884
31 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

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

	2021	2020
At 1 January	40,812	11,174
Reclassification due to FAS 33 implementation	-	32,815
Fair value loss in income statement	-	(556)
Fair value change in equity	(161)	348
Purchases	10,084	8,205
Settlements	(884)	(11,174)
Transfer to assets held-for-sale	(34,498)	-
At 31 December	15,353	40,812

Notes to the Consolidated Financial Statements (continued)

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36. FAIR VALUE (continued)

b) Fair value hierarchy (continued)

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

31 December 2021

Valuation technique used	Key unobservable inputs	Fair value at 31 December 2021	Reasonable possible shift +/- (in average input)	Increase / (decrease) in valuation
Market multiples approach	Enterprise value to EBITDA	2,817	+/- 5%	4 / (4)
Market multiples approach	Price to book value	3,959	+/- 5%	228 / (228)
Market multiples approach	Price to total assets	1,142	+/- 5%	32 / (32)
Discounted cash flow	Cost of equity and terminal growth rate	778	+/- 5%	27 / (27)
		8,696		

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		

37. 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.

Notes to the Consolidated Financial Statements (continued)

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37. FINANCIAL RISK MANAGEMENT (continued)

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, ijarah assets, 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.

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. The CBB subsequently announced second, third, fourth and fifth deferrals of instalments of financing. The fifth deferrals is effective for a period of six months till 30 June 2022. However, customers were 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 considered impact of COVID-19 in the inputs and assumptions for computation of ECL (refer note 27).

Notes to the Consolidated Financial Statements (continued)

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37. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

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.
- 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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

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37. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

- 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)

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37. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Exposures subject to credit risk

31 December 2021	Stage 1	Stage 2	Stage 3*	Total
Financing facilities				
Grade 8 -10 Impaired	-	-	30,580**	30,580
Past due but not impaired				
Grade 1-6 Low-Fair Risk	6,265	7,281	-	13,546
Grade 7 Watch list	7	2,841	-	2,848
Past due comprises:				
Up to 30 days	5,772	9,987	-	15,759
30-60 days	106	-	-	106
60-90 days	394	135	-	529
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	246,375	25,087	-	271,462
Grade 7 Watch list	2,000	24,331	-	26,331
Gross carrying amount	254,647	59,540	30,580	344,767
Less: expected credit losses	6,024	1,751	12,619	20,394
Net carrying amount	248,623	57,789	17,961	324,373
Ijarah assets				
Grade 8 -10 Impaired	-	-	12,812	12,812
Past due but not impaired				
Grade 1-6 Low-Fair Risk	6,126	-	-	6,126
Grade 7 Watch list	276	281	-	557
Past due comprises:				
Up to 30 days	3,100	-	-	3,100
30-60 days	717	24	-	741
60-90 days	2,585	257	-	2,842
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	102,968	24,606	-	127,574
Grade 7 Watch list	245	10,392	-	10,637
Gross carrying amount	109,615	35,279	12,812***	157,706
Less: expected credit losses	242	929	4,141	5,312
Net carrying amount	109,373	34,350	8,671	152,394

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

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37. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Exposures subject to credit risk (continued)

31 December 2021	Stage 1	Stage 2	Stage 3	Total
Investment in Sukuk				
Grade 8 -10 Impaired	-	-	1,317	1,317
Grade 1-6 Low-Fair Risk	324,448	-	-	324,448
Gross carrying amount	324,448	-	1,317	325,765
Less: expected credit losses	602	-	1,317	1,919
Net carrying amount	323,846	-	-	323,846
Balances with banks and placements				
Grade 1-6 Low-Fair Risk	147,313	-	-	147,313
Gross carrying amount	147,313	-	-	147,313
Less: expected credit losses	2	-	-	2
Net carrying amount	147,311	-	-	147,311
Commitments and financial guarantees				
Grade 8 -10 Impaired	-	-	6	6
Grade 1-6 Low-Fair Risk	44,788	6,221	-	51,009
Grade 7 Watch list	-	9	-	9
Gross carrying amount	44,788	6,230	6	51,024
Less: expected credit losses	79	-	6	85
Net carrying amount	44,709	6,230	-	50,939
Total net carrying amount	873,862	98,369	26,632	998,863

* Includes facilities under cooling off period of BD 20,729 thousand.

** includes BD 6,112 thousand of purchased or originated credit impaired assets (POCI).

*** includes BD 612 thousand of ECL on POCI assets.

Notes to the Consolidated Financial Statements (continued)

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37. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Exposures subject to credit risk (continued)

31 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
Ijarah assets				
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)

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BD '000s

37. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Exposures subject to credit risk (continued)

31 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	2	-	-	2
Net carrying amount	95,704	-	-	95,704
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	744,033	56,675	44,931	845,639

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

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

Significant increase in credit risk

When determining whether the risk of default on a financial instrument and ijarah assets 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:

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

Notes to the Consolidated Financial Statements (continued)

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37. 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)

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37. 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 2021, 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.

Notes to the Consolidated Financial Statements (continued)

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BD '000s

37. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Incorporation of forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. 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.

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 2021 included the key indicators for the selected countries such as the unemployment rates, profit rates and the GDP growth.

Modified financial assets and ijarah assets

The contractual terms of a financing asset and ijarah assets 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 2021, 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 31 December 2021

BD '000s

37. 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)

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37. 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 2021	8,339	2,364	14,039	24,742
Transfer to 12-month ECL	1,324	(668)	(656)	-
Transfer to lifetime ECL non-credit-impaired	(858)	1,197	(339)	-
Transfer to lifetime ECL credit-impaired	(164)	(193)	357	-
Net transfers	302	336	(638)	-
Net re-measurement of loss allowance	(1,692)	(20)	6,497	4,785
Recoveries / write backs	-	-	-	-
Write-offs	-	-	(5)	(5)
Settlements	-	-	(1,810)	(1,810)
Balance at 31 December 2021	6,949	2,680	18,083	27,712

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 2021
Cash and balances with banks (note 6)	1	-	-	1
Placements with financial institutions (note 7)	1	-	-	1
Investment in sukuk (note 8)	602	-	1,317	1,919
Financing assets (note 9)	6,024	1,751	12,619	20,394
Ijarah assets (note 10)	242	929	4,141	5,312
Commitments and financial Guarantees (note 19)	79	-	6	85
Other assets	-	-	-	-
	6,949	2,680	18,083	27,712

Notes to the Consolidated Financial Statements (continued)

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37. 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	4,911	3,123	36,574	44,608
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	8,339	2,364	14,039	24,742

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 2020
Cash and balances with banks (note 6)	1	-	-	1
Placements with financial institutions (note 7)	1	-	-	1
Investment in sukuk (note 8)	407	-	1,317	1,724
Financing assets (note 9)	7,230	1,934	7,891	17,055
Ijarah assets (note 10)	545	424	3,014	3,983
Commitments and financial Guarantees (note 19)	155	6	76	237
Other assets	-	-	1,741	1,741
	8,339	2,364	14,039	24,742

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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

BD '000s

37. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

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.

Renegotiated facilities

During the year, facilities of BD 19,205 thousands (2020: BD 19,676 thousand) were renegotiated, out of which BD 18,072 thousand (2020: BD 6,056 thousand) are classified as neither past due nor impaired as of 31 December 2021. 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 40,900 thousand (2020: BD 83,612 thousand) only instalments of BD 18,307 thousand (2020: BD 42,555 thousand) are past due as at 31 December 2021.

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 5 thousand (2020: BD 11,010 thousand) which were fully impaired. The Group has recovered BD 723 thousand from a financing facility written off in previous years (2020: 628 thousand).

Collaterals

The Group holds collateral against financing assets and receivables from ijarah assets 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)

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37. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Collaterals (continued)

	As at 31 December 2021			As at 31 December 2020		
	Financing assets	Ijarah assets	Total	Financing assets	Ijarah assets	Total
Against impaired						
Property	8,081	8,645	16,726	17,018	11,838	28,856
Other	1,023	-	1,023	1,162	-	1,162
Against past due but not impaired						
Property	14,001	6,423	20,424	23,369	22,957	46,326
Other	180	-	180	628	-	628
Against neither past due nor impaired						
Property	177,378	137,463	314,841	140,863	105,173	246,036
Other	20,000	-	20,000	17,337	-	17,337
Total	220,663	152,531	373,194	200,337	139,968	340,345

The average collateral coverage ratio on secured facilities is 148.99% at 31 December 2021 (31 December 2020: 149.71%).

For analysis of concentration of total assets and liabilities refer note 34.

Further, for financing assets and ijarah assets, the Group monitors concentrations of credit risk by sector and by geographic location.

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

Concentration by Sector	As at 31 December 2021			As at 31 December 2020		
	Financing assets	Ijarah assets	Total	Financing assets	Ijarah assets	Total
Banking and finance	4,582	-	4,582	4,420	-	4,420
Real estate	71,434	128,202	199,636	89,532	127,333	216,865
Construction	54,180	-	54,180	56,623	-	56,623
Trading	51,447	-	51,447	48,951	-	48,951
Manufacturing	13,543	-	13,543	14,617	-	14,617
Consumer	43,929	-	43,929	43,144	-	43,144
Others	85,258	24,192	109,450	50,430	12,421	62,851
Total carrying amount	324,373	152,394	476,767	307,717	139,754	447,471

Notes to the Consolidated Financial Statements (continued)

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37. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

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.

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%. These concessionary measures continue to be effective until 30 June 2022.

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 2021 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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

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37. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY RISK (continued)

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 financing from financial institutions 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:

	2021 %	2020 %
At 31 December	46.1%	35.7%
Average for the period	42.3%	36.4%
Maximum for the period	46.1%	39.9%
Minimum for the period	38.8%	33.6%

For maturity profile of assets and liabilities refer note 34.

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 2021, the Bank had LCR ratio of 177.58%.

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 2021, the Bank had NSFR ratio of 105.28%.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

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37. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY RISK (continued)

The Consolidated NSFR calculated as per the requirements of the CBB rulebook, as of 31 December 2021 is as follows:

	Unweighted values (i.e. before applying relevant factors)				Total weighted value
	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	158,107	-	-	9,627	167,734
Other Capital Instruments					
Retail deposits and deposits from small business customers:					
Stable deposits	-	68,722	9,797	1,037	75,630
Less Stable deposits	-	187,257	55,678	3,440	222,082
Wholesale funding:					
Operational deposits					
Other wholesale funding	-	580,012	52,547	25,589	179,209
Other liabilities:					
NSFR derivative liabilities					
All other liabilities not included in the above categories	-	25,844	-	-	-
Total ASF	158,107	861,835	118,022	39,693	644,655
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	360,333	-	-	-	17,733
Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions	-	76,971	-	-	11,546
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	101,368	28,532	251,598	278,808
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	9,345	6,074
Performing residential mortgages With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	68,238	44,355
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	115,189	35,386	-	2,262	134,805
All other assets not included in the above categories	116,431	-	-	-	116,431
OBS items	51,024	-	-	-	2,551
Total RSF	642,977	213,725	28,532	331,443	612,303
NSFR%					105.28%

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

BD '000s

37. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY RISK (continued)

The Consolidated NSFR calculated as per the requirements of the CBB rulebook, as of 31 December 2020 is as follows:

	Unweighted values (i.e. before applying relevant factors)				Total weighted value
	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	153,561	-	-	8,980	162,541
Less Stable deposits	-	174,719	70,275	44,572	265,067
Wholesale funding:					
Operational deposits	-	-	-	-	-
Other wholesale funding	-	497,624	42,200	20,870	205,322
All other liabilities not included in the above categories	-	12,133	-	-	-
Total ASF	153,561	684,476	112,475	74,422	632,930
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	273,568	-	-	-	15,341
Performing financing assets and loans / securities					
Performing loan to financial institutions secured by level 1 HQLA	-	51,001	-	-	7,650
Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions	-	67,044	32,874	318,236	320,459
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	8,326	5,412
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	139,751	32,205	-	5,501	160,530
All other assets not included in the above categories	99,149	-	-	-	99,149
OBS items	41,570	-	-	-	2,078
Total RSF	554,038	150,250	32,874	332,063	610,619
NSFR%					103.65%

