بسم الله الرحمن الرحيم

Al Baraka Islamic Bank B.S.C. (c)

UNIFIED SHARI'A SUPERVISORY BOARD REPORT,
REPORT OF THE BOARD OF DIRECTORS,
INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS AND
CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

Building a better working world

Ernst & Young – Middle East
P.O. Box 140
East Tower – 10th floor
Bahrain World Trade Center
Manama
Kingdom of Bahrain

Tel: +973 1753 5455
Fax: +973 1753 5405
manama@bh.ey.com
www.ey.com/mena
C.R. no. 29977-1

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL BARAKA ISLAMIC BANK B.S.C. (c)

Report on the Audit of the Consolidated Financial Statements

Opinion
We have audited the accompanying consolidated financial statements of Al Baraka Islamic Bank B.S.C (c) ("the Bank") and its subsidiary (together "the Group") which comprise the consolidated statement of financial position as at 31 December 2020 and the related consolidated statements of income, cash flows, changes in owners' equity and changes in off-balance sheet equity of investment accountholders for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and the consolidated results of the operations, its cash flows, changes in owners' equity and changes in off-balance sheet equity of investment accountholders for the year then ended in accordance with Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ["AAOIFI"] as modified by the Central Bank of Bahrain ("CBB") ("FAS issued by AAOIFI as modified by CBB")

In our opinion, the Bank has also complied with the Islamic Shari'ah Principles and Rules as determined by the Shari'ah Supervisory Board of the Bank during the year under audit.

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

Other information included in the Group's 2020 Annual Report
Other information consists of the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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, we conclude that there is a material misstatement, of this other information, we are required to report the fact. We have nothing to report in this regard.

Report on the Audit of the Consolidated Financial Statements (continued)

Responsibilities of the Board of Directors for the consolidated financial statements

These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'ah Rules and Principles are the responsibility of the Bank's Board of Directors.

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with FAS issued by AAOIFI 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.

Auditor's responsibilities for the audit of the consolidated financial statements

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

As part of an audit in accordance with ASIFI issued by AAOIFI, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

Report on the Audit of the Consolidated Financial Statements (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee 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 audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
AL BARAKA ISLAMIC BANK B.S.C. (c) (continued)

Report on Other Regulatory Requirements

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 2), 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 Report of the Board of Directors is consistent with the consolidated financial statements;

c) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives or the terms of the Bank’s memorandum and articles of association during the year ended 31 December 2020 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position; and

d) satisfactory explanations and information have been provided to us by management in response to all our requests.

The partner in charge of the audit resulting in this independent auditors report is Kazim Merchant.

Ernst + Young

Partner's registration no. 244
21 February 2021
Manama, Kingdom of Bahrain

Al Baraka Islamic Bank B.S.C. (c)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Notes	2020 BD '000	2019 BD '000
ASSETS			
Cash and balances with banks and financial institutions	3	**111,168**	129,969
Receivables	4	**210,155**	169,548
Ijara Muntahia Bittamleek and Ijara receivables	5	**121,210**	106,580
Musharakas	6	**132,055**	89,535
Investments	7	**372,510**	280,515
Investment in joint venture	8	**5,516**	5,548
Investments in real estate	9	**3,700**	5,790
Premises and equipment	10	**17,472**	17,830
Goodwill	11	**5,297**	5,467
Other assets	12	**20,713**	23,984
TOTAL ASSETS		**999,796**	834,766
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED DEBTS AND OWNERS' EQUITY			
Liabilities			
Current accounts		**144,820**	104,385
Murabaha and other payables		**69,824**	47,299
Other liabilities	13	**39,739**	35,440
Total liabilities		**254,383**	187,124
Equity of investment accountholders (IAH)	14	**639,734**	541,691
Subordinated debts	15	**4,857**	5,529
Owners' Equity	16		
Share capital		**51,445**	51,445
Additional tier-1 capital		**41,847**	41,847
Reserves		**(892)**	(1,536)
Accumulated losses		**(1,317)**	(755)
Equity attributable to parent's shareholders		**91,083**	91,001
Non-controlling interest		**9,739**	9,421
Total owners' equity		**100,822**	100,422
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED DEBTS AND OWNERS' EQUITY		**999,796**	834,766
OFF-BALANCE SHEET ITEMS: EQUITY OF INVESTMENT ACCOUNTHOLDERS		**197,249**	242,212
CONTINGENCIES AND COMMITMENTS	17	**143,866**	127,165

Saleh Salman Al Kawari Chairman	Adnan Ahmed Yousif Vice Chairman	Hamad Abdulla Aloqab Chief Executive Officer

The attached explanatory notes 1 to 34 form part of these consolidated financial statements.

Al Baraka Islamic Bank B.S.C. (c)

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2020

	Notes	2020 BD '000	2019 BD '000
INCOME FROM JOINTLY FINANCED ASSETS			
Financings	18	32,415	34,335
Investments	19	4,438	3,175
Income from jointly financed assets		36,853	37,510
Return on equity of investment accountholders before Group's share as a Mudarib		(32,964)	(31,087)
Group's share as a Mudarib		8,926	3,485
Return on equity of investment accountholders		(24,038)	(27,602)
Group's share as a Mudarib and Rabalmal		12,815	9,908
INCOME FROM SELF FINANCED ASSETS			
Financings	18	3,582	3,810
Investments	19	16,778	14,360
Income from self financed assets		20,360	18,170
INCOME FROM BANKING SERVICES AND OTHERS			
Revenue from banking services	20	3,289	3,265
Other income	21	2,717	2,421
Group's mudarib / agency fee from off-balance sheet equity of investment account holders		221	542
Income from banking services and others		6,227	6,228
TOTAL OPERATING INCOME BEFORE OTHER FINANCING COST		39,402	34,306
Other financing costs		(846)	(781)
TOTAL OPERATING INCOME		38,556	33,525
OPERATING EXPENSES			
Staff expenses		(12,239)	(11,560)
Depreciation	10	(1,868)	(2,132)
Other operating expenses	22	(11,993)	(11,661)
TOTAL OPERATING EXPENSES		(26,100)	(25,353)
NET OPERATING INCOME		12,456	8,172
Allowances for impairment - net	23	(8,052)	(6,553)
Recovery from written off financing		38	759
INCOME BEFORE TAXATION		4,442	2,378
Taxation	24	(1,583)	(446)
INCOME FOR THE YEAR		2,859	1,932
Attributable to:			
Equity shareholders of the parent		2,274	1,998
Non-controlling interest		585	(66)
		2,859	1,932

Saleh Salman Al Kawari Chairman	Adnan Ahmed Yousif Vice Chairman	Hamad Abdulla Aloqab Chief Executive Officer

The attached explanatory notes 1 to 34 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2020

	Equity attributable to shareholders of the parent											
			Reserves									
	Share capital	*Additional tier-1 capital*	*Statutory*	*General*	*Employee defined benefit plan*	*Cumulative changes in fair value of investments*	*Revaluation of premises and equipment*	*Foreign exchange*	*Accumulated losses*	*Total*	*Non-controlling interest*	*Total owners' equity*
	BD '000	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*
Balance at 1 January 2020	51,445	41,847	8,756	3,275	(23)	(455)	-	(13,089)	(755)	91,001	9,421	100,422
Cumulative changes in fair value	-	-	-	-	-	1,043	-	-	-	1,043	68	1,111
Translation of foreign currency operations	-	-	-	-	-	-	-	(613)	-	(613)	(326)	(939)
Remeasurement loss on defined benefit plan	-	-	-	-	(13)	-	-	-	-	(13)	(9)	(22)
Recognition of modification loss	-	-	-	-		-	-	-	(3,331)	(3,331)	-	(3,331)
Receipt of government grant	-	-	-	-		-	-	-	722	722	-	722
Net income for the year	-	-	-	-	-	-	-	-	2,274	2,274	585	2,859
Allocation to statutory reserve	-	-	227	-	-	-	-	-	(227)	-	-	-
Balance at 31 December 2020	**51,445**	**41,847**	**8,983**	**3,275**	**(36)**	**588**	**-**	**(13,702)**	**(1,317)**	**91,083**	**9,739**	**100,822**
Balance at 1 January 2019	46,167	41,470	8,557	3,275	(12)	390	269	(10,674)	(8,210)	81,232	10,805	92,037
Cumulative changes in fair value	-	-	-	-	-	(845)	-	-	-	(845)	1	(844)
Translation of foreign currency operations	-	-	-	-	-	-	-	(2,415)	-	(2,415)	(1,311)	(3,726)
Issuance of share capital	5,278	-	-	-	-	-	-	-	-	5,278	-	5,278
Issuance of additional tier 1 capital	-	11,310	-	-	-	-	-	-	-	11,310	-	11,310
Write down of additional tier 1 capital	-	(5,655)	-	-	-	-	-	-	5,655	-	-	-
Redemption of additional tier-1 capital	-	(5,278)	-	-	-	-	-	-	-	(5,278)	-	(5,278)
Changes in fair value of premises and equipment	-	-	-	-	-	-	(269)	-	-	(269)	-	(269)
Net income / (loss) for the year	-	-	-	-	-	-	-	-	1,999	1,999	(67)	1,932
Remeasurement loss on defined benefit plan	-	-	-	-	(11)	-	-	-	-	(11)	(7)	(18)
Allocation to statutory reserve	-	-	199	-	-	-	-	-	(199)	-	-	-
Balance at 31 December 2019	51,445	41,847	8,756	3,275	(23)	(455)	-	(13,089)	(755)	91,001	9,421	100,422

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

	2020	*2019*
	BD '000	*BD '000*
OPERATING ACTIVITIES		
Net income before taxation	**4,442**	2,378
Adjustments for:		
Depreciation	**1,868**	2,132
Allowances for impairment - net	**8,052**	6,553
Gain on sale of premises and equipment	**(62)**	(18)
Share of (loss) / income from investment in joint venture	**32**	(17)
Gain on sale of investments	**(6,014)**	(3,914)
Unrealized loss on revalution of investment properties	**373**	-
Modification loss in lieu of payments moratorium	**(3,331)**	-
Operating profit before changes in operating assets and liabilities	**5,360**	7,114
Net changes in operating assets and liabilities:		
Balances with central banks in mandatory reserves	**32,678**	(24,298)
Receivables	**9,805**	28,907
Ijara Muntahia Bittamleek and Ijara receivables	**(15,465)**	149
Musharakas	**(43,492)**	12,623
Other assets	**1,924**	7,017
Other liabilities	**4,257**	(7,360)
Murabaha and other payables	**22,524**	2,549
Current accounts	**40,435**	488
Equity of investment accountholders	**98,043**	9,827
Taxation paid	**(245)**	(446)
Net cash generated from operating activities	**155,824**	36,570
INVESTING ACTIVITIES		
Purchase of investments	**(403,270)**	(223,412)
Investments sold / matured	**319,787**	162,401
Purchase of premises and equipment	**(1,768)**	(1,660)
Sale of premises and equipment	**120**	31
Net cash used in investing activities	**(85,131)**	(62,640)
FINANCING ACTIVITIES		
Repayment of subordinated debts	**(673)**	(1,060)
Receipt of government grant	**722**	-
Net cash from / (used) in financing activities	**49**	(1,060)
Foreign currency translation adjustments	**(567)**	(4,925)
NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS	**70,175**	(29,565)
Cash and cash equivalents at 1 January	**74,136**	103,701
CASH AND CASH EQUIVALENTS AT 31 DECEMBER (note 25)	**144,311**	74,136

CONSOLIDATED STATEMENT OF CHANGES IN OFF-BALANCE SHEET EQUITY OF INVESTMENT ACCOUNTHOLDERS

For the year ended 31 December 2020

	Balance at 1 January 2020 BD '000	Write offs BD '000	Net deposits / withdrawals BD '000	Gross income BD '000	Mudarib's / agency fee BD '000	Balance at 31 December 2020 BD '000
Wakala Bi Al-Istithmar (note 27)						
Receivables	**59,057**	**-**	**(59,080)**	**202**	**(179)**	**-**
Investments	**1,755**	**-**	**(1,757)**	**13**	**(11)**	**-**
On balance sheet jointly financed assets	**66,879**	**-**	**68,163**	**3,460**	**(1,219)**	**137,283**
	127,691	-	**7,326**	**3,675**	**(1,409)**	**137,283**
Others						
Receivables	**53,632**	**-**	**(4,988)**	**2,793**	**(31)**	**51,406**
Investments	**60,889**	**-**	**(52,329)**	**-**	**-**	**8,560**
	114,521	-	**(57,317)**	**2,793**	**(31)**	**59,966**
	242,212	**-**	**(49,991)**	**6,468**	**(1,440)**	**197,249**

	Balance at 1 January 2019 BD '000	*Write offs BD '000*	*Net deposits / withdrawals BD '000*	*Gross income BD '000*	*Mudarib's / agency fee BD '000*	*Balance at 31 December 2019 BD '000*
Receivables	-	-	58,125	1,225	(293)	59,057
Investments	-	-	1,720	164	(129)	1,755
On balance sheet jointly financed assets	122,813	-	(58,685)	6,568	(3,817)	66,879
	122,813	-	1,160	7,957	(4,239)	127,691
Others						
Receivables	29,118	(525)	24,133	1,026	(120)	53,632
Investments	3,590	-	57,299	-	-	60,889
	32,708	(525)	81,432	1,026	(120)	114,521
	155,521	(525)	82,592	8,983	(4,359)	242,212

The attached explanatory notes 1 to 34 form part of these consolidated financial statements.