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

BD '000s

37. FINANCIAL RISK MANAGEMENT (continued)

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 2021 is as follows:

31 December 2021	Up to 3 months	3 - 6 months	6 months - 1 year	1 - 3 years	More than 3 years	Total
Assets						
Placements with financial institutions	26,391	-	-	-	-	26,391
Investment in sukuk	13,067	10,660	3,792	25,523	270,804	323,846
Financing assets	49,835	3,038	4,829	43,423	223,248	324,373
Ijarah assets	13	13	32	3,439	148,897	152,394
Total profit rate sensitive assets	89,306	13,711	8,653	72,385	642,949	827,004
Liabilities and investment accounts						
Placements from financial institutions	56,130	67,514	6,555	-	-	130,199
Placements from non-financial institutions and individuals	100,661	26,547	52,844	3,165	-	183,217
Term financing from financial institutions	45,138	-	26,479	-	-	71,617
Customers' current accounts	1,554	-	-	-	-	1,554
Equity of investments account holders	401,690	56,571	57,749	29,185	-	545,195
Total profit rate sensitive liabilities and investment accounts	605,173	150,632	143,627	32,350	-	931,782
Profit rate gap	(515,867)	(136,921)	(134,974)	40,035	642,949	(104,778)
Cumulative profit rate gap	(515,867)	(652,788)	(787,762)	(747,727)	(104,778)	

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

BD '000s

37. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK (continued)

Exposure to profit rate risk–non–trading portfolios (continued)

31 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
Investment in sukuk	2,147	536	16,556	6,800	235,093	261,132
Financing assets	49,758	13,386	16,998	48,964	178,611	307,717
ljarah assets	31	36	15	2,576	137,096	139,754
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 financing from financial institutions	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)
Cumulative profit rate gap	(250,797)	(353,526)	(439,846)	(618,204)	(69,479)	

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 31 December 2021	± 1,047	± 523
At 31 December 2020	± 690	± 345

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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

BD '000s

37. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK (continued)

Exposure to profit rate risk–non–trading portfolios (continued)

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

The Assets and liabilities committee monitors and manages the Group's transition to alternative rates. The committee evaluates the extent to which contracts reference IBOR cash flows, whether such contracts will need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties. The committee reports to the Group's board of directors quarterly and collaborates with other business functions as needed. It provides periodic reports to management of profit rate risk and risks arising from IBOR reform.

As of 31 December 2021, the Group did not have any outstanding contracts linked to benchmark rates and it continues to enhance its systems and processes to cope with the change in benchmark rates.

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.

	2021 BHD Equivalent	2020 BHD Equivalent
US Dollars*	78,780	103,734
Other GCC Currencies *	(87,168)	(39,435)
Euros	(548)	(1,079)
Australian Dollars	4,803	5,100
Kuwaiti Dinars	3,352	3,158
Sterling Pounds	(369)	(433)
Indian Rupee	18	13

(*) 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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

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37. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK (continued)

Exposure to foreign exchange risk (continued)

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:

	2021 BHD Equivalent	2020 BHD Equivalent
Euros	± 27	±54
Australian Dollars	± 240	±255
Kuwaiti Dinars	± 168	±158
Sterling Pounds	±18	±22
Indian Rupees	±1	±1

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 27 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 2021, the Group did not have any significant issues relating to operational risks.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

BD '000s

37. FINANCIAL RISK MANAGEMENT (continued)

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.

- *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 2021, the Group has made regulatory adjustments of BD 11,926 thousand (2020: BD 11,859 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 combine 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 31 December 2021

BD '000s

37. FINANCIAL RISK MANAGEMENT (continued)

CAPITAL MANAGEMENT (continued)

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

	31 December 2021	31 December 2020
Total risk weighted exposure	858,942	791,271
Tier 1 capital:		
- CET 1 capital prior to regulatory adjustments	120,967	116,422
- Less: regulatory adjustments	(11,926)	(11,859)
CET 1 after regulatory adjustments	109,041	104,563
AT 1	47,222	47,222
Tier 2 capital:	9,627	8,940
Total regulatory capital	165,890	160,725
Total regulatory capital expressed as a percentage of total risk weighted assets	19.31%	20.31%
Liquidity coverage ratio	177.58%	198.28%
Net stable funding ratio	105.28%	103.65%
Leverage ratio	19.38%	20.84%

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.

38. COMMITMENTS AND CONTINGENCIES

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

	2021	2020
Undrawn commitments to extend finance *	35,946	31,389
Financial guarantees	15,078	10,180
Legal contingencies	-	19,000
	51,024	60,569

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

Impairment allowance of BD 85 thousand (2020: BD 236 thousand) has been provided on account of the credit risk on these for commitments and contingent liabilities.

Notes to the Consolidated Financial Statements (continued)

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38. COMMITMENTS AND CONTINGENCIES (continued)

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 2021 due to the performance of any of its projects.

Litigations and claims

In the normal course of business, legal cases are filed by the Bank against its customers and against the Bank by its customers or investors. The Group's legal department engages with in-house legal counsel and external legal counsel depending on the nature of the cases. A periodic assessment is carried out to determine the likely outcome of these legal cases and is reported to the senior management and Board of directors.

39. SOCIAL RESPONSIBILITY

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

40. 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.

(The attached information does not form part of the consolidated financial statements)

Supplementary Disclosure

For the year ended 31 December 2021

BD '000s

UNAUDITED SUPPLEMENTARY DISCLOSURE TO THE CONSOLIDATED FINANCIAL STATEMENTS

On 11 March 2020, the Coronavirus (COVID-19) outbreak was declared, a pandemic by the World Health Organization (WHO) and has rapidly evolved globally. This has resulted in a global slowdown with uncertainties in the economic environment. This included disruption to capital markets, deteriorating credit markets and liquidity concerns. Authorities have taken various measures to contain the spread including implementation of travel restrictions and quarantine measures. The pandemic as well as the resulting measures and policies have had some impact on the Group. The Group is actively monitoring the COVID-19 situation, and in response to this outbreak, has activated its business continuity plan and various other risk management practices to manage the potential business disruption on its operations and financial performance.

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

- Payments holiday for 6 months to eligible customers starting from and including 1 March 2020;
- Concessionary repo to eligible banks at zero percent;
- Reduction of cash reserve ratio from 5% to 3%;
- Reductions of liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) from 100% to 80%;
- Aggregate of modification loss and incremental expected credit losses (ECL) provisions for stage 1 and stage 2 from March to December 2020 to be added to Tier 1 capital for two years ending 31 December 2020 and 31 December 2021. And to deduct this amount proportionally from Tier 1 capital on an annual basis for three years ending December 2022, 31 December 2023 and 31 December 2024.
- The CBB subsequently announced second and third deferrals of instalments of financing effective September 2020 for a period of four months, and January 2021 for a period of six months. These deferrals allowed the Banks to charge profit, and as such, did not result any additional modification losses to the Group;

The aforementioned measures have resulted in the following effects to the Group:

- The CBB mandated 6-month payment holiday requires impacted banks to recognize a one-off modification loss directly in equity. The modification loss has been calculated as the difference between the net present value of the modified cash flows calculated using the original effective profit rate and the carrying value of the financial assets on the date of modification.
- The Government of Kingdom of Bahrain has announced various economic stimulus programmes ("Packages") to support businesses in these challenging times. The Group received regulatory directive financial assistance representing specified reimbursement of a portion of staff costs, waive of fees, levies and utility charges and zero cost funding received from the Government and/or regulators, in response to its COVID-19 support measures. This has been recognized directly in the Group's equity.
- The mandated 6 months payments holiday included the requirement to suspend minimum payments and service fees and outstanding credit card balances, this resulted in a significant decline in the Group's fees income.
- The Group continues to meet the regulatory requirement of CAR, LCR and NSFR.
- The strain caused by COVID-19 on the local economy resulted in a slow-down in the booking of new financing assets by the Group. During year ended 31 December 2021, financing assets bookings were 19.43% lower than the same period of the previous year.

Supplementary Disclosure (continued)

For the year ended 31 December 2021

BD '000s

UNAUDITED SUPPLEMENTARY DISCLOSURE TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- Decreased consumer spending caused by the economic slow-down in the booking of new financing assets by the Bank, whereas, deposit balances decreased compared to the same period of the previous year. These effects partly alleviated the liquidity stress faced by the Group due to the mandated 6 months payments holiday.
- The stressed economic situation resulted in the Bank recognizing incremental ECL on its exposure.

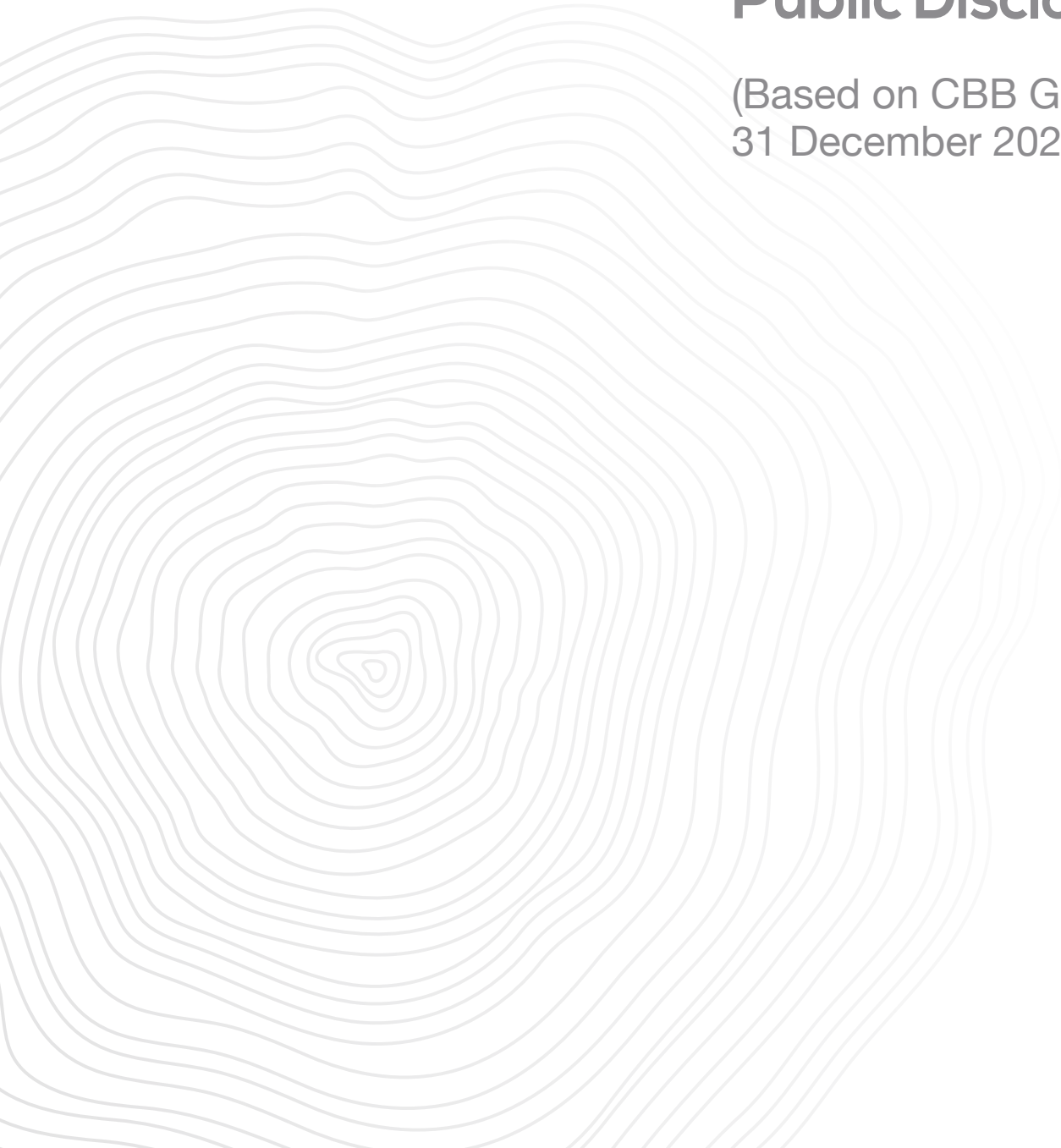
A summary of the financial impact of the impact of the above effects is as follows:

	Net Impact on the Group's consolidated income statement	Net Impact on the Group's consolidated financial position	Net Impact on the Group's consolidated owners' equity
Average reduction of cash reserve	-	9,946	-
Concessionary repo at 0%	(278)	48,888	278
Modification loss	-	(9,452)	(9,452)
Modification loss amortization	9,452	9,452	-
Government grants	-	-	791
Credit card income	(313)	-	-
ECL attributable to COVID-19	(2,700)	(2,700)	-
	6,161	56,134	(8,383)

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

Public Disclosure

(Based on CBB Guidelines)
31 December 2021



Public Disclosure

As at 31 December 2021

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 2021 and should be read in conjunction with the consolidated financial statements for the year ended 31 December 2021 and other sections of the annual report.

Public Disclosure (continued)

As at 31 December 2021

BD '000s

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 2021, presented in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") as modified by CBB. 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 2021 unless otherwise stated.

Khaleeji Commercial Bank BSC ("the Bank" or "KHCB") 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 2021, Bank's CET1, AT1 and total adequacy ratios were 12.69%, 18.19% and 19.31% respectively.

1 GROUP STRUCTURE

The Bank operates under a retail banking license granted by the CBB on 20 October 2003. The Bank has 8 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.

2 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, optimizing 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.

The day to day risk management functions are performed by the Risk Management Department 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.

Public Disclosure (continued)

As at 31 December 2021

BD '000s

2 THE RISK MANAGEMENT FUNCTION (continued)

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.

3 CAPITAL MANAGEMENT & CAPITAL ADEQUACY RATIO

3.1 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 recognizes 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.

3.2 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 Disclosure (continued)

As at 31 December 2021

BD '000s

3 CAPITAL MANAGEMENT & CAPITAL ADEQUACY RATIO (continued)

3.3 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	124,115	124,114	
Of which ecl (stage 1&2)	(1)	-	a
Of which cash and bank balances to subsidiary (commercial entity)	2	-	
Placements with financial institutions	26,391	26,392	
Of which ecl (stage 1&2)	(1)	-	b
Financing assets	324,373	332,148	
Of which ecl (stage 1&2)	(7,775)	-	c
Of which financing to subsidiary (commercial entity)	-	-	
Investment in sukuk	323,846	324,448	
Of which ecl (stage 1&2)	(602)	-	d
Ijarah assets	152,394	153,565	
Of which ecl (stage 1&2)	(1,171)	-	e
Assets held-for-sale	63,103	57,490	
Of which assets held-for-sale of subsidiary (commercial entity)	5,613	-	
Investment securities	30,884	82,779	
Of which investment securities to subsidiary (commercial entity)	(51,895)	-	
Of which related to insignificant investments in financial entities	-	-	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	30,884	82,779	
Investment in real estate	80,919	17,358	
Of which investment in real estate of subsidiary (commercial entity)	63,561		
Equity accounted investees	25,268	32,409	
Of which equity accounted investees of subsidiary (commercial entity)	(7,141)		
Other assets	13,192	13,252	
Of which receivable from subsidiary (commercial entity)	(60)		
Property and equipment	1,699	1,699	
Total assets	1,166,184	1,165,654	

Public Disclosure (continued)

As at 31 December 2021

BD '000s

3 CAPITAL MANAGEMENT & CAPITAL ADEQUACY RATIO (continued)

3.3 Statement of Financial position under the regulatory scope of consolidation (continued)

	Statement of Financial position as in published financial statements	Statement of Financial position as per regulatory reporting	Reference
Liabilities			
Placements from financial institutions	130,199	130,199	
Placements from non-financial institutions and individuals	183,217	183,217	
Term borrowing	71,617	71,617	
Customers' current accounts	52,936	53,840	
Of which account of subsidiary (commercial entity)	(904)	-	
Other liabilities	25,629	25,765	
Of which ecl (stage 1&2)	79	-	h
Of which payables of subsidiary (commercial entity)	(215)	-	
Total liabilities	463,598	464,638	
Equity of investment account holders			
	545,195	545,207	
Of which accounts of subsidiary (commercial entity)	(12)		
Owners' equity			
Share capital	89,212	89,212	i
Subordinated mudaraba (at 1)	47,222	47,222	
Statutory reserve	10,110	10,110	j
Treasury shares	(11,926)	(11,926)	k
Investment fair value reserve	187	187	l
Retained earnings before modification loss	11,493	21,457	m
Less: modification loss net of government grant and ecl add back	-	(10,082)	
Retained earnings	11,493	11,375	
Of which retained earnings of subsidiary (commercial entity)	118	-	
Total equity attributable to shareholders of the parent	146,298	146,180	
Ecl (stage 1&2)	-	9,629	a+b+c+d+e-h
Non-controlling interest	11,093	-	
Total liabilities, equity of investment account holders and owners' equity	1,166,184	1,165,654	

Public Disclosure (continued)

As at 31 December 2021

BD '000s

3 CAPITAL MANAGEMENT & CAPITAL ADEQUACY RATIO (continued)

3.4 Composition of Capital as at 31 December 2021

Source based on reference letters of the statement of financial position under the regulatory scope of consolidation

Composition of Capital as at 31 December 2021

Common Equity Tier 1 capital: instruments and reserves			
1.	Directly issued qualifying common share capital plus related stock surplus	99,509	i+j+l
2.	Retained earnings	21,457	m
3.	Accumulated other comprehensive income (and other reserves)	-	
4.	<i>Not applicable</i>		
5.	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	
6.	Common Equity Tier 1 capital before regulatory adjustments	120,966	
Common Equity Tier 1 capital: regulatory adjustments			
7.	Prudential valuation adjustments	-	
8.	Goodwill (net of related tax liability)	-	
9.	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-	
10.	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
11.	Cash-flow hedge reserve	-	
12.	Shortfall of provisions to expected losses	-	
13.	Securitization gain on sale (as set out in paragraph 562 of Basel II framework)	-	
14.	Not applicable		
15.	Defined-benefit pension fund net assets	-	
16.	Investments in own shares	(11,926)	k
17.	Reciprocal cross-holdings in common equity	-	
18.	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)	-	f
19.	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
20.	Mortgage servicing rights (amount above 10% threshold)	-	
21.	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
22.	Amount exceeding the 15% threshold	-	
23.	of which: significant investments in the common stock of financials	-	
24.	of which: mortgage servicing rights	-	
25.	of which: deferred tax assets arising from temporary differences	-	
26.	CBB specific regulatory adjustments	-	
27.	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28.	Total regulatory adjustments to Common equity Tier 1	(11,926)	
29.	Common Equity Tier 1 capital (CET1)	109,040	

Public Disclosure (continued)

As at 31 December 2021

BD '000s

3 CAPITAL MANAGEMENT & CAPITAL ADEQUACY RATIO (continued)

3.4 Composition of Capital as at 31 December 2021 (continued)

Source based on
reference letters of
the statement of
financial position
under the regulatory
scope of consolidation

Composition of Capital as at 31 December 2021

Additional Tier 1 capital: instruments		
30.	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	47,222
31.	of which: classified as equity under applicable accounting standards	47,222
32.	of which: classified as liabilities under applicable accounting standards	-
33.	<i>Directly issued capital instruments subject to phase out from Additional Tier 1</i>	-
	Additional Tier 1 instruments (and CET1 instruments not included in row 5)	
34.	issued by subsidiaries and held by third parties (amount allowed in group AT1)	-
35.	<i>of which: instruments issued by subsidiaries subject to phase out</i>	-
36.	Additional Tier 1 capital before regulatory adjustments	47,222
Additional Tier 1 capital: regulatory adjustments		
37.	Investments in own Additional Tier 1 instruments	-
38.	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)	
39.		-
	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	
40.		-
41.	CBB specific regulatory adjustments	-
	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	
42.		-
43.	Total regulatory adjustments to Additional Tier 1 capital	-
44.	Additional Tier 1 capital (AT1)	47,222
45.	Tier 1 capital (T1 = CET1 + AT1)	156,262
Tier 2 capital: instruments and provisions		
46.	Directly issued qualifying Tier 2 instruments plus related stock surplus	-
47.	<i>Directly issued capital instruments subject to phase out from Tier 2</i>	-
	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34)	
48.	issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-
49.	<i>of which: instruments issued by subsidiaries subject to phase out</i>	-
50.	Provisions	9,629
51.	Tier 2 capital before regulatory adjustments	9,629

Public Disclosure (continued)

As at 31 December 2021

BD '000s

3 CAPITAL MANAGEMENT & CAPITAL ADEQUACY RATIO (continued)

3.4 Composition of Capital as at 31 December 2021 (continued)

Source based on
reference letters of
the statement of
financial position
under the regulatory
scope of consolidation

Composition of Capital as at 31 December 2021

Tier 2 capital: regulatory adjustments	
52.	Investments in own Tier 2 instruments -
53.	Reciprocal cross-holdings in Tier 2 instruments -
54.	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) -
55.	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions) -
56.	National specific regulatory adjustments -
57.	Total regulatory adjustments to Tier 2 capital -
58.	Tier 2 capital (T2) 9,629
59.	Total capital (TC = T1 + T2) 165,891
60.	Total risk weighted assets 858,942
Capital ratios and buffers	
61.	Common Equity Tier 1 (as a percentage of risk weighted assets) 12.69%
62.	Tier 1 (as a percentage of risk weighted assets) 18.19%
63.	Total capital (as a percentage of risk weighted assets) 19.31%
64.	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%
65.	of which: capital conservation buffer requirement 2.5%
66.	of which: bank specific countercyclical buffer requirement N/A
67.	of which: D-SIB buffer requirement N/A
68.	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets) 12.69%
National minima including CCB (where different from Basel III)	
69.	CBB Common Equity Tier 1 minimum ratio 9.0%
70.	CBB Tier 1 minimum ratio 10.5%
71.	CBB total capital minimum ratio 12.5%
Amounts below the thresholds for deduction (before risk weighting)	
72.	Non-significant investments in the capital of other financials - f
73.	Significant investments in the common stock of financials -
74.	Mortgage servicing rights (net of related tax liability) -
75.	Deferred tax assets arising from temporary differences (net of related tax liability) -

Public Disclosure (continued)

As at 31 December 2021

BD '000s

3 CAPITAL MANAGEMENT & CAPITAL ADEQUACY RATIO (continued)

3.4 Composition of Capital as at 31 December 2021 (continued)

Source based on
reference letters of
the statement of
financial position
under the regulatory
scope of consolidation

Composition of Capital as at 31 December 2021

76.	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	9,629	a+b+c+d+e-h
77.	Cap on inclusion of provisions in Tier 2 under standardized approach	9,629	
78.	N/A	-	
79.	N/A	-	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2019 and 1 Jan 2023)			
80.	Current cap on CET1 instruments subject to phase out arrangements	NA	
81.	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	NA	
82.	Current cap on AT1 instruments subject to phase out arrangements	NA	
83.	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	NA	
84.	Current cap on T2 instruments subject to phase out arrangements	NA	
85.	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	NA	