1 INCORPORATION AND PRINCIPAL ACTIVITIES

Al Baraka Islamic Bank B.S.C. (c) (the "Bank") is a closed shareholding company incorporated in the Kingdom of Bahrain on 21 February 1984. The Bank operates under a Retail Bank's licence number RB/025 issued by the Central Bank of Bahrain (CBB). The Bank has six commercial branches in the Kingdom of Bahrain. The Bank is 92% (2019: 92%) owned by Al Baraka Banking Group ("Ultimate Parent").

The principal activities of the Bank and its subsidiary (the "Group") are taking demand, saving and investment accounts, providing Murabaha financing, Ijara financing and other Shari'a compliant forms of financing as well as managing investors' money on the basis of Mudaraba or agency for a fee, providing commercial banking services and other investment activities. The Bank's registered office is at Bahrain Bay, P.O. Box 1882, Manama, Kingdom of Bahrain.

Impact of COVID-19
The outbreak of coronavirus (“COVID-19”) pandemic across the globe has caused disruption to business and economic activities and uncertainties in the global economic environment. The fiscal and monetary authorities have announced several stimulus packages to the Bank’s customers, which are in the process of implementation. The Bank has considered potential impacts of the current market volatility in the determination of the reported amounts of the Bank’s financial and non-financial assets and are considered to represent management's best assessment based on current observable information. Markets, however, remain volatile and the recorded amounts remain sensitive to market fluctuations.

The consolidated financial statements were approved by the Board of Directors on 21 February 2021.

2 ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements are prepared on historical cost basis, except for investment in real estate, equity-type instruments through statement of income, equity-type instruments through equity and land owned by the Bank (classifed as premises and equipment) that have been measured at fair value.

The consolidated financial statements are presented in Bahraini Dinars, being the reporting currency of the Group. All values are rounded to nearest Bahraini Dinars (BD) thousand unless otherwise indicated. However, the functional currency of the Bank is Bahraini Dinars and that of the subsidiary is Pakistani Rupees. Items included in the financial statements of each entity are measured using respective functional currency.

2.2 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with applicable rules and regulations issued by the Central Bank of Bahrain (“CBB”) including the recently issued CBB circulars on regulatory concessionary measures in response to COVID-19. These rules and regulations, in particular CBB circular OG/226/2020 dated 21 June 2020 and related CBB communications, require the adoption of all Financial Accounting Standards (“FAS”) issued by the Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI) with two exceptions which are set out below. In accordance with the AAOIFI framework, for matters not covered by FAS, the Group uses the requirements of the relevant International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”). This framework is referred to as “FAS issued by AAOIFI”.

The two exceptions mentioned above are as follows:

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

(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 profit or loss. This will only be to the extent of any modification loss recorded in equity as a result of (a) above, and the balance amount to be recognised in profit or loss. Any other financial assistance is recognised in accordance with the relevant requirements of FAS issued by AAOIFI.

2 ACCOUNTING POLICIES (continued)

2.2 Statement of compliance (continued)

The above framework for basis of preparation of the consolidated financial statements is hereinafter referred to as 'FAS issued by AAOIFI as modified by CBB', which has been applied retrospectively and did not result in any change to the financial information reported for the comparative period.

2.3 Modification Loss

During the year, 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 3.3 million arising due to the 6 month payment holidays provided to financing customers without charging additional profits has been recognized directly in equity. The modification loss has been calculated as the loss of income on the modified cash flows calculated using the original effective profit rate and the current carrying value of the financial assets on the date of modification. The Group provided payment holidays to financing exposures amounting to BD 113.5 million as part of its support to impacted customers.

Further, as per the regulatory directive, financial assistance amounting to BD 0.7 million (representing specified reimbursement of a portion of staff costs and waiver of fees, levies and utility charges) received from the government and/or regulators, in response to its COVID-19 support measures, have been recognized directly in equity.

2.4 Liquidity Support

During the year, based on a regulatory directive issued by the CBB as concessionary measures to mitigate the impact of COVID-19, CBB has reduced the regulatory reserve requirements from 5% to 3% and offered free of cost REPO facility. In this regards, the Bank raised BD 30 million against REPO of investments in Government of Bahrain Sukuk which matured during the year.

2.5 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary as at and for the year ended 31 December each year. The financial statements of the subsidiary is prepared for the same reporting year as the Bank, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses are eliminated in full on consolidation.

Subsidiary is fully consolidated from the date control is transferred to the Bank and continue to be consolidated until the date that control ceases. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Non-controlling interest in a subsidiary's net assets is reported as a separate line item in the Group's owners' equity. In the consolidated statement of income, non-controlling interest is included in net profit, and shown separately from that of the shareholders.

Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in owners' equity since the date of combination. Statement of income and each component of OCI are attributed to the equity holders of the parent of the Bank and to the non-controlling interests (NCIs), even if this results in the NCIs having a deficit balance.

Transactions with non-controlling interests are handled in the same way as transactions with external parties. Changes in the ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transaction.

2 ACCOUNTING POLICIES (continued)

2.5 Basis of consolidation (continued)

The subsidiary of the Bank, which is consolidated in these consolidated financial statements is follows:

Bank	*Ownership for 2020 / 2019*	*Year of incorporation*	*Country of incorporation*	*No. of branches/ offices at 31 December 2020 / 2019*
Held directly by the Bank				
Al Baraka Bank (Pakistan) Limited*	59.13%/ 59.13%	2004	Pakistan	190/ 192

*Al Baraka Bank (Pakistan) Limited became a subsidiary on 21 December 2010.

Investment in Itqan Capital

The Bank has ownership interest of 83.07% in Itqan Capital (the "Company").The Bank via a management agreement dated 1 July 2012 assigned the control to govern the financial and operating policies of the Company to the Ultimate Parent. The Bank has authorised the Ultimate Parent to represent it in the shareholders' meetings and to exercise control on the Company to do any or all acts and deeds and exercise all powers of the Bank pursuant to the Charter Document referred in the management agreement and or under any applicable laws.

The financial statements of the Company are not consolidated as it is controlled by the Ultimate Parent pursuant to the terms of the management agreement. The Ultimate Parent consolidates the financial statements of the Company in its consolidated financial statements which are prepared in accordance with AAOIFI standards and the same was approved by the CBB.

The investment acquired is initially recognised at cost, being the fair value of consideration given including acquisition charges associated with the investment. Subsequently, the investment is carried at cost less impairment losses, if any.

2.6 New standards, interpretations and amendments adopted by the Group

These consolidated financial statements have been prepared using accounting policies, which are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2019. All the mandatory applications of new standards and interpretation effective from 1 January 2020 has been deferred to 1 January 2021 by the Accounting Board (AAB) of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) through its 18th meeting held on 22-23 June 2020. The new standards, interpretations and amendments issued but not effective are as follows:

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

FAS 33 aims at setting out principles for the classification, recognition, measurement, presentation, and disclosure of investment in Sukuk, shares and other similar instruments of investments made by Islamic financial institution. The standard defines the key types of instruments of Shari’ah compliant investments and the primary accounting treatments commensurate to the characteristic and business model of institution under which the investments are made, managed and held. This standard supersedes FAS 25 “Investment in Sukuk” and is effective beginning or after 1 January 2021 with early adoption permitted. For the purpose of this standard, each investment is to be categorised as one of the below investment categories depending on its nature:

- *Monetary Debt-type instrument;*
- *Non-monetary Debt-type instrument;*
- *Equity-type instrument; and*
- *Other investment instruments.*

2 ACCOUNTING POLICIES (continued)

2.6 New standards, interpretations and amendments adopted by the Group (continued)

FAS 33 Investment in sukuk, shares and similar instruments (FAS 33) (continued)

Classification
Unless the irrevocable initial recognition choices provided below are exercised, the Group shall classify investments subject to this standard as subsequently measured at either (i) amortised cost, (ii) fair value through equity or (iii) fair value through income statement, on the basis of both the Group's business model for managing investments and the expected cash flow characteristics of the investment in line with the nature of the underlying Islamic contracts.

Unless the irrevocable initial recognition choices provided below are exercised, the Group shall classify investments subject to this standard as subsequently measured at either (i) amortised cost, (ii) fair value through equity or (iii) fair value through income statement, on the basis of both the Group's business model for managing investments and the expected cash flow characteristics of the investment in line with the nature of the underlying Islamic contracts.

Investment in a monetary debt-type instrument, as it reflects a debt at the back-end, shall be initially classified and measured at cost, till the time the transaction at the back-end is executed, and at amortised cost thereafter.

Investment in a non-monetary debt-type instrument or other investment instrument, may be classified under any of the three categories ((i) amortised cost, (ii) fair value through equity or (iii) fair value through income statement) depending on the Group's business model.

Investment in equity-type instrument is carried as investment at fair value through income statement unless the Group make an irrevocable classification choice at initial recognition to classify this as investment at fair value through equity. An investment held for trading purposes shall always fall in fair value through income statement classification.

Recognition and Initial measurement
All investment shall be initially recognized at their value plus transaction costs except for investments at fair value through income statement. Transaction costs relating to investments at fair value through income statement are charged to the consolidated statement of income when incurred. A regular way purchase of investments shall be recognized upon the transfer of control to investor.

Subsequent measurement

a) Investments at amortised cost
Investments carried at amortised cost shall be re-measured as such using the effective profit rate method. All gains or losses arising from the amortization process and those arising from de-recognition or impairment of the investment, are recognized in the consolidated statement of income. Investment carried at amortised cost shall be tested for impairment at each reporting period in accordance with FAS 30 "Impairment, credit losses and onerous commitments".

b) Investments at fair value through income statement
Investment carried at fair value through income statement shall be re-measured at fair value at end of each reporting period. The resultant remeasurement gain or loss, if any being the difference between the carrying amount and the fair value shall be recognized in the consolidated statement of income.

c) Investments at fair value through equity
Investment carried at fair value through equity shall be re-measured at fair value at the end of each reporting period. The resultant re-measurement gain or loss, if any, being the difference between the carrying amount and the fair value shall be directly recognized in equity under "fair value through equity reserve". Investment carried at fair value through equity shall be tested for impairment at each reporting period in accordance with FAS 30 "Impairment, credit losses and onerous commitments".

2 ACCOUNTING POLICIES (continued)

2.6 New standards, interpretations and amendments adopted by the Group (continued)

FAS 33 Investment in sukuk, shares and similar instruments (FAS 33) (continued)

Reclassification

When, and only when, the Group changes its business model for managing investments, it shall reclassify all affected financial assets prospectively from the reclassification date. In case of reclassification, the Group shall not restate any previously recognized gains, losses (including impairment gains or losses) or returns/ profits.

FAS 34 Financial Reporting for Sukuk -holders

This standard prescribes the accounting principles and reporting requirements for underlying assets of a sukuk instrument. It requires the originator to prepare or cause to prepare financing reports as needed under this standard. This standard shall be effective from the financial periods beginning on or after 1 January 2021, with early adoption permitted.

2.7 Summary of accounting policies

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

2.7.1 Financial contracts

Financial contracts consist of balances with banks and the Central Banks, Due from banks, Sukuk, Murabaha financing (net of deferred profits), Ijarah Muntahia Bittamleek, Musharaka, other assets, financing commitments and financial guarantee contracts. Balances relating to these contracts are stated net of allowance for credit losses.

2.7.2 Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash in hand, balances with central banks in non-restricted accounts, balances with other banks and financial institutions and receivables with an original maturity of 90 days or less.

2.7.3 FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30")

Financial assets consist of cash and balances with banks and financial institution, receivables and Musharaka financing, Investments - debt type instruments at amortised cost, Ijarah Muntahia Bittamleek and certain other assets. Balances relating to these contracts are stated net of allowance for expected credit losses.

Impairment of financial assets

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

Stage 1: twelve months ECL

For exposures where there has not been a Significant Increase in Credit Risk ("SICR"), since initial recognition, a portion of the lifetime ECL's that represent the ECL that result from default events on a financial contract that is possible within 12 months after the reporting date (or a shorter period if the expected life of the financial instrument is less than 12 months).

Stage 2: Lifetime ECL - not credit impaired

For credit exposures where there has been a SICR since initial recognition but that are not credit impaired, a lifetime ECL is recognised. Lifetime ECL is the loss that results from all possible default events over the expected life of the financial contract.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of accounting policies (continued)

2.7.4 FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30") (continued)

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

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

For Stage 3 financial contracts, the losses for credit-impairment are determined based on the difference between the net carrying amount and the recoverable amount of the financial contract. In this respect, the Bank recognises the lifetime expected credit losses for these financing with the PD set at 100%.

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

- significant financial difficulty of the obligor or issuer;
- a breach of contract such as a default or past due event; or
- probability that the borrower will enter bankruptcy or other financial reorganization.

Measurement of ECL
Following are the key inputs into the measurement of ECL:

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

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

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

Probability of default
Credit risk grades are a primary input into the determination of the term structure of Probability of Default (PD) for exposures. The Group collects performance and default information about its credit risk exposures analysed by credit risk grading for corporate and days-past-due for retail portfolio. The Group employs statistical models for analysing the data collected and generates estimates of 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, across various geographies in which the Group operates.