3.5 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 December 2021	
			Total assets	Total equity
Harbour West 2 Real Estate SPC	Commercial entity	Risk weighted (look through approach)	8,481	8,481
Harbour West 4 Real Estate SPC	Commercial entity	Risk weighted (look through approach)	6,042	6,042
Surooh LTD	Commercial entity	Risk weighted	3,482	2,180
HH Hotel Properties W.L.L.	Commercial entity	Risk weighted	60,192	59,998
KHCB Tier 1 Sukuk Limited	Trust	Risk weighted	67,768	67,765
The Khaleeji Commercial Bank Employee Benefit Trust	Trust	Risk weighted	0	0
NS12 W.L.L.	Commercial entity	Risk weighted	5,522	5,520
Amlak II Company	Commercial entity	Risk weighted	4,063	3,921

Public Disclosure (continued)

As at 31 December 2021

BD '000s

3 CAPITAL MANAGEMENT & CAPITAL ADEQUACY RATIO (continued)

3.6 Disclosure template for main feature of regulatory capital instruments

1.	Issuer	Khaleeji Commercial Bank B.S.C	KHCB Tier 1 Sukuk Limited
2.	Unique identifier	KHCB	NA
3.	Governing law(s) of the instrument	All applicable laws and regulations of the Kingdom of Bahrain	English law, Cayman Islands Law
Regulatory treatment			
4.	Transitional CBB rules	Common Equity Tier 1	Additional Tier 1
5.	Post-transitional CBB rules	Common Equity Tier 1	Additional Tier 1
6.	Eligible at solo/group/group & solo	Group and solo	Group and solo
7.	Instrument type (types to be specified by each jurisdiction)	Equity Shares	Subordinated Mudaraba
8.	Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date)	BD 89 million	BD 47 million
9.	Par value of instrument	BD 0.100	USD 200,000 and integral multiples of USD 1,000 in excess thereof
10.	Accounting classification	Shareholders' Equity	Shareholders' Equity
11.	Original date of issuance	Various	30-Jun-20
12.	Perpetual or dated	Perpetual	Perpetual
13.	Original maturity date	No Maturity	No Maturity
14.	Issuer call subject to prior supervisory approval	No	Yes
15.	Optional call date, contingent call dates and redemption amount	Not applicable	30-Jun-25
16.	Subsequent call dates, if applicable	Not applicable	After the First Call Date, subject to the CBB approval
Coupons / dividends			
17.	Fixed or floating dividend/coupon	Dividend as decided by the Shareholders	Fixed
18.	Coupon rate and any related index	Not applicable	10%
19.	Existence of a dividend stopper	Not applicable	Not applicable
20.	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21.	Existence of step up or other incentive to redeem	No	No
22.	Noncumulative or cumulative	Non-cumulative	Non-cumulative
23.	Convertible or non-convertible	Non-convertible	Convertible
24.	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).

Public Disclosure (continued)

As at 31 December 2021

BD '000s

3 CAPITAL MANAGEMENT & CAPITAL ADEQUACY RATIO (continued)

3.6 Disclosure template for main feature of regulatory capital instruments (continued)

25.	If convertible, fully or partially	Not applicable	Full of Partial
			Conversion will take place at higher of, i) current market value, ii) Net book value or iii) determination of independent valuer
26.	If convertible, conversion rate	Not applicable	
27.	If convertible, mandatory or optional conversion	Not applicable	Optional
28.	If convertible, specify instrument type convertible into	Not applicable	CET1 Instruments
29.	If convertible, specify issuer of instrument it converts into	Not applicable	KHCB
30.	Write-down feature	No	No
31.	If write-down, write-down trigger(s)	Not applicable	Not applicable
32.	If write-down, full or partial	Not applicable	Not applicable
33.	If write-down, permanent or temporary	Not applicable	Not applicable
34.	If temporary write-down, description of write-up mechanism	Not applicable	Not applicable
35.	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.
36.	Non-compliant transitioned features	No	No
37.	If yes, specify non-compliant features	Not applicable	Not applicable

Public Disclosure (continued)

As at 31 December 2021

BD '000s

3 CAPITAL MANAGEMENT & CAPITAL ADEQUACY RATIO (continued)

3.7 Capital structure, minimum capital requirements and capital adequacy

	31 December 2021
Eligible capital	
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	10,110
Retained earnings	10,613
Other reserve	10,844
Current interim cumulative net profit	187
Total CET1 capital prior to the regulatory adjustments	120,966
Less: Investment in own shares	(11,926)
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	109,040
Other Capital	
AT1	47,222
General financing loss provision – (Tier 2)	9,629
Total available AT1 & T2 Capital	56,849
Total Capital	165,891
RISK WEIGHTED ASSETS	
Credit risk weight exposures	777,568
Market risk weight exposures	8,175
Operational risk weight exposures	73,199
Total risk weighted assets	858,942
Capital adequacy ratio (CET1)	12.69%
Capital adequacy ratio (T1)	18.19%
Capital adequacy ratio (Total capital)	19.31%

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 Disclosure (continued)

As at 31 December 2021

BD '000s

3 CAPITAL MANAGEMENT & CAPITAL ADEQUACY RATIO (continued)

3.7 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 2021 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	3,191	-	3,191	-	-	-	-	-	-
Sovereigns	167,305	176,057	343,362	-	-	-	-	-	-
Claims on PSEs	23,397	9,386	32,783	1,341	1,131	2,472	168	141	309
Banks	-	76,971	76,971	-	37,079	37,079	-	4,635	4,635
Corporates	136,295	190,799	327,094	183,464	190,799	374,263	22,933	23,850	46,783
Mortgages	245	10,431	10,676	86	3,651	3,737	11	456	467
Past due facilities	19,522	-	19,522	25,097	-	25,097	3,137	-	3,137
Investment in equities/sukuks/funds	43,986	-	43,986	65,979	-	65,979	8,247	-	8,247
Holdings of real estate	147,214	-	147,214	423,888	-	423,888	52,986	-	52,986
Other assets	7,916	-	7,916	7,916	-	7,916	990	-	990
Credit Risk	549,071	463,644	1,012,715	707,771	232,660	940,431	88,472	29,082	117,554
Market Risk	8,175	-	8,175	8,175	-	8,175	1,022	-	1,022
Operational Risk	73,199	-	73,199	73,199	-	73,199	9,150	-	9,150
Total	630,445	463,644	1,094,089	789,145	232,660	1,021,805	98,644	29,082	127,726

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 80,533 thousand.

3 Excludes credit risk mitigants of BD 81,564 thousand.

Public Disclosure (continued)

As at 31 December 2021

BD '000s

4 CREDIT RISK

4.1 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,
- Ijarah assets (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.

4.2 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 2021:

Gross/ Average Credit Exposures	Average Exposure ¹	Gross Exposure		
		Self-financed	IAH	Total
Cash and bank balances	106,589	58,245	65,870	124,115
Placement with financial institutions	27,896	-	26,391	26,391
Financing assets	316,158	125,417	206,731	332,148
Investment in sukuk	291,437	152,420	172,028	324,448
Ijara assets	147,541	79,378	74,187	153,565
Investment in equity securities	95,720	82,779	-	82,779
Investments in associates	31,793	32,409	-	32,409
Investment in real estate	15,808	9,887	-	9,887
Development property	7,628	7,471	-	7,471
Assets held for sale	28,745	57,490	-	57,490
Other assets (Including property and equipment)	25,213	14,951	-	14,951
Total funded exposures	1,094,526	620,447	545,207	1,165,654
Financial guarantees	7,470	7,466	-	7,466
Undrawn commitments to extend finance	780	1,112	-	1,112
Total unfunded exposures²	8,250	8,578	-	8,578

¹ Represents quarterly average balances for the year ended 31 December 2021.

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

Public Disclosure (continued)

As at 31 December 2021

BD '000s

4 CREDIT RISK (continued)

4.3 Concentration of credit risk

4.3.1 Geographic distribution

For disclosure of Geographic distribution, please refer to note 35 of the consolidated financial statements for the year ended 31 December 2021.

4.3.2 Industry/ sector-wise distribution

For disclosure of Geographic distribution, please refer to note 35 of the consolidated financial statements for the year ended 31 December 2021.

4.3.3 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 29 of the consolidated financial statements for the year ended 31 December 2021.

4.3.4 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, aggregate limit for connected counterparty exposure of 25% of total capital and 0% limit exposures to controllers) 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 2021:

Counterparty	Exposure type	Total exposure	Total Exposure as a % of eligible capital	Exposures exceeding Threshold
Exposure to controller	Financing	8,691	5.24%	8,691

4.3.5 Exposures in highly leveraged counterparties

The following balances represent the financing facilities to highly leveraged or other high risk counterparties as of 31 December 2021:

Counterparties	Gross BD '000	Provision BD '000	Net BD '000
Counterparty # 1	4,185	3,238	947
Counterparty # 2	2,280	-	2,280

Public Disclosure (continued)

As at 31 December 2021

BD '000s

4 CREDIT RISK (continued)

4.3 Concentration of credit risk (continued)

4.3.6 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	< 1M	1 - 3M	3 - 6M	6M - 1Y	1 - 3Y	3 - 5Y	5 - 10Y	10 - 20Y	Over 20Y	Total
Credit portfolio:										
Murabaha	42,067	39,479	10,817	21,719	91,803	62,669	52,643	2,161	43	323,401
Mudharaba	4	8	13	30	118	797	-	-	-	971
Istisna	-	-	-	-	-	-	-	-	-	-
Ijarah	6,078	2,061	3,195	6,335	25,239	28,580	39,491	34,705	6,710	152,394
Total	48,149	41,549	14,025	28,084	117,161	92,045	92,134	36,866	6,753	476,766
Investment in sukuk	-	11,753	10,647	-	20,658	157,630	123,158	-	-	323,846
Grand Total	48,149	53,302	24,672	28,084	137,819	249,675	215,292	36,866	6,753	800,612

4.4 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	82,779
Investment fair value reserve	187
Investment Note income	671
Dividend income, net of amortization	87
Loss on sale of equity securities, net	(121)

Public Disclosure (continued)

As at 31 December 2021

BD '000s

4 CREDIT RISK (continued)

4.4 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:

	Gross exposure		Risk weighted exposure		Capital charge @ 12.5%	
	Self-financed	IAH	Self-financed	IAH	Self-financed	IAH
Equity investments in banking book						
Unlisted	4,754	-	7,131	-	891	-
Investments in unlisted real estate companies	10,598	-	42,392	-	5,299	-
Investments in unrated funds - unlisted	15,531	-	23,297	-	2,912	-
All holding of real estate	51,896	-	103,792	-	12,974	-
Total	82,779	-	176,612	-	22,076	-

4.5 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.

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 ECAIs 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 ECAIs;

Public Disclosure (continued)

As at 31 December 2021

BD '000s

4 CREDIT RISK (continued)

4.5 Risk grading of exposures (continued)

- 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	
					Grade	Class
AAA	Aaa	AAA	AAA	AAA	1	Prime
AA+	Aa1	AA+	AA+	AA+	2	Excellent
AA	Aa2	AA	AA	AA	2	
AA-	Aa3	AA-	AA-	AA-	2	Very Good
A+	A1	A+	A+	A+	3	
A	A2	A	A	A	3	
A-	A3	A-	A-	A-	3	Good
BBB+	Baa1	BBB+	BBB+	BBB+	4	
BBB	Baa2	BBB	BBB	BBB	4	
BBB-	Baa3	BBB-	BBB-	BBB-	4	Satisfactory
BB+	Ba1	BB+	BB+	BB+	5	
BB	Ba2	BB	BB	BB	5	
BB-	Ba3	BB-	BB-	BB-	5	Average
B+	B1	B+	B+	B+	6	
B	B2	B	B	B	6	
B-	B3	B-	B-	B-	6	Watch List
CCC+	Caa1	CCC+	C+	CCC+	7	
CCC	Caa2	CCC	C	CCC	7	
CCC-	Caa3	CCC-	C-	CCC-	7	Sub-Standard
CC	Ca	CC	D	CC	8	
C	C	C	-	C	9	
D	-	D	-	D	10	Loss

Please refer to note 37 of the consolidated financial statements for the year ended 31 December 2021, for details of the grading profile of credit exposures of the Bank.

Public Disclosure (continued)

As at 31 December 2021

BD '000s

4 CREDIT RISK (continued)

4.6 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. For the purpose of calculating ECL for the year ended 31 December 2021, the Bank has applied the backstop of 74 days as against 30 days, in line with the CBB concessionary measures.

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;
- Ijarah assets (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.

Public Disclosure (continued)

As at 31 December 2021

BD '000s

4 CREDIT RISK (continued)

4.6 Past dues, impaired accounts, provisions (continued)

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 2021.

For the quantitative disclosures relating to exposures which were past due or impaired as of 31 December 2021, please refer to note 37 of the consolidated financial statement for the year ended 31 December 2021.

4.6.1 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	23,352	-	23,352
1 year to 3 years	9,026	-	9,026
More than 3 years	11,014	-	11,014
	43,392	-	43,392
Less: Stage 3 impairment allowance:			
At 1 January 2021	10,905	-	10,905
Net Transfer	(639)	-	(639)
Charge during the year	6,810	-	6,810
Write off during the year	(5)	-	(5)
Disposals	(311)	-	(311)
	16,760	-	16,760
Carrying amount	26,632	-	26,632
Past due but not credit impaired:			
Up to 3 months	20,204	-	20,204
3 months to 1 year	2,872	-	2,872
More than 1 year	-	-	-
	23,077	-	23,077
Stage 1 and Stage 2 impairment allowance	8,783	164	8,946

Public Disclosure (continued)

As at 31 December 2021

BD '000s

4 CREDIT RISK (continued)

4.6 Past dues, impaired accounts, provisions (continued)

4.6.1 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	971	9,997	12,385	23,352
1 year to 3 years	-	3,149	5,877	9,026
More than 3 years	-	2,618	8,395	11,014
	971	15,764	26,657	43,392
Less: Stage 3 impairment allowance:				
At 1 January 2021	524	3,476	6,905	10,905
Net Transfer	-	(86)	(553)	(639)
Charge during the year	79	1,619	5,113	6,810
Write off during the year	-	-	(5)	(5)
Disposals	-	(311)	-	(311)
	603	4,698	11,460	16,760
Carrying amount	369	11,066	15,197	26,632
Past due but not credit impaired:				
Up to 3 months	-	4,287	15,917	20,204
3 months to 1 year	-	2,396	476	2,872
More than 1 year	-	-	-	-
	-	6,683	16,394	23,077
Stage 1 and Stage 2 impairment allowance	438	1,305	7,204	8,946

4.7 Renegotiated facilities

For disclosure of renegotiated facilities, please refer to note 37 of the consolidated financial statements for the year ended 31 December 2021.

4.8 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 31st December 2021, the Bank did not have any material legal contingency from pending legal actions. Based on management estimates there is no potential liability arising from these pending legal actions.

Public Disclosure (continued)

As at 31 December 2021

BD '000s

4 CREDIT RISK (continued)

4.9 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 2021, an amount of BD 12 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 2021.

4.10 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 2021 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	257,725	-	-	213,930	471,655	365,665	129%	92%
Listed securities	13,133	-	-	-	13,133	8,304	158%	3%
Unlisted securities	-	-	-	-	-	-	0%	0%
Bank guarantee	-	-	-	-	-	-	0%	0%
Cash collateral	22,959	-	-	1,638	24,597	51,727	48%	5%
Others	-	-	-	-	-	8,964	0%	0%
Unsecured	3,686	-	-	-	3,686	67,812	5%	1%
Total	297,503	-	-	215,568	513,071	502,472		

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 25,706 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 Disclosure (continued)

As at 31 December 2021

BD '000s

4 CREDIT RISK (continued)

4.10 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.

4.11 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	124,356	206,731	99,241	57,772	12,405	7,222
Ijara assets (including lease rentals receivable)	79,378	74,187	81,191	-	10,149	-
Musharaka	-	-	-	-	-	-
Mudharaba	971	-	971	-	121	-
Wakala	90	-	90	-	11	-
Istisna	-	-	-	-	-	-
Total	204,795	280,918	181,493	57,772	22,686	7,222

5 MARKET RISK

5.1 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 37 of the consolidated financial statements for the year ended 31 December 2021.

Public Disclosure (continued)

As at 31 December 2021

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5 MARKET RISK (continued)

5.2 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 2021 along with the maximum and minimum values during the period:

	As at 31 December	Max	Min
Equity position risk	-	-	-
Market risk on trading positions in sukuk	-	-	-
Foreign exchange risk	654	662	640
Commodity risk	-	-	-
Total (A)	654	662	640
Risk Weighted Assets (A x 12.5)	8,175	8,275	8,000
Capital requirement @ 12.5%	1,022	1,034	1,000

6 OPERATIONAL RISK

6.1 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 37 of the consolidated financial statements for the year ended 31 December 2021.

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 Disclosure (continued)

As at 31 December 2021

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6 OPERATIONAL RISK (continued)

6.2 Litigation

As of the reporting date, the Bank has no material legal contingencies including pending legal actions except 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.

6.3 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.

6.4 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 2021 is as given below:

Average gross income for 3 years (A)	39,039
Operational Risk Weighted Assets (B) = A x 15% x 12.5	73,199
Capital requirement = B x 12.5%	9,150

7 OTHER RISKS

7.1 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.

For maturity profile of assets and liabilities, please refer to note 34 of the consolidated financial statements for the year ended 31 December 2021.

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

	2021	2020	2019	2018	2017
Interbank assets to interbank liabilities	59.12%	64.11%	84.82%	62.61%	47.02%
Liquid assets to total assets	27.61%	24.41%	38.83%	30.02%	22.19%
Liquid assets to total deposits	41.20%	35.66%	51.79%	47.55%	35.12%
Net liquid assets to total deposits	24.54%	24.22%	33.70%	18.08%	10.07%

Public Disclosure (continued)

As at 31 December 2021

BD '000s

7 OTHER RISKS (continued)

7.2 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 December 2021	±2,094
At 31 December 2020	±1,390

7.3 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.

7.4 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 2021, 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.

7.5 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.

Public Disclosure (continued)

As at 31 December 2021

BD '000s

7 OTHER RISKS (continued)

7.6 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.

7.7 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.

8 PRODUCT DISCLOSURES

8.1 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.

8.2 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.

Public Disclosure (continued)

As at 31 December 2021

BD '000s

8 PRODUCT DISCLOSURES (continued)

8.3 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 2021. 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").

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.

Public Disclosure (continued)

As at 31 December 2021

BD '000s

8 PRODUCT DISCLOSURES (continued)

8.3 Equity of investment account holders (IAH's) (continued)

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

	2021	2020	2019	2018	2017
Allocated income to IAH	25,939	21,574	23,544	14,221	14,884
Distributed profit	11,955	12,285	15,087	8,602	7,447
Mudharib fees *	13,985	9,289	8,457	5,619	7,437
As at 31 December IAH¹	462,999	435,886	467,268	343,849	383,561
Profit Equalisation Reserve (PER)	-	-	-	-	-
Investment Risk Reserve (IRR)	-	-	-	-	-
Profit Equalisation Reserve-to-IAH (%)	-	-	-	-	-
Investment Risk Reserve-to-IAH (%)	-	-	-	-	-

¹ Represents average balance.

* Net of contribution towards deposit protection scheme.

Ratio of financing of the IAH by type of IAH contracts as at 31 December 2021:

Type of IAH contracts	Ratio of financing
1 Month Mudharaba ¹	47.8%
3 Months Mudharaba	6.9%
6 Months Mudharaba	4.0%
12 Months Mudharaba	16.4%
18 Months Mudharaba	0.0%
24 Months Mudharaba	5.2%
36 Months Mudharaba	0.1%
VIP Mudharaba	19.6%
Total	100.0%

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

Public Disclosure (continued)

As at 31 December 2021

BD '000s

8 PRODUCT DISCLOSURES (continued)

8.3 Equity of investment account holders (IAH's) (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				
	2021	2020	2019	2018	2017	2021	2020	2019	2018	2017
1 Month ¹	2,712	2,170	1,657	1,029	959	22.7	17.7	8.9	11.79	12.9
3 Months	852	633	763	290	297	7.1	5.1	4.1	3.38	4.0
6 Months	601	656	658	536	1,012	5.0	5.3	3.5	6.23	13.6
12 Months	3,024	3,797	4,592	3,936	3,024	25.3	30.9	24.7	45.75	40.6
18 Months	6	9	6	6	6	0.1	0.1	0.0	0.07	0.1
24 Months	1,131	1,312	1,078	122	239	9.5	10.7	5.8	1.42	3.2
36 Months	19	106	514	367	3	0.2	0.9	2.8	4.26	-
VIP	3,610	3,552	5,819	2,316	1,907	30.2	28.9	30.7	26.92	25.6
Wakala	2,712	50	3,515	-	-	-	0.4	0.6	-	-
Total	11,955	12,285	18,602	8,602	7,447	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
2021	5.60	-	-	3.02	2.58
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

Public Disclosure (continued)

As at 31 December 2021

BD '000s

8 PRODUCT DISCLOSURES (continued)

8.3 Equity of investment account holders (IAH's) (continued)

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

	2021	2020	2019	2018	2017
1 Month Mudharaba ¹	1.42%	1.32%	1.03%	0.86%	0.64%
3 Months Mudharaba	2.80%	3.28%	3.66%	2.51%	1.79%
6 Months Mudharaba	2.93%	3.45%	3.69%	2.96%	3.07%
12 Months Mudharaba	3.27%	3.71%	3.86%	3.37%	2.81%
18 Months Mudharaba	3.39%	3.70%	3.44%	2.81%	2.73%
24 Months Mudharaba	3.98%	5.88%	5.48%	3.26%	3.49%
36 Months Mudharaba	3.74%	2.10%	5.22%	4.93%	3.39%
VIP Mudharaba	3.40%	4.18%	4.94%	3.10%	2.39%
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.

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 2021:

Particular	Allocation at 1 January 2021	Movement	Allocation at 31 December 2021	Proportion of total assets (%)	% of funding by IAH as at 31 December 2021
Cash and bank balances	48,695	17,175	65,870	12.08%	53.07%
Placements with financial institutions	17,720	8,671	26,391	4.84%	100.00%
Financing assets:	97,395	183,522	280,917	51.52%	86.60%
-Murabaha	96,051	184,866	280,917	51.52%	86.60%
-Istisna	1,344	(1,344)	-	0.00%	0.00%
Investment securities – Sukuk	261,539	(89,510)	172,029	31.55%	53.12%
Total	425,349	119,858	545,207		

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

	2021	2020	2019	2018	2017
Average mudarib share as a percentage of total income allocated to IAH	53.73%	60.72%	46.56%	41.82%	41.86%
Average mudarib share contractually agreed with IAH	63.70%	63.89%	59.38%	62.20%	58.80%
Average mudarib fees sacrificed by the Bank	9.97%	3.17%	12.82%	20.38%	16.94%

Public Disclosure (continued)

As at 31 December 2021

BD '000s

8 PRODUCT DISCLOSURES (continued)

8.4 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 2021.

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.