Types of PDs used for ECL computation

- 12-month PDs – This is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months). This is used to calculate 12-month ECLs.
- Lifetime PDs – This is the estimated probability of a default occurring over the remaining life of the financial instrument. This is used to calculate lifetime ECLs for ‘stage 2’.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of accounting policies (continued)

2.7.4 FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30") (continued)

Probability of default (continued)

Incorporation of forward - looking information
The Group considers latest available economic forecasts published by the International Monetary Fund (IMF) or other reputed service providers, for 5 years. The Group employs statistical models to incorporate macro-economic factors on historical default rates. In case none of the macro-economic parameters are statistically significant or the results of forecasted PDs are significantly deviated from the present forecast for the economic conditions, quantitative PD overlay shall be used by the management after analyzing the portfolio.

Incorporating forward-looking information increases the level of judgment as to how changes in these macroeconomic factors will affect the ECL applicable to the stage 1 and stage 2 exposures which are considered as performing (Stage 3 are the exposures under default category). As per the policy the, methodologies and assumptions involved, including any forecasts of future economic conditions, are required to be reviewed periodically.

Loss Given Default
LGD is a magnitude that determines the amount of loss that will arise if the obligor was to default. This is calculated by looking at the collateral and other recourses available to the Group that can be used to recover the asset in case of default.

The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties, based on historical data using both internal and external factors. For Estimation of LGD, the Group considers use of any of the following methods:

Internal default history: When data is available LGD can be estimated using the historical default information and corresponding recovery data.

Basel LGD: local regulatory recommended Basel LGD adjusted depending on the available collateral.

Collateral-based LGD: for secured financing the Group uses collateral-based LGD, where the Group has effective collateral management framework that is able to assess and provide up to date collateral valuation and establish legal charge and enforceability. However, the Group applies 10% floor regardless of collateral coverage of the exposure.

Exposure At Default (EAD)
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 amounts allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For financing commitments and financial guarantees, the EAD is converted to on balance sheet equivalents.

On-balance sheet EADs
EADs for on-balance sheet items are the amount that is outstanding at the time of default. Outstanding of an on-balance sheet exposure shall be directly taken subject to inclusion of its repayment structure.

Prepayments have to be estimated using previous trends and deducted from EAD while calculating ECL.

Off-balance sheet EADs
Off-balance sheet exposures do not have fixed payout date; thus, the EAD for off-balance sheet is calculated after applying the Credit Conversion Factor (CCF) to the nominal amount of the Off-balance sheet exposure. The Group uses following method to work out CCF for off- balance sheet EADs.

Regulatory CCFs - In absence of internal data, The Group uses same as Basel CCF that are used for calculating the Capital Adequacy Ratio (CAR) as per the CBB regulations. These rates are 20% for exposures with maturity equal to or less than 1 year and 50% for exposures with maturity of more than 1 year.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of accounting policies (continued)

2.7.4 FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30") (continued)

Exposure At Default (EAD) (continued)

Collective ECL computation and staging

ECL on individually large exposures and credit-impaired finances are generally measured individually. For retail exposures and other exposures to small sized enterprises, where less client-specific information is available, ECL is measured on a collective basis. This incorporates obligor-specific information, such as delinquency, collective historical experience of losses and forward-looking macroeconomic information.

To assess the staging of exposures and to measure a loss allowance on a collective basis, the Group combines its exposures into segments on the basis of shared credit risk characteristics, such as geography, type of customer, industry, rating, date of initial recognition, maturity and collateral value.

Significant Increase in Credit Risk

When determining whether the risk of default on a financial contracts has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost and efforts. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment including forward-looking information, including days past due and risk rating.

The assessment is carried out for specific facility rather than a counterparty. As each facility may have had different credit risk at initial recognition.

The application of above requirements of SICR to various locations of the Group varies depending on a number of circumstances faced by each location and each location applies a robust risk assessment methodology that is commensurate with the size, complexity, structure, economic significance and risk profile of its portfolio.

Renegotiated financial assets

The contractual terms of a financing may be modified for a number of reasons including changing market conditions, and other factors not related to the current or potential credit deterioration of a customer. When the terms of a financial asset are modified and the modification does not result in a derecognition, the determination of whether the asset's credit risk has increased significantly reflects a comparison of its remaining lifetime PD at the reporting date based on modified terms, with the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Group renegotiates financing to customers in financial difficulties to maximize collection opportunities and minimize the risk of default. This may involve extending the payment arrangements and documenting the agreement of new conditions for providing finance. Management continuously reviews renegotiated facilities to ensure that all criteria are met and that future payments are likely to occur.

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

Backward transition

FAS 30 staging model is of symmetrical nature as movement across stages is a "Two Way" phenomenon. However, backward movement across stages are not immediate once SICR indicators are no longer triggered. Once such indicators are no longer triggered, movement back to Stage 1 or Stage 2 has to be calibrated and cannot be automatic or immediate. Certain criteria like cooling off period, SICR indicators and payment history are considered for migrating customers backwards to Stage 2 or Stage 1. Following factors including cure period are considered for any backward transition:

2 ACCOUNTING POLICIES (continued)

2.7 Summary of accounting policies (continued)

2.7.4 FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30") (continued)

Backward transition (continued)

From Stage 2 to stage 1

- The criteria to classify the exposure into Stage 2 (criteria covered in SICR section above) is no longer present;
- Up to date payment with no arrears;
- A minimum cool-off/cure period of 6 months for any stage 2 accounts; and
- A minimum cool-off/cure period of 12 months for restructured accounts.

From stage 3 to stage 2

- The criteria to classify the exposure into Stage 3 (criteria covered in default section above) is no longer present;
- Up to date payment with no arrears; and
- A minimum cool-off/cure period of 12 months for non-performing and restructured facilities.

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

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

Write-offs
Financing facilities are written-off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the obligor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written-off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

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

- financial assets measured at amortised cost, as a deduction from the gross carrying amount of the assets;
- financing commitments and financial guarantee contracts: generally as a provision included in other liabilities; and
- where a financial contract includes both a drawn and undrawn component, and the Group has identified the ECL on the financing commitments / off-balance sheet component separately from those on the drawn component, allowance for credit losses on undrawn component is presented as a provision in other liabilities; where the Group has not identified the the ECL on the financing commitments / off-balance sheet component separately from those on the drawn component, allowance for credit losses on undrawn component is presented against the drawn commitment.

2.7.5 Investments
Investments comprise equity-type instruments at fair value through statement of income and through equity, debt-type instruments at amortised cost and through statement of income and investment in real estate.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of accounting policies (continued)

2.7.5 Investments (continued)

Investment in real estate
Properties held for rental, or for capital appreciation purposes, or both, are classified as investment in real estate. Investments in real estate are initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, Investments in real estate are re-measured at fair value and changes in fair value (only gains) are recognised as property fair value reserve in the consolidated statement of changes in owners' equity.

Losses arising from changes in the fair values of investment in real estate are firstly adjusted against the property fair value reserve to the extent of the available balance and then the remaining losses are recognised in the consolidated statement of income. If there are unrealised losses that have been recognised in the consolidated statement of income in the previous financial periods, the current period unrealised gain shall be recognised in the consolidated statement of income to the extent of crediting back such previous losses in the consolidated statement of income. When the property is disposed of, the cumulative gain previously transferred to the property fair value reserve, is transferred to the consolidated statement of income.

Equity-type instruments at fair value through profit and loss
Investments at fair value through statement of income include investments held for trading and investments designated upon initial recognition as investments at fair value through statement of income. An investment is classified as held for trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealer’s margin. Any investments that form part of a portfolio where there is an actual pattern of short-term profit taking are also classified as ‘held for trading’.These investments are subsequently measured at fair value. The unrealised gains and losses arising from the remeasurement to fair value are included in the consolidated statement of income.

Equity-type instruments at fair value through equity
This includes all equity-type instruments that are designated as fair value through equity upon initial recognition. Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value with unrealised gains or losses recognised proportionately in owners' equity and equity of investment accountholders until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in owners' equity or equity of investment accountholders is recognised in consolidated statement of income.

Debt-type instruments at fair value through statement of income
These include debt-type investments held for trading purposes and those investments that are designated under this category on initial recognition. Subsequent to acquisition, investments designated at fair value through consolidated statement of income are re-measured at fair value with unrealised gains or losses recognised in consolidated statement of income.

Debt-type instruments at amortised cost
Debt-type instruments which are managed on a contractual yield basis and are not held for trading and has not been designated at fair value through statement of income are classified as debt-type instruments at amortised cost. Such investments are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such investment is recognised in the consolidated statement of income, when the investment is de-recognised or impaired.

Investment in joint venture
Investment in joint venture is accounted for using the equity method of accounting. Under the equity method, the investment in the joint venture is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group’s share of net assets of the joint venture.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of accounting policies (continued)

2.7.5 Investments (continued)

Investment in joint venture (continued)
After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in the joint venture. The Group determines at each reporting date whether there is any objective evidence that the investment in the joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount in the consolidated statement of income.

The consolidated statement of income reflects the share of the results of operations of the joint venture. Where there has been an income or expense recognised in the other comprehensive income of the joint venture, the Group recognises its share of any such income or expense, when applicable, in other comprehensive income. Gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of stake in the joint venture.

2.7.6 Premises and equipment
Premises and equipment are stated at cost less accumulated depreciation and accumulated impairment in value except for land which is carried at fair value subsequent to initial recognition. The cost of additions and major improvements are capitalised; maintenance and repairs are charged to the consolidated statement of income as incurred. Gains or losses on disposal are reflected in other operating income. Depreciation is calculated using the straight-line method at rates intended to write-off the cost of the assets over their estimated useful lives. Any subsequent change in fair value of land (only gains) are recognised as property fair value reserve in the consolidated statement of changes in owners' equity.

Losses arising from changes in the fair value of land is first adjusted against the property fair value reserve to the extent of the available balance and then the remaining losses are recognised in the consolidated statement of income. If there are unrealised losses that have been recognised in the consolidated statement of income in the previous financial periods, the current period unrealised gain shall be recognised in the consolidated statement of income to the extent of crediting back such previous losses in the consolidated statement of income. When the land is disposed of, the cumulative gain previously transferred to the property fair value reserve, is transferred to the consolidated statement of income.

2.7.7 Fair values
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability, and the principal or the most advantageous market must be accessible to by the Group.

Fair value is determined for each financial asset individually in accordance with the valuation policies set out below:

(i) For investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the reporting date.

(ii) For unquoted investments, fair value is determined by reference to recent significant buy or sell transactions with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.

(iii) For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for investments with similar terms and risk characteristics.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of accounting policies (continued)

2.7.7 Fair values (continued)

(iv) Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost, less provision for impairment.

2.7.8 Business combination and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets and liabilities (including contingent liabilities) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the consolidated statement of income in the year of acquisition.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

2.7.9 Equity of investment accountholders

All equity of investment accountholders are initially measured at cost being the fair value of consideration received at the inception of contracts. Subsequently, the equity of investment accountholders are carried at cost inclusive of undistributed profit or accumulated losses and reserves.

2.7.10 Investment risk reserve

Investment risk reserves are amounts appropriated out of the income of equity of investment accountholders, after allocating the mudarib share, in order to cater against future losses for equity of investment accountholders.

2.7.11 Profit equalisation reserve

Profit equalisation reserves are amounts appropriated out of the Mudaraba income, before allocating the mudarib share, in order to maintain a certain level of return on investments for equity of investment accountholders.

2.7.12 Off-balance sheet equity of investment accountholders

Off-balance sheet equity of investment accountholders represents funds received by the Group from third parties for investment in specified products as directed by the investment accountholders. These assets are managed in a fiduciary capacity and the Group has no entitlement to these assets. Clients bear all of the risks and earn all of the rewards on these investments. Off-balance sheet equity of investment accountholders are not included in the consolidated statement of financial position since the Group does not have the right to use or dispose these investments except within the conditions of the contract between the Group and off-balance sheet equity of investment accountholders.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of accounting policies (continued)

2.7.13 Revenue recognition

Murabaha receivable
Profit from sales transactions (murabaha) is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised on a time-apportioned basis over the period of the transaction. Where the income from a contract is not contractually determinable or quantifiable, it is recognised when the realisation is reasonably certain or when actually realised. Income related to accounts that are non-performing is excluded from the consolidated statement of income.

Mudaraba financing
Income on mudaraba financing is recognised when the right to receive payment is established or on distribution by the mudarib, whereas losses are charged to income on declaration by the mudarib.

Wakala financing
Income on Wakala financing is accrued on a time apportioned basis over the period of the contract based on the principal amounts outstanding.

Ijara Muntahia Bittamleek
Ijara income is recognised on a time apportioned basis over the Ijara term and is stated net of depreciation. Income related to non-performing ijara muntahia bittamleek accounts that are non-performing is excluded from the consolidated statement of income.

Musharaka
Income on musharaka is recognised when the right to receive payment is established or on distribution.

Salam and Istisna'a receivables
Income on Salam and Istisna'a is recognised on time-apportioned basis when the income from a contract is contractually determinable or quantifiable.

Group's share of income from equity of investment accountholders (as a Mudarib)
The Group’s share as a Mudarib for managing equity of investment accountholders is accrued based on the terms and conditions of the related Mudarib agreements.

Fees and commission income
Fees and commission income including structuring fees is recognised when earned.

Dividends
Dividends are recognised when the right to receive payment is established.

Mudarib’s share of off-balance sheet equity of investment accountholders
The Group shares profit for managing off-balance sheet equity of investment accountholders based on the terms and conditions of related contracts.