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. The Group has outsourced the day to day management of the assets under management to its Parent.

Public Disclosure (continued)

As at 31 December 2021

BD '000s

8 PRODUCT DISCLOSURES (continued)

8.4 Restricted Investment Accounts (RIA's) (continued)

GFH Group is carrying out a group restructuring program (the 'program') which involves the spinning off of its infrastructure and real estate assets under a newly established entity "Infracorp" ("the Company"), which will be capitalized with more than US\$1 billion in infrastructure and development assets. Infracorp will specialise in investments focusing on accelerating growth and development of sustainable infrastructure assets and environments across the Gulf and global markets.

For detailed discussion on the group restructuring program, kindly refer to note 12 on the consolidated financial statement for the year ended 31 December 2021.

RIA name	Details	Launch date	Projected returns	Return frequency	Return annualized (%)				
					2021	2020	2019	2018	2017
RIA 1 – Safana	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.	2007	61.78% over product tenor	Bullet payment on maturity	-	-	-	-	-

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.

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.

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.

Public Disclosure (continued)

As at 31 December 2021

BD '000s

8 PRODUCT DISCLOSURES (continued)

8.4 Restricted Investment Accounts (RIA's) (continued)

RIA name	Details	Launch date	Projected returns	Return frequency	Return annualized (%)				
					2021	2020	2019	2018	2017
	<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. The Board of directors of KHCB, in its meeting dated 6 May 2021 approved the consolidation and aggregation of its real estate and infrastructure exposures by offering a structured exit to its asset under management investors through a combination of cash and in-kind consideration therefore RIA investors have received an offer the exit the fund.</p> <p>As of 31 December 2021, the Group has acquired shares in RIA-1 amount BD 2.22mn, which will be part of the assets to be transferred to Infracorp.</p>								
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, Muharraq). 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>	2008	90.66% over product tenor	Bullet return at maturity	-	-	-	-	-

Public Disclosure (continued)

As at 31 December 2021

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8 PRODUCT DISCLOSURES (continued)

8.4 Restricted Investment Accounts (RIA's) (continued)

RIA name	Details	Launch date	Projected returns	Return frequency	Return annualized (%)				
					2021	2020	2019	2018	2017
	<p>Moreover, during December 2018 dividend declared amount of BD 259,500 to all RIA investors and it was paid by following quarter.</p> <p>the Board of directors of KHCB, in its meeting dated 6 May 2021 approved the consolidation and aggregation of its real estate and infrastructure exposures by offering a structured exit to its asset under management investors through a combination of cash and in-kind consideration therefore RIA investors have received an offer the exit the fund.</p> <p>As of 31 December 2021, the Group has acquired shares in RIA-6 amounting to BD 2.938mn, which will be part of the assets to be transferred to Infracorp.</p>								
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> <p>KHCB received an amount of USD 163,895 from the underlying project company representing approximately 2.65% of RIA 6 product size which constitutes a partial repayment ("Redemption Amount") with 110.9% capital gain. The Redemption Amount will be distributed as partial repayment to investors.</p> <p>the Board of directors of KHCB, in its meeting dated 6 May 2021 approved the consolidation and aggregation of its real estate and infrastructure exposures by offering a structured exit to its asset under management investors through a combination of cash and in-kind consideration therefore RIA investors have received an offer the exit the fund.</p> <p>As of 31 December 2021, the Group has acquired shares in amounting to BD 0.99mn, which will be part of the assets to be transferred to Infracorp.</p>	2009	110.54% over product tenor	Bullet return at maturity	-	-	-	-	-

Public Disclosure (continued)

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9 CORPORATE GOVERNANCE & OTHER DISCLOSURES

9.1 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 the highest standards of corporate governance, and monitoring of corporate strategies, goals and policies to comply with its regulatory and ethical responsibilities.

9.2 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.

9.3 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.

9.4 Board of directors

As at 31 December 2021, the Bank's Board of Directors comprise of nine members. Members of the Board were elected/appointed for a three year renewable term during the Ordinary General Meeting ("OGM") meeting held on 23 September 2020. One Board member was subsequently appointed on 10 December 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 Disclosure (continued)

As at 31 December 2021

BD '000s

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.4 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 nine 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 if needed; 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 2021.

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 Corporate Secretary, Heads of Internal Audit, Risk Management, Regulatory Compliance, Internal Sharia Audit, and Shari'a Sharia Coordination and Implementation.

Public Disclosure (continued)

As at 31 December 2021

BD '000s

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.4 Board of directors (continued)

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

Jassim Mohamed Alseddiqi

Chairman

Experience:

- Director since April 2018 (Non-Independent and Executive).
- Over 17 Years of experience in the fields of Engineering, Investment & Management.
- Group Chief Executive Officer of SHUAA Capital – UAE.
- Chairman of GFH Financial Group – Bahrain.
- Chairman of Eshraq Investments – UAE.
- Chairman of Islamic Arab Insurance Company (SALAMA) – UAE.
- Chairman of the Entertainer – UAE.
- Board Member of First Abu Dhabi Bank (FAB) – UAE.
- Board Member of Dana Gas - UAE.
- Board Member of Abu Dhabi Chamber of Commerce and Industry – UAE.

Qualification:

- MS in Electrical Engineering from Cornell University – USA.
- BS in Electrical Engineering from the University of Wisconsin-Madison – USA.
- He has also served as a noted lecturer at the Abu Dhabi-based The Petroleum Institute.

Sh. Ahmed Bin Isa Al Khalifa

Vice Chairman

Experience:

- Director since March 2017 (Independent and Non-Executive).
- Over 33 years of experience in governance and Project & information management.
- Currently hold the position of the Undersecretary for Ports and Maritime Affairs, Ministry of Transportation and Telecommunications – Bahrain.

Qualification:

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

Hussain Sayed Ali Al Hussaini

Board Member

Experience:

- Director since December 2020 (Independent and Non-Executive).
- Over 36 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.

Public Disclosure (continued)

As at 31 December 2021

BD '000s

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.4 Board of directors (continued)

Reyadh Eid Al Yaqoob

Board Member

Experience:

- Director since October 2018 (Independent and Non-Executive).
- 33 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 - UK
- Certificate in Operation Research (OR) from the Royal Military College of Science – UK

Salah Sharif

Board Member

Experience:

- Director since November 2020. (Non-Independent and Executive).
- Over 31 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 Glamorgon University – Wales

Isa Abdulla Zainal

Board Member

Experience:

- Director since September 2020 (Independent and Non-Executive)
- Over 37 Years of experience in the fields of Audit, Business Advisory and Islamic Investment Banking
- Vice Chairman of Global Banking Corporation BSC – Bahrain.
- Chairman of Bahrain Bay Utilities Company BSC – Bahrain.
- Board Member of Banque Al Baraka D'Algerie – Algeria.
- Board Member of Nuyu (Women Fitness Company) – KSA.
- Board Member of Eazy Financial Services BSC – Bahrain.

Qualification:

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

Public Disclosure (continued)

As at 31 December 2021

BD '000s

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.4 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 GSC – 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 28 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 – UK.

Public Disclosure (continued)

As at 31 December 2021

BD '000s

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.4 Board of directors (continued)

Hisham Ahmed Al Rayes

Board Member

Experience:

- Director since June 2012 (Non-Independent and Executive).
- Over 24 years of experience in the financial and banking sector.
- Chief Executive Officer and Board Member of GFH Financial Group – Bahrain.
- Chairman of Global Banking Corporation (GBCORP) – Bahrain.
- Chairman of Esterad Investment Company BSC – Kingdom of Bahrain.
- Director of GFH Capital Limited – UAE
- Chairman of Infracorp - Kingdom of Bahrain

Qualification:

- Master in Business Administration from University of DePaul – USA
- Bachelor of Science in Electrical / Electronic Engineering from University of Bahrain

Mustafa Ghazi Kheriba

Resigned his office on 25 January 2021.

* The qualifying criteria for 'Independent Directors' are as per the Corporate Governance guidelines of the CBB.

9.5 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.

9.6 Board of directors' interests

As of the year ended 31 December 2021, the members of the Board collectively held zero shares in the Bank.

Director's name	No. of Shares	No. of Shares	Movement During the Year	% of SubTotal Shares
	As of December 2020	As of December 2021		
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	-	-	-	-
Hisham Ahmed Al-Rayes	-	-	-	-
Total	-	-	-	-

Public Disclosure (continued)

As at 31 December 2021

BD '000s

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.7 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 (Independent and Non-Executive) Mazen Ibrahim Abdulkarim (Independent and Non-Executive) Mosobah Saif Al Mutairy (Non-Independent and Non- Executive) Sh. Dr. Fareed Yaqoob Al Muftah (Chairman of SSB) 	<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 (Independent and Non-Executive) Isa Abdulla Zainal (Independent and Non-Executive) Mazen Ibrahim Abdulkarim (Independent and Non-Executive) 	<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 (Non-Independent and Executive) Husain Alhusaini (Independent and Non-Executive) Salah Abdulla Sharif (Non-Independent and Executive) 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.
Board Independent Committee (IBC). Ad hoc Committee	<ul style="list-style-type: none"> Mazen Ibrahim Abdulkarim (Independent and Non-Executive) Reyadh Eid Al Yaqoob (Independent and Non-Executive) Husain Alhusaini (Independent and Non-Executive) 	<ul style="list-style-type: none"> Consideration of the voluntary takeover offer received from GFH Financial Group B.S.C. To advise KHCB Shareholders as to whether the offer is, or is not, fair and reasonable and to recommend whether to accept or reject the offer.

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 six times in 2021. The Bank held its Annual General Assembly (AGM) on 24 March 2021. In addition to physical meetings, several written resolutions were circulated to the Directors during 2021 for approval by email.

During the year, the Board Audit and Risk Management Committee (BARMC) held six meetings (minimum per year 4), the Board Investment and Credit Committee (BICC) held four meetings (minimum per year 4), the Board Nominations, Remunerations and Governance Committee (BNRGC) held five meetings (minimum per year 2), and the Board Independent Committee (IBC) held six meetings.

9.8 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 Disclosure (continued)

As at 31 December 2021

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9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.9 Board and Subcommittees meeting dates and attendance

- Board of Directors meetings

	Meetings dates during the year 2021						Attendance %
	10 Feb.	6 May.	10 Aug.	22 Sep.	11 Nov.	7 Dec.	
Jassim Alseddiqi	-	✓	-	✓	✓	-	50%
Sh. Ahmed Bin Isa Al Khalifa	✓	✓	✓	✓	✓	✓	100%
Husain Alhusaini	✓	✓	✓	✓	✓	✓	100%
Reyadh Al Yaqoob	✓	✓	✓	✓	✓	✓	100%
Salah Sharif	✓	✓	✓	✓	✓	✓	100%
Isa Zainal	✓	✓	✓	✓	✓	✓	100%
Mazen Abdulkarim	✓	✓	✓	✓	✓	✓	100%
Mosobah Al Mutairy	✓	✓	✓	✓	✓	✓	100%
Hisham Al Rayes	✓	✓	✓	✓	✓	✓	100%

- BNRGC meetings

	9 Feb.	5 May.	12 May.	21 Sep.	10 Nov.
Reyadh Eid Al Yaqoob	✓	✓	✓	✓	✓
Mazen Abdulkarim	✓	✓	✓	✓	✓
Mosobah Almutairy	✓	✓	✓	✓	✓
Sh. Dr. Fareed Y. Al Muftah	✓	✓	✓	✓	✓

- BARMC meetings

	13 Jan.	9 Feb.	5 May.	5 Aug.	22 Sep.	10 Nov.
Sh. Ahmed Bin Isa Al Khalifa	✓	✓	✓	✓	✓	✓
Mazen Ibrahim Abdulkarim	✓	✓	✓	✓	✓	✓
Isa Abdulla Zainal	✓	✓	✓	✓	✓	✓

- BICC meetings

	10 Feb.	6 May.	22 Sep.	11 Nov.
Hisham Al Rayes	✓	✓	✓	✓
Husain Alhusaini	✓	✓	✓	✓
Salah Sharif	✓	✓	✓	✓
Sattam Algosaibi	✓	✓	✓	✓

- IBC meetings

	17 Jan.	30 Jun.	12 Jul.	23 Sep.	21 Oct.	28 Nov.
Mazen Ibrahim Abdulkarim	✓	✓	✓	✓	✓	✓
Reyadh Eid Al Yaqoob	✓	✓	✓	✓	✓	✓
Husain Alhusaini	✓	✓	✓	✓	✓	✓

Public Disclosure (continued)

As at 31 December 2021

BD '000s

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.10 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. 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.

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 Disclosure (continued)

As at 31 December 2021

BD '000s

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.11 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, 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.
Executive Risk Management Committee	Risk Management policies, Risk review, and Compliance.
Human Resources Committee	Approving the policies and strategy of human resources

9.12 Executive management & other senior management

Some of the most significant changes that occurred at the executive management level during 2021 were the resignation of Mr. Mazen Salman Sater, the Assistant General Manager – Digital Banking, and on the other hand, the appointment of Mr. Osama Ali Hassan as a Chief Technology Officer.

The names and title of each member of executive and other Senior Management are set out below:

Sattam Sulaiman Algosai **Chief Executive Officer**

Experience:

- Over 23 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.

Husam Ghanem Saif **Assistant General Manager – Treasury & Investment**

Experience:

- Over 32 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.

Public Disclosure (continued)

As at 31 December 2021

BD '000s

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.12 Executive management & other senior management (continued)

Mohammed Abdulla Saleh

Assistant General Manager – Legal & Compliance

Experience:

- Over 19 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.

Abdulnasser Omar Al Mahmood

Head of Shari'a Coordination & Implementation

Experience:

- Over 31 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”.

Osama Ali Hasan

Chief Technology Officer

Experience:

- Over 23 years of experience in the field of Information Technology and Banking.
- Joined the Bank in 2021.

Qualification:

- Master of Science in Information Systems Management from the University of Liverpool – UK.
- B.Sc. in Computer Science from Isra University – Hashemite Kingdom of Jordan.

Public Disclosure (continued)

As at 31 December 2021

BD '000s

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.12 Executive management & other senior management (continued)

Muna Ghuloom Al Bastaki

Head of Credit Management

Experience:

- Over 25 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 19 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.

Fatima Ahmed Al Bin Ali

Head of Human Resources

Experience:

- Over 21 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".

Public Disclosure (continued)

As at 31 December 2021

BD '000s

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.12 Executive management & other senior management (continued)

Abdulkarim Mohamed Al Zakari
Chief Risk Officer

Experience:

- Over 14 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 20 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).

Mohammed Hamad Fakhri
Head of Internal Audit

Experience:

- Over 15 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.

Public Disclosure (continued)

As at 31 December 2021

BD '000s

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.12 Executive management & other senior management (continued)

Aman Ullah Khan

Head of Finance & Administration

Experience:

- Over 16 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.
- Certified Islamic Professional Accountant (CIPA) from Accounting & Auditing Organization for Islamic Finance Institutions (AAOIFI).

Nawaf Abdulsalam Al Hosani

Head of Internal Shari'a Audit and Shari's Board Secretary

Experience:

- Over 13 years of experience in Shari'a Audit, Compliance, and Governance of Islamic Banks and Investment Structures.
- Joined the Bank in 2008.

Qualification:

- Master in Business Administration with concentration on Islamic Finance from University College of Bahrain.
- BA 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".

Subah Abdulrahman Al Zayani

Head of Marketing & Corporate Communications

Experience:

- Over 17 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.

Ahmed Mohamed Burashid

Head of Corporate Banking & Debt Capital Markets

Experience:

- Over 15 years of experience in. Corporate Banking, Treasury, and Investment Portfolio Management
- Joined the Bank in 2018.

Qualification:

- Masters in Finance from DePaul University – USA.
- BSc in Commerce with Honours from DePaul University – USA.

Public Disclosure (continued)

As at 31 December 2021

BD '000s

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.12 Executive management & other senior management (continued)

Ameera Ahmed Alabbasi
Head of Business Banking

Experience:

- Over 17 years of experience in Corporate Banking.
- Joined the Bank in 2008.

Qualification:

- BSc in Marketing from the University of Bahrain.
- Associate Professional Risk Manager "APRM" from Professional Risk Managers' International Association "PRMIA" – USA.
- Attended Islamic Finance Management Development Program at Coventry University – UK.

9.13 Executive and senior management interests

The following table indicates the executive and senior management shareholding as 31 December 2021:

Executive and senior management	Number of outstanding shares at 31 December 2021	Number of outstanding shares at 31 December 2020
Sattam Sulaiman Algosaibi	3,188,850	76,484
Hussam Ghanem Saif	857,741	373,035
Mohammed Abdulla Saleh	318,928	-
Abdul-Nasser Omar Al-Mahmood	46,257	-
Muna Ghuloom Al Bastaki	369,196	270,562
Mohamed Ebrahim Alhashimi	123,862	38,147
Fatima Ahmed Al Bin Ali	242,782	49,492
Abdulkarim Mohamed Alzakri	-	-
Osama Ali Hassan	-	-
Abdulnaser Ahmed Alrayes	247,740	31,899
Mohamed Hamad Fakhri	4,318	4,318
Aman Ullah Khan	-	-
Nawaf Abdulsalam Al Hosani	-	-
Ahmed Mohamed Burashid	341,085	10,199
Ameera Ahmed Al Abbasi	-	-
Subah Abdulrahman Alzayani	-	-
Total	5,740,759	854,136

Public Disclosure (continued)

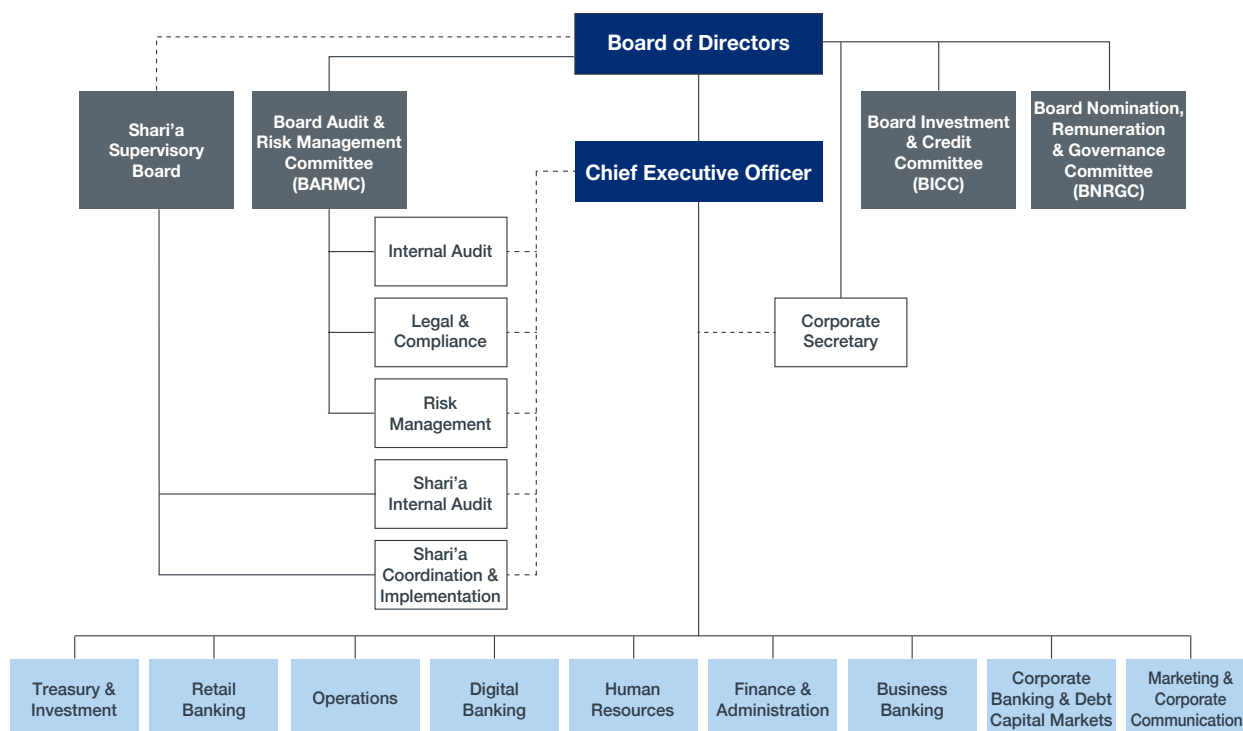
As at 31 December 2021

BD '000s

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.14 Organizational chart

Set out below is the Bank's organization chart, which outlines the different committees and the lines of reporting, as of 31 December 2021.



9.15 Board of Directors & Executive Management 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 in eligible employees were awarded a combination of shares and cash incentives on achievement of pre-determined performance targets. During 2021, the total remuneration of top 6 executives, including CEO and Head of Finance & Administration including other allowances and benefits was BD 1,064,962.

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 during the AGM at the end of each year. The Board of Directors is also entitled to sitting fees.

Public Disclosure (continued)

As at 31 December 2021

BD '000s

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.16 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.

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), Mr. Husain Alhusaini, Board member, the CEO, and other members of the Executive Management, have attended the annual shareholders meetings held on 24 March 2021. They were delegated by the Board to attend the meeting, 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).
- It shall be noted that that one of the Board members, Mr. Jassim AlSeddiqi, was unable to attend 75% of the Board of Directors' meetings for the year 2021, as stipulated in Paragraph HC-1.3.4 of the Central Bank of Bahrain Rulebook, due to urgent personal reasons that required his presence outside the country during the time of the Board meetings. The Bank has notified the Central Bank of Bahrain of the same in line with the rules and regulations.

9.17 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.

9.18 Penalties paid to the Central Bank of Bahrain

During 2021, the Bank was subject to one penalty of BD 50, imposed by the CBB. This was for failure to clean up one erroneously open account in Bahrain Credit Reference Bureau system.

Public Disclosure (continued)

As at 31 December 2021

BD '000s

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.19 Related party Transactions

For detailed discussion on the related party transactions, kindly refer to notes (no. 29) on the consolidated financial statement for the year ended 31 December 2021. All related party transactions are approved by the Board of Directors and disclosed to the shareholders in the Annual General Meeting.

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.

Details of Directors' interests in the Bank's ordinary shares as at the end of the year were nil (2020: Nil).

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:

	2021	2020
Board member fees and allowances	468	236
Salaries and other short-term benefits	767	1,452

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

	31 December 2021	31 December 2020
Balances due to key management as compensation	234	228

Public Disclosure (continued)

As at 31 December 2021

BD '000s

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.19 Related party Transactions

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

31 December 2021	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	-	3,227	6,061	-	9,288
Investment securities	-	-	2,284	4,754	7,038
Equity accounted investees	25,828	-	-	-	25,828
Investment in real estate	60,000	-	-	-	60,000
Assets held-for-sale	55,620	-	-	-	55,620
Other assets	117	-	-	30	147
Liabilities					
Placement from financial institutions, Non-FIs and individuals	-	1,666	-	-	1,666
Customers' current accounts	866	340	5,952	24	7,182
Equity of investment account holders	409	102	138,833	292	139,636
Other liabilities	-	-	-	-	-

Public Disclosure (continued)

As at 31 December 2021

BD '000s

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.19 Related party Transactions (continued)

31 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
Investment in real estate	60,000	-	-	-	60,000
Assets held-for-sale	-	-	-	-	-
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

During 2020, 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 transfer date.