Income from debt type instrument
Income on debt type securities is amortized to profit and loss on effective profit rate.

Rental income
Rental income is accounted for on a straight-line basis over the Ijara terms.

2.7.14 Return on equity of investment accountholders
Investors' share of income is calculated based on the income generated from joint investment accounts after deducting the expenses related to investment pool "mudarib expenses". Mudarib expenses include all expenses incurred by the Group, including specific provisions, but excluding staff costs and depreciation. The Group's "mudarib profit" is deducted from the investors' share of income before distributing such income. In some cases, equity of investment accountholders withdrawn before maturity are entitled to income only after deducting a penalty charge.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of accounting policies (continued)

2.7.14 Return on equity of investment accountholders (continued)

The basis applied by the Group in arriving at the investment accountholders share of income is [total investment income less investment pool expenses] divided by [average funds generating income (shareholders and investment accountholders) times average funds of equity of investment accountholders].

2.7.15 Investment pool expenses

Investment pool expenses include business, administrative, general and other expenses.

2.7.16 Taxation

There is no tax on corporate income in the Kingdom of Bahrain. The subsidiary in Pakistan pays tax as per Pakistan tax regulations.

Current

Provision for current taxation is based on taxable income in accordance with the tax laws as applicable in Pakistan.

Deferred

The Group accounts for deferred taxation on material temporary differences using the liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences. Deferred tax assets are recognised only if there is a reasonable expectation of realisation in the foreseeable future. Deferred tax is reduced to the extent that it is no longer probable that related tax benefits will be realised.

2.7.17 Contingencies and Commitments

Contingencies are possible obligation or assets that arises from past events and whose existence will be confirmed only by occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Further, the obligation arisen from past events where the liability cannot be determined with reasonable certainty or probability of outflow of resources cannot be determined are also contingencies.

A commitment is a binding contract for the exchange of a specified quantity of resources at a specific price on a specified future dates or date.

2.7.18 Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

(i) the right to receive cash flows from the asset has expired;

(ii) the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either (a) the Group has transferred substantially all the risks and rewards of ownership or (b) when it has neither transferred or retained substantially all the risks and rewards and when it no longer has control over the financial asset, but has transferred control of the asset; or

(iii) the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of accounting policies (continued)

2.7.19 Earnings prohibited by Shari'a
The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non Islamic income is credited to a charity fund where the Group uses these funds for social welfare activities.

2.7.20 Foreign currencies

(i) Transactions and balances
Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. All differences are taken to consolidated statement of income at the entity level.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item.

(ii) Group companies
As at the reporting date, the assets and liabilities in foreign currencies are translated into the presentation currency of the Group (United States Dollar) at the rate of exchange ruling at the reporting date and their income and expenses are translated at the average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of owners' equity. On disposal of a foreign operation, the deferred cumulative amount recognised in owners' equity relating to that particular foreign operation is recognised in the consolidated statement of income.

2.7.21 Employees' end of service benefits
Provision is made for leaving indemnity payable under the Bahraini Labour Law applicable to non-Bahraini employees' accumulated periods of service at reporting date. Moreover provision for indemnity payable is also made for Bahraini employees.

Bahraini employees of the Group are covered by contributions made to the Social Insurance Organisation (SIO) as a percentage of the employees' salaries. the Group's obligations are limited to these contributions, which are expensed when due.

The subsidiary in Pakistan also operates a recognised contributory provident fund for all permanent employees. Equal monthly contributions are made, both by the subsidiary and the employees, to the fund at a rate of 10 percent of basic salary.

The subsidiary in Pakistan operates an approved funded gratuity scheme for all its permanent employees. Annual contributions are made to the scheme in accordance with the actuarial recommendation. The actuarial valuation is carried out using the projected unit credit method.

2.7.22 Zakah
The responsibility of payment of zakah is on individual shareholders and investment accountholders. In Pakistan, zakah is deducted at source from accountholders as required by local laws. Zakah per share is presented in the Shari'a Supervisory Board Report.

2.7.23 Joint and self financed
Investments, financing and receivable that are jointly owned by the Group and the equity of investment accountholders are classified under the caption "jointly financed" in the consolidated financial statements. Investments, financing and receivable that are financed solely by the Group are classified under "self financed".

2 ACCOUNTING POLICIES (continued)

2.7 Summary of accounting policies (continued)

2.7.24 Offsetting
Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legal or religious 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.

2.7.25 Shari'a supervisory board
The Group's business activities are subject to the supervision of a Shari'a supervisory board consisting of three members appointed by the general assembly of shareholders.

2.7.26 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.

2.7.27 Investment agency (Al-Wakala Bi Al-Istithmar)

a) Wakala as Muwakkil (Principal)
At the inception of the transaction, the Bank as "principal /(investor)" shall evaluate the nature of investment as either:

i. pass-through investment; or
ii. Wakala venture.

i.Pass through Investment
A pass-through investment is an investment in which the involvement of the agent, as well as, the options for transferability of the instrument are limited and the investor principally takes a direct exposure on the underlying assets. On initial recognition, the asset shall be recognized underlying the Wakala arrangement applying the initial recognition principles as applicable in line with respective FAS, and in absence thereof, in line with the generally accepted accounted principles applicable to such balances.

ii.Wakala Venture
These are investments, under a Wakala agency contract, in transferable instruments or the investment made in a single asset (or pool of assets) where such asset(s) are subject to frequent changes throughout the term of the contract i.e. there are routine changes or replacements over the term of arrangement (unless it constitutes a business) at the discretion of the agent; or the role of the agent is not limited whereby the agent performs day-to-day asset management function and, where applicable, is also responsible for replacement of assets or recoveries against them. On initial recognition, these assets will be recognized at cost in Wakala Venture. Subsequently, the carrying amount is adjusted to incorporate gains/ losses net of agent's remuneration and impairments, if any.

b) Wakala as Wakeel (Agent)

i) Off Balance Sheet Approach
These transaction will be recognized as an agency arrangement under off-balance sheet approach whereby, at inception of arrangement, since the Bank does not control the related assets / business, it does not record the assets and related income and expenditure in its books of account.

The agency remuneration, including fixed and variable components thereof, will be recognized on an accrual basis i.e. when the relevant services are provided. Any expenses, including losses reimbursable will be recognized when due.

ii) Multi level arrangements
The Bank maintains multi-level investment arrangements to invest funds received under "Wakala "to invest as "Mudaraba" in jointly financed assets. The funds invested under such arrangements are recorded and disclosed as "On Balance Sheet Equity Accountholders" in consolidated statement of financial position.

2 ACCOUNTING POLICIES (continued)

2.8 Judgements and estimates

In the process of applying the Group's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgements and estimates are as follows:

Classification of investments

Management decides on acquisition of an investment whether it should be classified as equity-type instrument at fair value through statement of income, equity-type instrument at fair value through equity, debt-type instrument at fair value through statement of income or debt-type instrument at amortised cost.

Impairment and uncollectibility of financial assets

In determining impairment on financial assets, judgment is required in the estimation of the amount and timing of future cash flows as well as an assessment of whether credit risk on the financial contract has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of expected credit losses ("ECL").

Impairment of Goodwill

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU (or group of CGUs) is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Going concern

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

3 CASH AND BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS

	2020	*2019*
	BD '000	*BD '000*
Cash in hand	**16,720**	13,730
Balances with State Bank of Pakistan		
Current account	**1,223**	2,838
Mandatory reserves	**20,977**	50,091
	22,200	52,929
Balances with CBB		
Current account	**3,438**	1,947
Mandatory reserves	**6,553**	10,117
	9,991	12,064
Balances with other banks and financial institutions	**62,257**	51,246
	111,168	129,969

The mandatory reserves with central banks are not available for use in the day-to-day operations.

4 RECEIVABLES

	2020			2019		
	Self financed BD '000	Jointly financed BD '000	Total BD '000	Self financed BD '000	Jointly financed BD '000	Total BD '000
Commodities and Wakala with FIs	-	60,704	60,704	-	4,374	4,374
Salam financing	-	23,073	23,073	-	36,254	36,254
Istisna'a financing	-	50,174	50,174	-	42,789	42,789
Murabaha	535	93,515	94,050	756	85,463	86,219
Bills receivable and others	-	12,833	12,833	-	27,375	27,375
Gross receivables	535	240,299	240,834	756	196,255	197,011
Deferred profits (4.1)	(20)	(6,858)	(6,878)	(20)	(7,564)	(7,584)
	515	233,441	233,956	736	188,691	189,427
Allowances for expected credit losses (4.2)	(140)	(23,661)	(23,801)	(140)	(19,739)	(19,879)
Net receivables	375	209,780	210,155	596	168,952	169,548

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification. The amounts presented are gross of expected credit losses allowances.

	2020				2019
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000	Total BD '000
Good (1-4)	60,358	8,240	-	68,598	73,751
Satisfactory (5-7)	90,023	40,883	-	130,906	88,720
Default (8-10)	-	-	34,452	34,452	26,956
	150,381	49,123	34,452	233,956	189,427

4.1 Movements in deferred profit from murabaha contracts:

	2020 BD '000	2019 BD '000
Deferred profit at the beginning of the year	7,584	7,393
Murabaha sales revenue during the year	84,324	143,139
Murabaha cost of sales	(81,498)	(126,419)
Profit accrued during the year	(3,532)	(14,068)
Deferred profit written off during the year	-	(263)
Deferred profit waived during the year	-	(2,198)
Deferred profit at the end of the year	6,878	7,584

4 RECEIVABLES (continued)

4.2 Allowances for expected credit losses

An analysis of the changes in ECL allowances, is as follows:

	2020			
	Stage 1: 12-month ECL BD '000	***Stage 2: Lifetime ECL not credit-impaired BD '000***	***Stage 3: Lifetime ECL credit-impaired BD '000***	***Total BD '000***
Balance at 1 January	**350**	**3,851**	**15,678**	**19,879**
Changes during the year:				
- transferred to Stage 1: 12 month ECL	**4**	**(2)**	**(2)**	**-**
- transferred to Stage 2: Lifetime ECL not credit-impaired	**(2)**	**2**	**-**	**-**
- transferred to Stage 3: Lifetime ECL credit-impaired	**-**	**(12)**	**12**	**-**
Net remeasurement of loss allowance	**170**	**1,599**	**4,247**	**6,016**
Recoveries / write-backs	**-**	**-**	**(129)**	**(129)**
	172	**1,587**	**4,128**	**5,887**
Reclassification from Wakala Pool	**69**	**100**	**-**	**169**
Amounts written off during the year	**-**	**-**	**(1,768)**	**(1,768)**
FX translation	**(5)**	**(10)**	**(351)**	**(366)**
Balance at 31 December	**586**	**5,528**	**17,687**	**23,801**

	2019			
	Stage 1: 12-month ECL BD '000	*Stage 2: Lifetime ECL not credit-impaired BD '000*	*Stage 3: Lifetime ECL credit-impaired BD '000*	*Total BD '000*
Balance at 1 January	505	3,073	24,693	28,271
Changes during the year:				
- transferred to Stage 1: 12 month ECL	5	(2)	(3)	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(7)	12	(5)	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(5)	(5)	10	-
Net remeasurement of loss allowance	(65)	897	5,462	6,294
Recoveries / write-backs	-	-	(797)	(797)
	(72)	902	4,667	5,497
Reclassification to Wakala Pool	(69)	(100)	-	(169)
Amounts written off during the year	-	-	(12,654)	(12,654)
FX translation	(14)	(24)	(1,028)	(1,066)
Balance at 31 December	350	3,851	15,678	19,879

5 IJARA MUNTAHIA BITTAMLEEK AND IJARA RECEIVABLES

	2020			2019		
	Self financed BD '000	***Jointly financed BD '000***	***Total BD '000***	*Self financed BD '000*	*Jointly financed BD '000*	*Total BD '000*
Ijara Muntahia Bittamleek (5.1)	**9,206**	**97,497**	**106,703**	10,463	83,463	93,926
Ijara receivables (5.2)	**4,627**	**13,647**	**18,274**	3,780	11,839	15,619
	13,833	**111,144**	**124,977**	14,243	95,302	109,545
Allowance for expected credit losses (5.3)	**(144)**	**(3,623)**	**(3,767)**	(45)	(2,920)	(2,965)
	13,689	**107,521**	**121,210**	14,198	92,382	106,580

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification. The amounts presented are gross of expected credit losses allowances.