31 December 2020	Associates	Significant shareholders / entities in which directors are interested	Total
<i>Transactions with related parties</i>			
Underwriting fee on Subordinated Mudaraba	-	12,100	12,100
Subordinated 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

Public Disclosure (continued)

As at 31 December 2021

BD '000s

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.19 Related party Transactions (continued)

2021	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 ijarah assets	-	1,133	1,143	96	2,372
Income from investment securities	-	-	-	263	263
Share of loss from equity accounted investees	(1,133)	-	-	-	(1,133)
Fees and other income	-	-	-	-	-
Expenses					
Finance expense on placements from financial institutions, non-financial institutions and individuals	-	24	-	-	24
Return to investment account holders	12	1	3,797	7	3,817
Staff cost	-	767	-	-	767
Other expenses	-	468	-	102	570

Public Disclosure (continued)

As at 31 December 2021

BD '000s

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.19 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 ijarah assets	-	100	987	-	1,087
Income from investment securities					
Share of loss from equity accounted investees	(320)	-	-	-	(320)
Fees and other income	-	-	2	-	2
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

9.20 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.

9.21 Board Evaluation

During 2021, 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 Disclosure (continued)

As at 31 December 2021

BD '000s

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.22 Share Capital and distribution of ownership of shares

	31 December 2021	31 December 2020
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 (2020: 892,119,480 shares) of BD 0.100 each	89,212	89,212

In their Extra -ordinary meeting held 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 2021, the Group holds 88,473,159 as treasury shares (2020: 92,048,004 shares).

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

The Bank's Register of Shareholders as at 31 December 2021 indicates a total of 506 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	760,525,096	85.25
Non-Bahraini	131,594,384	14.75
Total	892,119,480	100.00

31 December 2021

Categories*	Number of Shares	Number of Shareholders	% of total outstanding shares
Less than 1%	108,434,519	498	12.15%
1% up to less than 5%	79,154,515	5	8.87%
5% up to less than 10% **	88,473,159	1	9.92%
50% and above	616,057,287	1	69.06%
	892,119,480	505	100.00%

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

** Includes treasury shares.

Public Disclosure (continued)

As at 31 December 2021

BD '000s

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.22 Share Capital and distribution of ownership of shares (continued)

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%
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.

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 2021

	Nationality	Number of shares	% of total outstanding shares
GFH Financial Group*	Bahrain	616,057,287	69.06%
Khaleeji Commercial Bank B.S.C	Bahrain	88,473,159	9.92%

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

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.

Subsequent to the year end, on 5 January 2022 GFH Financial Group has announced completion of acquisition of KHCB Shares through a buy-back comprising 108,046,105 shares representing 12.11% thereby increasing their shareholding to 81.17%.

9.23 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 2021.

Public Disclosure (continued)

As at 31 December 2021

BD '000s

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.24 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.

9.25 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:

1. Shari'a Supervisory Board;
2. Internal Shari'a Audit function;
3. Shari'a Coordination and Implementation Function; and
4. 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.

9.26 Dealing with the Complaints

KHCB takes its customer complaints very seriously. The customers Investment Account Holders 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 Disclosure (continued)

As at 31 December 2021

BD '000s

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.27 Consumer awareness programmes for information on new products and services

KHCB relied on a clear strategy during the year 2021 that was based on utilising innovative means to reach the local audience and raise clients' awareness about its products and services, especially with the appointment of talented Bahraini youth to announce the winners of Al Waffer account's grand prizes. This had a great impact on the attraction of additional followers to the Bank's social media channels.

Additionally, KHCB continued to rely on daily newspapers and branch marketing to announce its new products and services, in addition to focusing on the Bank's smartphone application "Khaleeji Mobile App", its public website, eStatements, SMSs, and other channels to promote its offers and services. This resulted in creating more awareness about the Bank's Products and Services, while also taking into consideration bolstering KHCB's image as a leading Islamic banking institution whose approach is based on creativity and innovation, and to provide the finest services to clients.

9.28 Social functions and charitable contributions of the bank

In 2021, KHCB was dedicated to contributing to the Kingdom of Bahrain's efforts to achieve sustainable development and the objectives of Bahrain Economic Vision 2030, to cement the kingdom's achievements and gains at various levels and fields. The focus was on four vital sectors: Education, Environment, Youth, and Sports.

Stemming from its solid belief in the key role played by the Educational sector in building the Kingdom's present and future, KHCB has provided financial support to the Bahrain Institute for Banking and Finance (BIBF) by sponsoring one of the floors in the Institute's new building. This contribution will be in favour of supporting the Institute's efforts to provide the banking sector with qualified cadres to continue its leadership and progress, as it is one of the essential fields that support the national economy.

The Bank has also cooperated with INJAZ Bahrain, the leading youth empowerment institution, in launching an electronic platform during 2021 in light of the unprecedented circumstances caused by the COVID-19 Pandemic, to ensure the continuity of INJAZ Bahrain's important contributions to embracing young Bahraini energies and developing their capabilities and skills, enabling them to be integrated into the labour market. The platform has contributed to enhancing communication with Bahraini youths during the pandemic, as well as continued to provide training programs and workshops for them. Through its membership in the Board of Directors of this influential institution, KHCB has also had a hand in INJAZ Bahrain's successes last year, as it introduced many unique ideas that positively affected the institution's relentless efforts to raise the youth.

Furthermore, KHCB joined as a member in the Bahrain Association of Banks's Board of Directors. This step embodies the Bank's keenness to continue its prominent role in the growth and development of the Banking sector, as the Association has notable contributions in many initiatives concerned with opening broader horizons for the Banking sector. This will contribute to granting KHCB the opportunity to participate in the Association's development of distinguished strategies and plans, which will certainly enrich the banking movement in the Kingdom of Bahrain.

As for the Environmental sector, an area that is receiving strong attention from the esteemed government on top of the private sector for its important link to achieving sustainable development goals, the Bank was one of many institutions who supported the "Forever Green" initiative, which portrays the Kingdom's efforts to protect the environment and upgrade its basic components as it is one of the essential ingredients in reaching national goals. Meanwhile, KHCB maintained its role as an important supporter of sports activities by sponsoring a number of competitions, based on the Bank's belief in the importance of consolidating the distinguished position of Bahraini sports, due to the achievements and titles attained on a regional, continental, and global level.

Public Disclosure (continued)

As at 31 December 2021

BD '000s

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.29 KHCB's Shareholders' rights

The Bank has a public disclosure on its website in shareholders' rights. Basic KHCB's shareholders rights include but are not limited to:

- a) Secure methods of ownership registration;
- b) The transfer of shares;
- c) Obtaining relevant and material information on the corporation on a timely and regular basis;
- d) Participating and voting in general shareholder meetings;
- e) Electing and removing members of the board;
- f) Sharing in the profits of the corporation;
- g) Presentations by independent advisers; and
- h) Participating in corporate events.

10. FINANCIAL PERFORMANCE

Following are basic quantitative indicators of the financial performance:

	2021	2020	2019	2018	2017
Return on average equity *	7.21%	9.14%	(14.99)%	0.56%	0.71%
Return on average assets	1.03%	0.86%	(1.62)%	0.08%	0.11%
Finance income to finance expense	117.49%	119.25%	119.57%	146.03%	221.37%
Cost-to-income **	41.99%	45.92%	72.58%	64.34%	60.80%

* Equity includes additional Tier 1 capacity.

** Cost excludes impairment allowances.

For detailed discussion on the performance for the year, kindly refer to Board of Directors on the consolidated financial statement for the year ended 31 December 2021.

11. REMUNERATION RELATED DISCLOSURES

The Banks total compensation policy, which includes the variable remuneration policy, sets out the Banks'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.

In 2022, the Bank amended its policy framework and incentive components to grant the covered staff under the policy with KHCB Phantom shares.

The key features of the remuneration framework have been summarized below.

11.1 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.

Public Disclosure (continued)

As at 31 December 2021

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11. REMUNERATION RELATED DISCLOSURES (continued)

11.1 Remuneration strategy (continued)

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.

11.2 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.

Public Disclosure (continued)

As at 31 December 2021

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11. REMUNERATION RELATED DISCLOSURES (continued)

11.2 BNRGC role and focus (continued)

- 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 Feb.	5 May.	12 May.	21 Sep.	10 Nov.
Reyadh Eid Al Yaqoob	October 2018	✓	✓	✓	✓	✓
Mazen Abdulkarim	September 2020	✓	✓	✓	✓	✓
Mosobah Almutairy	September 2020	✓	✓	✓	✓	✓
Sh. Dr. Fareed Y. Al Muftah	February 2015	✓	✓	✓	✓	✓

The aggregate remuneration paid to the BNRGC members during the year in the form of sitting fees amounted to BHD 30,000.

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.

11.3 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.

11.4 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.

Public Disclosure (continued)

As at 31 December 2021

BD '000s

11. REMUNERATION RELATED DISCLOSURES (continued)

11.5 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.

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.

Public Disclosure (continued)

As at 31 December 2021

BD '000s

11. REMUNERATION RELATED DISCLOSURES (continued)

11.6 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.

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 rationalize 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

Public Disclosure (continued)

As at 31 December 2021

BD '000s

11. REMUNERATION RELATED DISCLOSURES (continued)

11.6 Risk assessment framework

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.

11.7 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).

Public Disclosure (continued)

As at 31 December 2021

BD '000s

11. REMUNERATION RELATED DISCLOSURES (continued)

11.8 Deferral of Variable remuneration

All employees above the grade of a Senior Manager 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.

11.9 Details of remuneration paid

(a) Board of directors

	2021	2020
• Sitting Fees	218	193
• Remuneration	97	Nil
• Others*	16	22

* This represents airfare, accommodation, transportation and food and beverages paid on behalf of the Board members.

(b) Shari'a's Supervisory Board

	2021	2020
• Sitting Fees	50	43
• Remuneration	Nil	Nil
• Others*	-	-

(c) Employee remuneration

	2021								Total
	Number of staff	Fixed remuneration		Variable remuneration					
		Cash	Others	Upfront		Deferred			
	Cash	Others	Cash	Shares	Cash	Shares	Others		
Approved persons									
- Business lines	6	604	188	135	-	29	145	6	1,107
- Control & support	16	637	251	152	8	-	34	6	1,088
Other material risk takers	-	-	-	-	-	-	-	-	-
Other staff	209	2289	1065	394	-	-	-	9	3,757
TOTAL	231	3,530	1,504	681	8	29	179	21	5,952

Public Disclosure (continued)

As at 31 December 2021

BD '000s

11. REMUNERATION RELATED DISCLOSURES (continued)

11.9 Details of remuneration paid

(c) Employee remuneration

	2020								
	Number of staff	Fixed remuneration		Variable remuneration					Total
		Cash	Others	Upfront		Deferred			
				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

(d) Deferred awards

	2021				
	Cash (Amount)	Shares (Number)	Others (Amount)	Others (Amount)	Total (Amount)
Opening balance	47	5,526,730	442	-	310
Awarded during the period	29	1,690,414	188	-	217
Paid out / released during the period *	(13)	(5,526,730)	(279)	-	(292)
Corporate action	-	-	-	-	0
Service, performance and risk adjustments	-	-	-	-	-
Closing balance	63	1,690,414	350	-	234

	2020				
	Cash (Amount)	Shares (Number)	Others (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
Corporate action	-	(297,862)	-	-	-
Service, performance and risk adjustments	-	(40,271)	(3)	-	(3)
Closing balance	47	5,516,372	442	-	489

* On 22 November 2021, BNRGCC approved acceleration of vesting conditions of all unvested deferred shares. This was approved by the capital markets supervision directorate (CMSD) on 24 November 2021.

(e) Severance pay

During the year 2021 the Bank paid Eighty Thousand as an ex-gratia.