	2020				2019
	Stage 1: 12-month ECL BD '000	***Stage 2: Lifetime ECL not credit-impaired BD '000***	***Stage 3: Lifetime ECL credit-impaired BD '000***	***Total BD '000***	*Total BD '000*
Good (1-4)	**109,751**	**87**	**-**	**109,838**	89,432
Satisfactory (5-7)	**1,990**	**3,117**	**-**	**5,107**	9,607
Default (8-10)	**-**	**-**	**10,032**	**10,032**	10,506
	111,741	**3,204**	**10,032**	**124,977**	109,545

5.1 Ijara muntahia bittamleek

	2020			2019		
	Self financed BD '000	***Jointly financed BD '000***	***Total BD '000***	*Self financed BD '000*	*Jointly financed BD '000*	*Total BD '000*
Land and building						
Cost	**-**	**125,066**	**125,066**	-	111,048	111,048
Accumulated depreciation	**-**	**(28,243)**	**(28,243)**	-	(28,193)	(28,193)
Net book value	**-**	**96,823**	**96,823**	-	82,855	82,855
Equipment						
Cost	**15,868**	**443**	**16,311**	16,400	428	16,828
Accumulated depreciation	**(6,662)**	**(364)**	**(7,026)**	(5,936)	(221)	(6,157)
Net book value	**9,206**	**79**	**9,285**	10,464	207	10,671
Others						
Cost	**-**	**3,106**	**3,106**	**-**	2,404	2,404
Accumulated depreciation	**-**	**(2,511)**	**(2,511)**	**-**	(2,004)	(2,004)
Net book value	**-**	**595**	**595**	-	400	400
TOTAL						
Cost	**15,868**	**128,615**	**144,483**	16,400	113,880	130,280
Accumulated depreciation	**(6,662)**	**(31,118)**	**(37,780)**	(5,936)	(30,418)	(36,354)
Net book value	**9,206**	**97,497**	**106,703**	10,464	83,462	93,926

5 IJARA MUNTAHIA BITTAMLEEK AND IJARA RECEIVABLES (continued)

5.2 Ijara receivables

	2020			*2019*		
	Self financed BD '000	***Jointly financed BD '000***	***Total BD '000***	*Self financed BD '000*	*Jointly financed BD '000*	*Total BD '000*
Ijara receivable	**4,627**	**13,647**	**18,274**	3,780	11,839	15,619
	4,627	**13,647**	**18,274**	**3,780**	**11,839**	**15,619**

5.3 Allowances for expected credit losses

An analysis of the changes in ECL allowances, is as follows:

	2020			
	Stage 1: 12-month ECL BD '000	***Stage 2: Lifetime ECL not credit-impaired BD '000***	***Stage 3: Lifetime ECL credit-impaired BD '000***	***Total BD '000***
Balance at 1 January	**65**	**213**	**2,687**	**2,965**
Changes during the year:				
- transferred to Stage 1: 12 month ECL	**20**	**(6)**	**(14)**	**-**
- transferred to Stage 2: Lifetime ECL not credit-impaired	**(2)**	**138**	**(136)**	**-**
- transferred to Stage 3: Lifetime ECL credit-impaired	**-**	**(20)**	**20**	**-**
Net remeasurement of loss allowance	**253**	**(238)**	**892**	**907**
Recoveries / write-backs	**-**	**-**	**(70)**	**(70)**
Allowances for credit losses	**271**	**(126)**	**692**	**837**
Amounts written off during the year	**-**	**-**	**(1)**	**(1)**
FX translation	**-**	**(1)**	**(33)**	**(34)**
Balance at 31 December	**336**	**86**	**3,345**	**3,767**

	2019			
	Stage 1: 12-month ECL BD '000	*Stage 2: Lifetime ECL not credit-impaired BD '000*	*Stage 3: Lifetime ECL credit-impaired BD '000*	*Total BD '000*
Balance at 1 January	83	284	5,290	5,657
Changes during the year:				
- transferred to Stage 1: 12 month ECL	8	(8)	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(3)	3	-	-
- transferred to Stage 3: Lifetime ECL credit-impaired	-	(102)	102	-
Net remeasurement of loss allowance	(22)	46	734	758
Recoveries / write-backs	-	-	(157)	(157)
Allowances for credit losses	(17)	(61)	679	601
Amounts written off during the year	-	-	(3,162)	(3,162)
FX translation	(2)	(9)	(120)	(131)
Balance at 31 December	64	214	2,687	2,965

6 MUSHARAKAS

	2020			2019		
	Self financed BD '000	Jointly financed BD '000	Total BD '000	Self financed BD '000	Jointly financed BD '000	Total BD '000
Musharakas	**12,683**	**123,170**	**135,853**	15,055	77,398	92,453
Allowances for expected credit losses (6.1)	**-**	**(3,798)**	**(3,798)**	-	(2,918)	(2,918)
	12,683	**119,372**	**132,055**	15,055	74,480	89,535

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification. The amounts presented are gross of expected credit losses allowances.

	2020				2019
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000	Total BD '000
Good (1-4)	**76,920**	**37,343**	**-**	**114,263**	79,611
Satisfactory (5-7)	**6,121**	**11,509**	**-**	**17,630**	8,794
Default (8-10)	**-**	**-**	**3,960**	**3,960**	4,048
	83,041	**48,852**	**3,960**	**135,853**	92,453

6 MUSHARAKAS (continued)

6.1 Allowances for expected credit losses

An analysis of the changes in ECL allowances, is as follows:

	2020			
	Stage 1: 12-month ECL BD '000	***Stage 2: Lifetime ECL not credit-impaired BD '000***	***Stage 3: Lifetime ECL credit-impaired BD '000***	***Total BD '000***
Balance at 1 January	**421**	**578**	**1,919**	**2,918**
Changes during the year:				
- transferred to Stage 2: Lifetime ECL not credit-impaired	**(100)**	**100**	**-**	**-**
Net remeasurement of loss allowance	**312**	**375**	**427**	**1,114**
Recoveries / write-backs	**-**	**-**	**(143)**	**(143)**
	212	**475**	**284**	**971**
FX translation	**(13)**	**(18)**	**(60)**	**(91)**
Balance at 31 December	**620**	**1,035**	**2,143**	**3,798**

	2019			
	Stage 1: 12-month ECL BD '000	*Stage 2: Lifetime ECL not credit-impaired BD '000*	*Stage 3: Lifetime ECL credit-impaired BD '000*	*Total BD '000*
Balance at 1 January	581	447	1,842	2,870
Changes during the year:				
- transferred to Stage 1: 12 month ECL	26	(26)	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(15)	15	-	-
Net remeasurement of loss allowance	(111)	187	384	460
Recoveries / write-backs	-	-	(116)	(116)
	(100)	176	268	344
FX translation	(60)	(46)	(190)	(296)
Balance at 31 December	421	577	1,920	2,918

7 INVESTMENTS

	2020			2019		
	Self financed BD '000	***Jointly financed BD '000***	***Total BD '000***	*Self financed BD '000*	*Jointly financed BD '000*	*Total BD '000*
i) Debt-type instruments at fair value through statement of income						
Quoted						
Sukuk	**-**	**1,278**	**1,278**	-	-	-
ii) Debt-type instruments at amortised cost (Note 7.1)						
Quoted						
Sukuk	**179,167**	**104,493**	**283,660**	105,290	10,236	115,526
Unquoted						
Sukuk	**13,437**	**38,351**	**51,788**	45,816	85,476	131,292
	192,604	**142,844**	**335,448**	151,106	95,712	246,818
Allowances for expected credit losses	**(243)**	**(13)**	**(256)**	(90)	(23)	(113)
	192,361	**142,831**	**335,192**	151,016	95,689	246,705
iii) Equity-type instruments at fair value through statement of income						
Quoted						
Listed equity shares	**-**	**13**	**13**	**-**	77	77
iv) Equity-type instruments at fair value through equity - note (Note 7.2)						
Quoted						
Listed equity shares	**11,598**	**132**	**11,730**	10,800	126	10,926
Unquoted						
Unlisted equity shares	**23,877**	**123**	**24,000**	23,877	127	24,004
Managed funds	**377**	**-**	**377**	377	-	377
Real estate funds	**617**	**1,637**	**2,254**	617	-	617
	36,469	**1,892**	**38,361**	35,671	253	35,924
Provision for impairment	**(2,158)**	**(176)**	**(2,334)**	(2,009)	(182)	(2,191)
	34,311	**1,716**	**36,027**	33,662	71	33,733
Total investments	**226,672**	**145,838**	**372,510**	184,678	95,837	280,515

7 INVESTMENTS (continued)

Within unquoted investments which are held at fair value through equity are investments amounting to BD 25.4 million (2019: BD 24.1 million) which are held at cost less provision for impairment. These are mainly investments in unlisted companies whose shares are not traded on active markets. The investments are primarily in closely-held companies located in the Gulf Co-operation Council ("GCC"). The investments are held at cost less provision for impairment due to the unpredictable nature of their future cash flows and the lack of other suitable methods for determining a reliable fair value.

The Group's investments in sukuk held at amortised cost amounting to BD 336.5 million (2019: BD 246.7 million) has a fair value amounting to BD 337 million (2019: BD 251.7 million).

Investments stated at a carrying amount of BD 165.5 million (2019: BD 112.6 million) are placed in custody of a financial institution to secure a financing line.

7.1 Debt-type instruments at amortised cost

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification. The amounts presented are gross of expected credit losses allowances.

	2020				*2019*
	Stage 1: 12-month ECL BD '000	***Stage 2: Lifetime ECL not credit-impaired BD '000***	***Stage 3: Lifetime ECL credit-impaired BD '000***	***Total BD '000***	*Total BD '000*
Good (1-4)	**140,016**	**-**	**-**	**140,016**	64,776
Satisfactory (5-7)	**182,121**	**13,311**	**-**	**195,432**	182,042
Default (8-10)	**-**	**-**	**-**	**-**	-
	322,137	**13,311**	**-**	**335,448**	246,818

An analysis of the changes in ECL allowances, is as follows:

	2020			
	Stage 1: 12-month ECL BD '000	***Stage 2: Lifetime ECL not credit-impaired BD '000***	***Stage 3: Lifetime ECL credit-impaired BD '000***	***Total BD '000***
Balance at 1 January	**112**	**-**	**-**	**112**
Changes during the year				
Net remeasurement of loss allowance	**60**	**84**	**-**	**144**
	60	**84**	**-**	**144**
FX translation	**-**	**-**	**-**	**-**
Balance at 31 December	**172**	**84**	**-**	**256**

7 INVESTMENTS (continued)

7.1 Debt-type instruments at amortised cost (continued)

	2019			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Balance at 1 January	220	86	714	1,020
Changes during the year				
- transferred to Stage 1: 12 month ECL	14	(14)	-	-
Net remeasurement of loss allowance	(122)	(71)	154	(39)
	(108)	(85)	154	(39)
Amounts written off during the year	-	-	(868)	(868)
Balance at 31 December	112	1	-	113

7.2 Provision for impairment on equity type investments

	2020 BD '000	*2019* BD '000
Balance at 1 January	**2,191**	2,075
Charges for the year	**451**	375
Reversal for the year	**(265)**	(128)
Exchange difference	**(43)**	(131)
Balance at 31 December	**2,334**	2,191

8 INVESTMENT IN JOINT VENTURE

	2020 BD '000	*2019* BD '000
Balance at 1 January	**5,548**	5,531
Net share of (loss) / income for the year	**(32)**	17
Balance at 31 December	**5,516**	5,548

Name	*Nature of Business*	*Ownership* *2020*	*2019*
Danaat Al-Baraka	Real estate development	**51.00%**	51.00%

Summarised statement of financial position

	2020 BD '000	*2019* BD '000
Non-current assets	**16,602**	10,368
Current assets	**57**	582
Term liabilities	**(4,300)**	-
Current liabilities	**(1,545)**	(72)
Net assets	**10,814**	10,878
Group's ownership in equity	**5,516**	5,548
Net carrying amount	**5,516**	5,548

8 INVESTMENT IN JOINT VENTURE (continued)

	2020	*2019*
	BD '000	*BD '000*
Summarised statement of profit and loss		
Total income	**-**	52
Total expenses	**(62)**	(19)
Total comprehensive (loss) / income	**(62)**	33
Group's net share of (loss) / profit	**(32)**	17

9 INVESTMENTS IN REAL ESTATE

	2020	*2019*
	BD '000	*BD '000*
Balance at 1 January	**5,790**	1,975
Transfer from other assets	**-**	2,098
Transfer from premises and equipment	**-**	1,717
Disposals during the year	**(1,717)**	-
Unrealized loss on remeasurement	**(373)**	**-**
Balance at 31 December	**3,700**	5,790

10 PREMISES AND EQUIPMENT

	Land and Buildings	*Computer Software & license*	*Office furniture and equipment*	*Vehicles*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*	*BD '000*
Cost:					
At 1 January 2020	**13,831**	**6,858**	**13,579**	**224**	**34,492**
Additions	**187**	**1,068**	**388**	**125**	**1,768**
Disposals	**(45)**	**-**	**(224)**	**(60)**	**(329)**
Exchange difference	**(170)**	**(121)**	**(165)**	**(4)**	**(460)**
At 31 December 2020	**13,803**	**7,805**	**13,578**	**285**	**35,471**
Accumulated depreciation:					
At 1 January 2020	**2,109**	**5,263**	**9,091**	**198**	**16,661**
Depreciation for the year	**371**	**389**	**1,086**	**22**	**1,868**
Related to disposals	**(28)**	**-**	**(216)**	**(27)**	**(271)**
Exchange difference	**(54)**	**(77)**	**(125)**	**(3)**	**(259)**
At 31 December 2020	**2,398**	**5,575**	**9,836**	**190**	**17,999**
Net book values:					
At 31 December 2020	**11,405**	**2,230**	**3,742**	**95**	**17,472**
At 31 December 2019	11,723	1,593	4,487	27	17,830
Estimated useful life for calculation of depreciation	20-30 years	4-5 years	1-10 years	4-5 years	

11 GOODWILL

	2020 BD '000	2019 BD '000
Balances at 1 January	**5,467**	6,097
Foreign exchange translation	**(170)**	(630)
Balances at 31 December	**5,297**	5,467

Goodwill acquired through business combination has been entirely allocated to a single cash generating unit (CGU), Al Baraka Bank (Pakistan) Limited by the Group's management.

The recoverable amount of the CGU was determined based on value in use calculation using cash flow projections from financial budgets approved by the Group's senior management covering a five year period. Management determined budgeted spreads based on the CGU's past performance and its expectation of market development.

The key assumptions used in estimating recoverable amounts of cash generating units were sensitised to test the resilience of value in use calculations. Accordingly, management believes that reasonable changes in key assumptions used to determine the recoverable amount of the Group's cash generating units will not result in an impairment.

12 OTHER ASSETS

	2020 BD '000	2019 BD '000
Collaterals pending sale	**5,421**	5,613
Deferred tax (12.1)	**7,457**	8,640
Advance against capital expenditure	**2,340**	1,521
Accounts receivable	**5,113**	3,997
Advance tax	**251**	563
Income receivable	**135**	612
Prepayments	**661**	728
Others	**259**	3,279
Total	**21,637**	24,953
Provision for impairment	**(924)**	(969)
	20,713	23,984

12.1 The above net deferred tax asset has been recognised in accordance with the Group's accounting policy. The management based on financial projections prepared during the year, estimates that sufficient taxable profits would be available in future against which the deferred tax asset could be realised.

13 OTHER LIABILITIES

	2020 BD '000	2019 BD '000
Accounts payable	**5,014**	5,439
Margins received	**13,586**	14,193
Security deposit against Ijara Muntahia Bittamleek	**713**	1,284
Bills payable	**11,589**	7,849
Provision for employees benefits	**2,639**	2,157
Charity fund	**303**	236
Allowance for expected credit losses-unfunded facilities	**139**	290
Others	**5,756**	3,992
	39,739	35,440

14 EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH)

The Group manages and deploys Equity of IAH according to its Article of Association – Chapter 3 on Rules of Business. In this respect, the Group invests its own funds separately or jointly with amount received from Equity of Investment Account Holders. These funds received are managed in accordance with Shari'a requirements and standard of prudence is applied in the context of managing the overall portfolios to enable the Group to exercise its fiduciary responsibilities. The Group is authorised by the Investment Accountholders to invest the funds on the basis of mudaraba, murabaha, salam, ijara transactions and other forms of contract 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.

	2020 ***BD '000***	*2019* *BD '000*
IAH - Non-banks	**500,983**	441,699
IAH - Banks	**138,621**	99,906
Profit equalisation reserve (note 14.1)	**130**	86
	639,734	541,691

14.1 Movement in profit equalisation reserve

	2020 ***BD '000***	*2019* *BD '000*
Balance at 1 January	**86**	43
Amount apportioned from income allocable to equity of investment accountholders	**43**	43
Balance at 31 December	**129**	86

The Group appropriates a certain amount in excess of the profit to be distributed to equity of investment accountholders before taking into consideration the mudarib share of income. This is used to maintain a certain level of return on investment for equity of IAH.

The Group deducts investment risk reserve as per approved policy from the profit distributable to equity of investment accountholders of its Bahrain operations, after allocating the Mudarib share in order to meet future losses for equity of IAH.

The profit equalisation reserve and investment risk reserve will revert to investment accountholders as per terms and conditions of the Mudaraba contract.

As investment accountholder's funds are commingled with the Group's funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits.

The Group's share, as Mudarib, in the profits of equity of investment accountholders is up to a maximum of 70% (2019: up to 70%) as per the terms of IAH agreements.

The Group has charged a total administrative expense of BD 5.3 million (2019: BD 3.3 million) to equity of investment account holders for the year ended 31 December 2020.

14 EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH) (continued)

14.2 Equity of Investment Accountholders by maturity

	2020	*2019*
	BD '000	*BD '000*
Saving Accounts	**278,675**	232,508
One Month Investment Account	**41,160**	43,643
Three Months Investment Account	**84,947**	66,597
Six Months Investment Account	**20,377**	53,159
Nine Months Investment Account	**12,933**	3,975
1 Year Investment Account	**179,346**	117,149
2 Years Investment Account	**2,846**	3,007
3 Years Investment Account	**12,611**	14,803
4 Years Investment Account	**7**	8
5 Years Investment Account	**6,832**	6,842
	639,734	541,691

14.3 Equity of Investment Accountholders by type

	2020	*2019*
	BD '000	*BD '000*
Accounts on demand	**278,675**	232,508
Accounts on a contractual basis *	**361,059**	309,183
	639,734	541,691

* These can be withdrawn subject to deduction of profit upon management discretion.

15 SUBORDINATED DEBTS

	2020	*2019*
	BD '000	*BD '000*
Subordinated Mudaraba Sukuk	**4,857**	5,529
	4,857	5,529

Particular	**Principal**	**Profit**	**Profit rate**	**Maturity**
Al Baraka Pakistan Limited Tier 2 Sukuk first issue	Semi-Annually	Semi-Annually	6 M Kibor + 1.25%	2021
Al Baraka Pakistan Limited Tier 2 Sukuk second issue	Bullet	Semi-Annually	6 M Kibor + 0.75%	2024

16 OWNERS' EQUITY

	2020	*2019*
	BD '000	*BD '000*
(i) Share capital		
Authorised 6,000,000 ordinary shares (2019: 6,000,000) of BD 37.7 each	**226,200**	226,200

	2020	*2019*
	BD '000	*BD '000*
Issued and fully paid 1,364,578 ordinary shares (2019: 1,364,578) of BD 37.7 each	**51,445**	51,445

16 OWNERS' EQUITY (continued)

Additional information on shareholding pattern:
Names and nationalities of the major shareholder having an interest of 5% or more are as follows:

		2020	
Name	***Domicile***	***No. of shares***	***% holding***
Al Baraka Banking Group B.S.C.	**Bahrain**	**1,255,755**	**92.03%**

		2019	
Name	*Domicile*	*No. of shares*	*% holding*
Al Baraka Banking Group B.S.C.	Bahrain	1,255,755	92.03%

The Bank has only one class of shares and the holders of these shares have equal voting rights.

Following is the distribution schedule of shares, setting out the number and percentage of other shareholders along with categories:

			2020			*2019*
	Number of shares	***Number of shareholders***	***% of total outstanding***	*Number of shares*	*Number of shareholders*	*% of total outstanding shares*
Less than 1%	**58,823**	**12**	**4.31%**	58,823	12	4.31%
1% up to less than 5%	**50,000**	**1**	**3.66%**	50,000	1	3.66%
	108,823	**13**	**7.97%**	108,823	13	7.97%

(ii) Additional Tier 1 (AT1) Capital

	2020 BD '000	*2019 BD '000*
Subordinated Mudaraba debt	**41,847**	41,847

The Bank held additional tier 1 capital (subordinated mudaraba) amounted to BD 41.8 million, received from ultimate parent. Such capital was raised from time to time to ensure compliance with minimum capital requirement (MCR) and capital adequacy requirement (CAR) as prescribed by Central Bank of Bahrain. The Bank raised additional tier 1 capital amounted to BD 30.5 million against cash consideration and BD 11.3 million against equity shares.

Summary of terms and conditions are as follows:

- Subordinated mudaraba amounted to BD 30.5 million carries expected profit ranging from 6% to 9% per annum, on a semi-annual basis;
- Subordinated mudaraba amounted to BD 11.3 million carries expected profit rate, which is 30% of the dividend or profit to be received on underlying equity investments shall be distributed to the Ultimate Parent, subject to and in accordance with terms and conditions, on an annual basis;
- the investor will not have a right to claim the profit and such event of nonpayment of profit will not be considered as event of default; and
- such instruments are recognised under equity in the consolidated statement of financial position and the corresponding profits paid to investor are accounted as appropriation of profits.

(iii) Statutory reserve
In accordance with the Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net income for the year is transferred to the statutory reserve until such time as the reserve reaches 50% of the Bank's paid-up share capital. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the CBB.

16 OWNERS' EQUITY (continued)

(iv) General reserve
In accordance with the Bank's articles of association, the Bank may transfer any amount, as approved by the General Assembly, out of net income for the year to the general reserve after appropriating statutory reserve. The general reserve is distributable, subject to the approval of the CBB.

(v) Cumulative changes in fair value
This represents the net unrealised fair value changes relating to the equity of the parent on equity-type instruments at fair value through equity and investment in real estate.

(vi) Revaluation reserve on premises and equipment
This represents the net surplus on revaluation relating to the equity of the parent on premises and equipment carried at fair value.

(vii) Foreign exchange reserve
This represents the translation reserve arising as a result of consolidation of the foreign subsidiary.

(viii) Employee defined benefit plan reserve
This represents the reserve created in lieu of actuarial gains or losses on defined benefit liabilities and planned assets.

17 CONTINGENCIES AND COMMITMENTS

	2020	*2019*
	BD '000	*BD '000*
Letters of credit	**39,989**	24,005
Guarantees	**22,908**	21,301
Foreign exchange contracts	**76,130**	64,947
Acceptances	**4,265**	16,337
Taxation	**544**	561
Others	**30**	14
	143,866	127,165

18 INCOME FROM FINANCINGS

	2020	*2019*
	BD '000	*BD '000*
Sales and other receivables	**17,407**	18,828
Ijarah Muntahia Bittamleek	**5,840**	6,086
Musharakas	**12,750**	13,231
	35,997	38,145

	2020	*2019*
	BD '000	*BD '000*
Income from jointly financed financings	**32,415**	34,335
Income from self financed financings	**3,582**	3,810
	35,997	38,145

19 INCOME FROM INVESTMENTS

	2020	*2019*
	BD '000	*BD '000*
Yield, coupon or return on investments	**15,870**	13,576
Gain on sale of investments	**6,013**	3,914
Loss on disposal and revaluation deficit	**(667)**	45
	21,216	17,535

	2020	*2019*
	BD '000	*BD '000*
Income from jointly financed investments	**4,438**	3,175
Income from self financed investments	**16,778**	14,360
	21,216	17,535

20 REVENUE FROM BANKING SERVICES

	2020	*2019*
	BD '000	*BD '000*
Fees and commissions	**2,255**	2,373
Letters of credit and acceptances	**837**	719
Guarantees	**197**	173
	3,289	3,265

21 OTHER INCOME

	2020	*2019*
	BD '000	*BD '000*
Foreign exchange gain - net	**2,313**	2,032
Others	**404**	389
	2,717	2,421

22 OTHER OPERATING EXPENSES

	2020	*2019*
	BD '000	*BD '000*
Administrative expenses	**2,613**	2,485
Premises costs	**3,908**	4,162
Business expenses	**5,031**	4,327
General expenses	**441**	687
	11,993	11,661

23 ALLOWANCES FOR IMPAIRMENT - NET

	2020	*2019*
	BD '000	*BD '000*
Receivables (note 4)	**(5,887)**	(5,497)
Ijara Muntahia Bittamleek and Ijara Receivables (note 5)	**(837)**	(600)
Musharakas (note 6)	**(971)**	(343)
Investments at amortized cost (note 7)	**(144)**	40
Investments at fair value through equity (note 7.2)	**(186)**	(248)
Contingencies and commitments	**(20)**	95
Others	**(7)**	-
	(8,052)	(6,553)

24 TAXATION

Taxation relates to subsidiary in Pakistan and comprise:	***2020***	*2019*
	BD '000	*BD '000*
Consolidated statement of financial position:		
Advance tax - net	**251**	563
Deferred tax	**7,457**	8,640
Consolidated statement of income:		
Current tax	**(757)**	(593)
Deferred tax	**(826)**	147
	(1,583)	(446)

25 CASH AND CASH EQUIVALENTS

For the purpose of cash flows, cash and cash equivalents represent:	***2020***	*2019*
	BD '000	*BD '000*
Cash in hand	**16,720**	13,730
Balances with central banks (unrestricted accounts)	**4,661**	4,786
Balances with other banks and financial institutions	**62,257**	51,246
Receivables, commodities and wakala placements (with an original maturity of 90 days or less)	**60,673**	4,374
	144,311	74,136

26 RELATED PARTY BALANCES AND TRANSACTIONS

Related parties comprise major shareholders, directors of the Group, entities owned or controlled, jointly controlled or significantly influenced by them, companies affiliated by virtue of shareholding in common with that of the Bank, Shari'a supervisory board and external auditors.

The significant balances with related parties at 31 December were as follows:

	Shareholders		*Other Related Parties*		*Total*	
Assets:	***2020***	*2019*	***2020***	*2019*	***2020***	*2019*
	BD '000	*BD '000*	***BD '000***	*BD '000*	***BD '000***	*BD '000*
Cash and balances with banks and financial institutions	**2**	35	**1,925**	2,076	**1,927**	2,111
Receivables	**-**	-	**6,649**	73	**6,649**	73
Ijara Muntahia Bittamleek and Ijara receivables	**-**	-	**-**	32	**-**	32
Musharaka	**-**	-	**647**	612	**647**	612
Investments	**7,614**	6,922	**29,797**	29,640	**37,411**	36,562
Other assets	**2,573**	2,957	**-**	38	**2,573**	2,995
	10,189	9,914	**39,018**	32,471	**49,207**	42,385
Liabilities:						
Current account	**4,850**	2,587	**11,522**	12,714	**16,372**	15,301
Other liabilities	**37**	2	**340**	181	**377**	183
	4,887	2,589	**11,862**	12,895	**16,749**	15,484
Equity of investment accountholders	**2,723**	2,529	**16,206**	48,182	**18,929**	50,711
Off-balance sheet equity of investment accountholders	**11,625**	57,824	**47,479**	52,745	**59,104**	110,569
Contingencies and commitments	**1**	-	**11,655**	1,022	**11,656**	1,022

26 RELATED PARTY BALANCES AND TRANSACTIONS (continued)

The transactions with the related parties included in the consolidated statement of income are as follows:

	Shareholders		*Other Related Parties*		*Total*	
	2020	*2019*	***2020***	*2019*	***2020***	*2019*
	BD '000	*BD '000*	***BD '000***	*BD '000*	***BD '000***	*BD '000*
Income						
Income from jointly financed sales	-	-	**120**	89	**120**	89
Income from jointly financed, other financings and investments	-	-	**22**	202	**22**	202
Other income	**120**	121	**-**	-	**120**	121
Group's Mudarib/agency fee from off-balance sheet equity of investment accountholders	**-**	7	**16**	17	**16**	24
	120	128	**158**	308	**278**	436
Expenses						
Return on equity of investment accountholders before Group's share as a Mudarib	**8**	76	**651**	1,348	**659**	1,424
Other expenses	**-**	120	**876**	588	**876**	708
	8	196	**1,527**	1,936	**1,535**	2,132

Compensation of key management personnel is as follows:

	2020	*2019*
	BD '000	*BD '000*
Salaries	**1,526**	1,323
Other benefits	**651**	794
	2,177	2,117

27 WAKALA BI AL-ISTITHMAR

	2020	*2019*
	BD '000	*BD '000*
RECEIVABLES		
Commodities and wakala placements with FIs	**-**	53,289
Murabaha	**-**	3,413
Bills receivables	**-**	2,355
	-	59,057
Investments		
Real Estate Funds	**-**	1,755
Wakala Pool	**-**	60,812
On balance sheet jointly finance assets	**137,282**	66,879
Total wakala bi al-istithmar financed assets	**137,282**	127,691

28 RISK MANAGEMENT

Risk management is an integral part of the Group's decision-making process. The risk management committee and executive committees, guide and assist with overall management of the Group's consolidated statement of financial position risks. The Group manages exposures by setting limits approved by the Board of Directors.

a) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a regular basis.

The table below summarises the maturity profile of the Group's assets and liabilities as of 31 December 2020 based on contractual periods to cash conversion from the consolidated statement of financial position date. However, expected periods to cash conversion where there are no contractual terms.

	Up to 3 months BD '000	*3 to 6 months BD '000*	*6 months to 1 year BD '000*	*1 to 3 years BD '000*	*3 to 5 years BD '000*	*5 to 10 years BD '000*	*10 to 20 years BD '000*	*Over 20 years BD '000*	*No fixed maturity BD '000*	*Total BD '000*
ASSETS										
Cash and balances with banks and financial institutions	**83,638**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**27,530**	**111,168**
Receivables	**103,180**	**45,454**	**14,521**	**14,395**	**6,378**	**2,523**	**162**	**265**	**23,277**	**210,155**
Ijara Muntahia Bittamleek and Ijara Receivables	**2,362**	**10,541**	**5,405**	**15,983**	**13,530**	**21,210**	**36,835**	**8,501**	**6,843**	**121,210**
Musharakas	**-**	**28,876**	**3,561**	**40,002**	**39,027**	**12,940**	**4,972**	**-**	**2,677**	**132,055**
Investments	**27,061**	**-**	**29,447**	**8,389**	**156,694**	**116,909**	**238**	**377**	**33,395**	**372,510**
Investments in real estate	**-**	**-**	**-**	**3,700**	**-**	**-**	**-**	**-**	**-**	**3,700**
Investment in Joint Venture	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,516**	**5,516**
Premises and equipment	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**17,472**	**17,472**
Goodwill	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,297**	**5,297**
Other assets	**6,551**	**1,049**	**736**	**2,731**	**7,872**	**8**	**-**	**-**	**1,766**	**20,713**
Total assets	**222,792**	**85,920**	**53,670**	**85,200**	**223,501**	**153,590**	**42,207**	**9,143**	**123,773**	**999,796**
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS SUBORDINATED DEBT AND OWNERS' EQUITY										
Current accounts	**144,820**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**144,820**
Murabaha and other payables	**10,699**	**32,836**	**10,681**	**15,608**	**-**	**-**	**-**	**-**	**-**	**69,824**
Other liabilities	**38,385**	**896**	**141**	**317**	**-**	**-**	**-**	**-**	**-**	**39,739**
Total liabilities	**193,904**	**33,732**	**10,822**	**15,925**	**-**	**-**	**-**	**-**	**-**	**254,383**
Equity of investment accountholders	**337,758**	**57,288**	**120,127**	**60,947**	**31,103**	**24,383**	**8,128**	**-**	**-**	**639,734**
Subordinated debts	**982**	**-**	**337**	**-**	**3,538**	**-**	**-**	**-**	**-**	**4,857**
Total owners' equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**100,822**	**100,822**
Total liabilities, Equity of investment accountholders, subordinate debts and owner's equity	**532,644**	**91,020**	**131,286**	**76,872**	**34,641**	**24,383**	**8,128**	**-**	**100,822**	**999,796**
Net gap	**(309,852)**	**(5,100)**	**(77,616)**	**8,328**	**188,860**	**129,207**	**34,079**	**9,143**	**22,951**	**-**
Cumulative net gap	**(309,852)**	**(314,952)**	**(392,568)**	**(384,240)**	**(195,380)**	**(66,173)**	**(32,094)**	**(22,951)**	**-**	**-**
Off-balance sheet equity of investment accountholders	**110,801**	**22,175**	**15,454**	**5,158**	**5,961**	**37,700**	**-**	**-**	**-**	**197,249**

28 RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

The table below summarises the maturity profile of the Group's assets and liabilities as of 31 December 2019 based on contractual periods to cash conversion from the consolidated statement of financial position date. However, expected periods to cash conversion where there are no contractual terms.

	Up to 3 months BD '000	*3 to 6 months BD '000*	*6 months to 1 year BD '000*	*1 to 3 years BD '000*	*3 to 5 years BD '000*	*5 to 10 years BD '000*	*10 to 20 years BD '000*	*Over 20 years BD '000*	*No fixed maturity BD '000*	*Total BD '000*
ASSETS										
Cash and balances with banks and financial institutions	62,108	7,654	-	-	-	-	-	-	60,207	129,969
Receivables	64,869	54,677	13,555	14,015	7,048	1,691	-	-	13,693	169,548
Ijara Muntahia Bittamleek and Ijara Receivables	3,119	11,551	5,238	16,016	9,335	21,506	32,900	5,572	1,343	106,580
Musharakas	412	1,484	3,370	36,876	29,855	11,004	4,442	-	2,092	89,535
Investments	39,983	22,938	13,074	36,912	14,823	118,821	377	-	33,587	280,515
Investments in real estate	-	-	-	5,790	-	-	-	-	-	5,790
Investment in Joint Venture	-	-	-	-	-	5,548	-	-	-	5,548
Premises and equipment	-	-	-	-	-	-	-	-	17,830	17,830
Goodwill	-	-	-	-	-	-	-	-	5,467	5,467
Other assets	7,221	1,254	4,561	1,216	8,700	152	-	-	880	23,984
Total assets	177,712	99,558	39,798	110,825	69,761	158,722	37,719	5,572	135,099	834,766
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS SUBORDINATED DEBT AND OWNERS' EQUITY										
Current accounts	104,385	-	-	-	-	-	-	-	-	104,385
Murabaha and other payables	26,972	6,001	-	14,326	-	-	-	-	-	47,299
Other liabilities	33,565	799	290	773	13	-	-	-	-	35,440
Total liabilities	164,922	6,800	290	15,099	13	-	-	-	-	187,124
Equity of investment accountholders	275,249	51,518	64,846	58,721	25,771	58,615	6,971	-	-	541,691
Subordinated debts	599	-	582	696	-	3,652	-	-	-	5,529
Total owners' equity	-	-	-	-	-	-	-	-	100,422	100,422
Total liabilities, Equity of investment accountholders subordinated debts and owner's equity	440,770	58,318	65,718	74,516	25,784	62,267	6,971	-	100,422	834,766
Net gap	(263,058)	41,240	(25,920)	36,309	43,977	96,455	30,748	5,572	34,677	-
Cumulative net gap	(263,058)	(221,818)	(247,738)	(211,429)	(167,452)	(70,997)	(40,249)	(34,677)	-	-
Off-balance sheet equity of investment accountholders	103,014	73,406	10,369	1,427	11,857	37,700	-	-	4,439	242,212

28 RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

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

- Payment holiday for 6 months to eligible customers;
- Concessionary repo to eligible banks at zero percent;
- Reduction of cash reserve ratio from 5% to 3%;
- Reduction of lCR and NSFR ratio from 100% to 80%; and
- Aggregate of modification loss and incremental ECl provision for stage 1 and stage 2 from March to December 2020 to be added back to Tier 1 capital for the two years ending 31 December 2020 and 31 December 2021. And to deduct this amount proportionately from Tier 1 capital on an annual basis for three years ending 31 December 2022, 31 December 2023 and 31 December 2024.

Net stable funding Ratio (NSFR)
In August 2018, the Central Bank of Bahrain (CBB) issued its regulations on Liquidity Risk Management (LM). Amongst other things, the LM regulations mandate banks to implement NSFR by end of December 2019. The objective of the 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 limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on-balance sheet and off-balance sheet items, and promotes funding stability.

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

	2020 ***BD '000***	*2019* *BD '000*
Total Available Stable Funding	592,791	525,092
Total Required Stable Funding	310,955	236,536
Net Stable Funding Ratio (NSFR)	191%	222%
Minimum NSFR	**100%**	100%

*Further details on the NSFR are available on the Group's website under "Regulatory Disclosures" section.

b) Market risk
Market risk arises from fluctuations in profit rates, equity prices and foreign exchange rates.

Profit rate risk
Profit rate risk is the risk that the Group will incur a financial loss as a result of mismatch in the profit rate on the Group's assets and IAH. The profit distribution to IAH is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

The Group is exposed to displaced commercial risk in the event of having equity of IAH profit rates that are lower than market rates. The policies and procedures to manage displaced commercial risk are formulated and implemented at the segment level (Pakistan and Bahrain).

Foreign exchange risk
Foreign exchange risk arise from the movement of the rate of exchange over a period of time. Positions are monitored on a regular basis to ensure positions are maintained within established approved limits.

28 RISK MANAGEMENT (continued)

b) Market risk (continued)

Foreign exchange risk (continued)
Following is the Group's exposure to different currencies in equivalent US dollars:

	2020
	Total equivalent BD '000
Pakistani Rupees	**25,865**
Euro	**(1,020)**
Kuwaiti Dinars	**20**
Pound Sterling	**(1,445)**
Egyptian Pound	**1,532**
Algerian Dinar	**2,262**
Others	**185**

	2019
	Total equivalent BD '000
Pakistani Rupees	32,621
Euro	(678)
Kuwaiti Dinars	851
Egyptian Pound	1,280
Algerian Dinar	2,262
Pound Sterling	(1,971)

The strategic currency risk represents the amount of equity of the subsidiary.

Foreign currency risk sensitivity analysis
In order to measure its exposures to currency risk, the Group stress tests its exposures following the standard shocks approach, which calculates the effect on equity and income of the Group as a result of 20% appreciation and depreciation in foreign currencies in relation to the reporting currency of the Group.

Following is the sensitivity analysis that calculates the effect of a reasonable possible movement of the currency exchange rate against the Bahraini Dinar with all other variables held constant on the consolidated statement of income and the consolidated statement of owners' equity. The impact of a similar increase / (decrease) in exchange rates will be approximately opposite to the impact disclosed below:

Currency	**Particular**	***Change***	***Exposures in BD '000***	***Effect on equity/ Income Statement in BD '000***
2020				
Pakistani Rupees	Net long Position	**20.00%**	**25,865**	**5,173**
Euro	Net long Position	**20.00%**	**(1,020)**	**(204)**
Kuwaiti Dinars	Net long Position	**20.00%**	**20**	**4**
Pound Sterling	Net long Position	**20.00%**	**(1,445)**	**(289)**
Egyptian Pound	Net long Position	**20.00%**	**1,532**	**306**
Algerian Dinar	Net long Position	**20.00%**	**2,262**	**452**

28 RISK MANAGEMENT (continued)

b) Market risk (continued)

Foreign currency risk sensitivity analysis (continued)

Currency	Particular	*Change*	*Exposures in BD '000*	*Effect on equity/ Income Statement in BD '000*
2019				
Pakistani Rupees	Net long Position	20%	32,621	6,524
Euro	Net short Position	20%	(678)	(136)
Kuwaiti Dinars	Net long Position	20%	851	170
Pound Sterling	Net short Position	20%	(1,971)	(394)
Egyptian Pound	Net long Position	20%	1,280	256
Algerian Dinar	Net long Position	20%	2,262	452

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the investment portfolio. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

In order to measure the risk of equity on its financial position, the Group adopts a sensitivity analysis on its equity portfolio for 10% increase and decrease of the portfolio's value:

Market indices	***Change in equity price 2020 %***	***Effect on equity/ Income Statement 2020 BD '000***	*Change in equity price 2019 %*	*Effect on equity/ Income Statement 2019 BD '000*
Pakistan Stock Exchange	**10%**	**143,984**	10%	149,005
Egyptian Stock Exchange	**10%**	**153,182**	10%	128,015
Jordan Stock Exchange	**10%**	**761,416**	10%	692,197

Concentration of investment portfolio

Concentration of an investment portfolio arises when a number of investments are made in entities engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would be affected by changes in economic, political or other conditions. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration. The industry and geographical concentration of the Group's investment portfolio is as follows:

31 December 2020	****GCC BD '000***	***Rest of the world BD '000***	***Total BD '000***
Banking	**12,743**	**2,300**	**15,043**
Government	**175,331**	**103,170**	**278,501**
Investment companies	**43,293**	**-**	**43,293**
Manufacturing	**-**	**29,139**	**29,139**
Real estate	**1,193**	**506**	**1,699**
Others	**3,817**	**1,018**	**4,835**
	236,377	**136,133**	**372,510**

28 RISK MANAGEMENT (continued)

b) Market risk (continued)

Concentration of investment portfolio (continued)

31 December 2019	**GCC* *BD '000*	*Rest of the world* *BD '000*	*Total* *BD '000*
Banking	15,378	2,300	17,678
Government	171,124	25,110	196,234
Investment companies	31,017	-	31,017
Manufacturing	-	28,923	28,923
Real estate	2,027	-	2,027
Others	-	4,636	4,636
	219,546	60,969	280,515

* GCC countries comprise members of the Gulf Co-operation Council being Kingdom of Bahrain, State of Kuwait, Sultanate of Oman, State of Qatar, Kingdom of Saudi Arabia and the United Arab Emirates.

c) Credit risk

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The Group controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are mostly secured by the personal guarantees of the counterparty, by collateral in form of mortgage of the objects financed or other tangible security.

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, manufacturing, tourism, leisure, airlines transportation, retailers, contracting, real estate and wholesale trading. Also the volatility in oil prices during the early part of 2020, will have a regional impact due to its contribution to regional economies.

Considering this evolving situation, the Group has taken pre-emptive measures to mitigate credit risk by adopting more cautious approach for credit approvals thereby tightening the criteria for extending credit to impacted sectors. Payment holidays have been extended to customers, including private and SME sector, in line with the instructions of regulatory authorities. These measures may lead to lower disbursement of financing facilities, resulting in lower net financing income and decrease in other revenue.

The risk management department has also enhanced its monitoring of financing portfolio by reviewing the performance of exposures to sectors expected to be directly or indirectly impacted by COVID-19 to identify potential Significant Increase in Credit Risk (SICR). The Group has updated its inputs and assumptions for computation of Expected Credit Losses (ECL). In this regards, the ECL were estimated based on a range of forecast economic conditions as at that date and considering that the situation is fast evolving, the Group has considered the impact of higher volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECl determination.

Scenario analysis has been conducted with various stress assumptions taking into consideration all model parameters i.e. probability weighting of economic scenarios, probability of default, loss given default, exposure of default and period of exposure. Furthermore, a comprehensive assessment of all corporate clients has been undertaken covering all relevant factors including but not limited to financial standing, industry outlook, facility structure, depth of experience, shareholder support etc. Each industry under the portfolio has a wide spectrum of clients, ranging from clients vulnerable to the outbreak to clients having strong financial standing to withstand the downturn and the qualitative adjustments have been considered accordingly.

28 RISK MANAGEMENT (continued)

c) Credit risk (continued)

Type of credit risk

Financing contracts mainly comprise Sales receivable, Istisna'a receivable, Musharaka and Ijara Muntahia Bittamleek.

Sales receivable

The Group finances these transactions through buying a commodity which represents the object of the murabaha and then resells this commodity to the murabeh (beneficiary) at a profit. The sale price (cost plus the profit margin) is repaid in installments by the murabeh over the agreed period. The transactions are secured at times by the object of the murabaha (in case of real estate finance) and other times by a total collateral package securing the facilities given to the client.

Istisna'a receivable

Istisna'a is a sale agreement between the Group as the seller and the customer as the ultimate purchaser whereby the Group undertakes to have manufactured (or acquire) goods and sell it to the customer for an agreed upon price on completion at future date.

Musharaka

An agreement between the Group and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared as per the agreement set between both parties while the loss is shared in proportion to their shares of capital or the enterprise.

Ijara Muntahia Bittamleek

This is a lease whereby the legal title of the leased asset passes to the lessee at the end of the Ijara (lease) term, provided that all Ijara installments are settled.

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk by type of Islamic financing contracts before the effect of mitigation through the use of collateral or other credit enhancements.

	Maximum Exposure to Credit Risk	
	2020	*2019*
	BD '000	*BD '000*
Receivables	**210,155**	169,548
Musharakas	**132,055**	89,535
Ijara Muntahia Bittamleek and Ijara receivables	**121,210**	106,581
Investments at amortized cost	**335,192**	246,706
Balances with banks and financial institutions	**94,449**	116,239
Other assets	**4,836**	8,615
Contingencies and commitments	**143,292**	126,588
	1,041,189	863,812

28 RISK MANAGEMENT (continued)

c) Credit risk (continued)

Credit quality by type of Islamic financing contracts

The table below shows the credit quality by type of Islamic financing contracts, based on the Group's quality of assets. The balances presented are gross of impairment provision.

	31 December 2020			
	Neither past due nor non performing	***Past due but performing***	***Non performing Islamic financing contracts***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***
Type of Islamic Financing Contract				
Receivables	**192,994**	**6,510**	**34,452**	**233,956**
Musharakas	**131,034**	**859**	**3,960**	**135,853**
Ijara Muntahia Bittamleek and Ijara receivables	**114,789**	**156**	**10,032**	**124,977**
	438,817	**7,525**	**48,444**	**494,786**

	31 December 2019			
	Neither past due nor non performing	*Past due but performing*	*Non performing Islamic financing contracts*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Type of Islamic Financing Contract				
Receivables	147,548	14,923	26,956	189,427
Musharakas	87,685	720	4,048	92,453
Ijara Muntahia Bittamleek and Ijara receivables	98,922	117	10,506	109,545
	334,155	15,760	41,510	391,425

Aging analysis of past due but performing Islamic financing contracts

	31 December 2020			
	Less than 30 days	***31 to 60 days***	***61 to 90 days***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***
Type of Islamic Financing Contracts				
Receivable	**1,525**	**647**	**4,338**	**6,510**
Musharaka	**706**	**84**	**69**	**859**
Ijara Muntahia Bittamleek & Ijara income receivable	**145**	**6**	**5**	**156**
	2,376	**737**	**4,412**	**7,525**

	31 December 2019			
	Less than 30 days	*31 to 60 days*	*61 to 90 days*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Type of Islamic Financing Contracts				
Receivable	8,764	942	5,217	14,923
Musharaka	587	107	26	720
Ijara Muntahia Bittamleek and Ijara receivable	79	38	-	117
	9,430	1,087	5,243	15,760

28 RISK MANAGEMENT (continued)

c) Credit risk (continued)

Aging of Non-Performing Facilities

	31 December 2020				
	3-6 Months	6-12 Months	1-3 Years	3 Years & above	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
Receivable	**11,183**	**609**	**11,931**	**10,729**	**34,452**
Musharaka	**297**	**560**	**2,017**	**1,086**	**3,960**
Ijara Muntahia Bittamleek and Ijara receivable	**1,124**	**15**	**5,672**	**3,221**	**10,032**
	12,604	**1,184**	**19,620**	**15,036**	**48,444**

	31 December 2019				
	3-6 Months	6-12 Months	1-3 Years	3 Years & Above	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
Receivable	8,794	4,552	7,190	6,420	26,956
Musharaka	668	1,845	472	1,063	4,048
Ijara Muntahia Bittamleek and Ijara receivable	3,992	840	3,842	1,832	10,506
	13,454	7,237	11,504	9,315	41,510

Credit Risk Mitigation

For exposures secured by real estate or other collateral, the Group carries out regular and periodic collateral verification and evaluation. This collateral verification is conducted by an independent qualified assessor or Collateral Analyst at the Group. The frequency of such collateral verification is determined as a part of the credit or investment policy and approval process. The Group allows cars, premises and equipment, plant and machinery etc, as collateral for a credit and investment product but does not accept perishable assets. The Group does not accept any assets as collateral if the assets are susceptible for obsolescence. The Group also ensure that these assets are insured in order to be accepted as collateral.

Collaterals listed hereunder attract capital relief from capital adequacy requirements:

1) Hamish Jiddiyyah (HJ) (Good faith deposit): The Group takes this type of collateral in the transactions for which non-binding promises to perform is given by the customer. If a customer does not honour his promise to perform, the Group has recourse to the HJ. HJ is taken by the Group at the inception of the transaction but before signing the contracts. HJ constitutes partial guarantee to the Group for the performance of the contract by the customer. The Group will still have recourse to the customers for the unsecured position in case of default.

2) Third party guarantee: The Group should have recourse to the guarantor in case of customer's default. In order to qualify as eligible collateral, the guarantee should be unconditional and irrevocable. The guarantor must be solvent and, if applicable, should provide the Group with signed audited financial statements.

3) Underlying assets of the lease contract: The underlying asset must be of monetary value and the Group must have legal access to it, own it and sell it to cover the open exposure with the customers in question. The assets have also to be free of any kind of encumbrance. In the same lease contract a customer can pledge other assets that customers own other than the underlying assets in the contract. In order for the Group to consider these assets as pledged assets, it must meet all the conditions for the underlying assets under the lease contract. It must be legally enforceable, accessible, saleable and free of any kind of encumbrance. The value of the pledged asset must be used only to offset the amount against the customers.

28 RISK MANAGEMENT (continued)

c) Credit risk (continued)

Credit Risk Mitigation (continued)

Any excess amount resulting from the closure of the pledge by the Group should be returned to the customer (pledger). The Group is conducting at least annual evaluation of the pledged assets and keeping adequate documentation of this evaluation.

4) Cash deposit free from any legal encumbrance with the subsidiary either in the form of equity of investment accountholders or off-balance sheet equity of investment accountholders.

5) Rated and unrated senior Sukuk issued by financial institutions or sovereigns.

Credit Quality

Countries, governments and financial institutions will be rated on the basis of their unsecured medium term foreign currency obligations. This means that for governments and financial institutions the cross-border risk will also be part of the rating and the country's rating will be, in most cases, the ceiling on the financial institution's rating. Corporates will be rated on their senior unsecured medium term local currency obligations, unless the credit granted is across border or in foreign currency. In the latter case, the obligor's country's rating will be the ceiling on corporates' rating. Where all credit to a government is in local currency, the rating for that government is the best i.e. 1 on the rating scale, however, if the exposure to the government includes foreign currency, the rating for that government will be the same as the country's rating.

A rating is a forward looking indication of creditworthiness. It is based on an evaluation of past performance, present conditions and outlook for the future. For the purpose of rating, the Group is using only those External Credit Assessment Institutions (ECAIs) which are allowed/ approved by the CBB and are mainly used in Banking exposures.

The basic approach of the major credit rating agencies to rating is the same as what the Group credit policies require i.e. a comprehensive fundamental analysis of all relevant quantitative and non quantitative factors aimed at identifying actual and potential vulnerability. Credit rating will be applied to Countries and Single Obligors. Single Obligors, in turn are categorised as financial institutions, corporates and governments. CRS therefore rates obligors (issuers) and not facilities. The obligor rating of countries and single obligors will identify the relative probability of default but will not take into account the impact of collateral security, structure etc in the event of default. Facility ratings by contrast, combine both the probability of default and loss severity in case of defaults. However, initially the Group wide policy will be to set up obligor ratings only (which does not prevent individual subsidiary internally to also rate facilities).

d) Operational risk

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 comprehensive review of the existing control environment which includes controls over effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes and the use of internal audit to prevent and detect risks. While these risks cannot be completely eliminated, the operational risk department 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. As of 31 December 2020, the Group did not have any significant issues relating to operational risks.

The Group categorises operational risk loss events into the following categories:

Infrastructure risks

Availability of information technology is of paramount importance to the Group's infrastructure. The operations of the Group might be disrupted and severe operational risks could occur.

28 RISK MANAGEMENT (continued)

d) Operational risk (continued)

In order to protect the Group from the infrastructure risk as outlined above, the Group is taking necessary measures as indicated in the Business Continuity Plan and/or Disaster Recovery Plan to cater for these risks.

Information technology risks

The main risks that the Group is exposed to in this context is from inadequate software and hardware quality, unauthorized access, by third parties or employees, etc.

Staff risk

The main risks that might arise from staff risks are risks due to fraud, corruption, crime, etc. In order to prevent these risks from occurring, the Group has established a corporate culture which entails constructive ways of dealing with mistakes. The Group has also established an approval control steps in business processes as well as creating separate control processes. Further, the Group has already established measures of organizational structure in terms of segregation of duties as well as diverse training measures to reduce human error.

29 CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS

The distribution by geographic region and industry sector was as follows:

	Assets		*Liabilities and Subordinated debt*		*Equity of investment accountholders*	
	2020	*2019*	***2020***	*2019*	***2020***	*2019*
	BD '000	*BD '000*	***BD '000***	*BD '000*	***BD '000***	*BD '000*
Geographical region						
Middle East	**518,860**	424,482	**93,084**	60,188	**247,377**	217,613
Europe	**20,012**	10,860	**810**	2,672	**21**	3,461
Asia	**424,242**	365,765	**129,555**	97,622	**283,110**	252,666
Others	**36,682**	33,659	**35,791**	32,171	**109,226**	67,951
	999,796	834,766	**259,240**	192,653	**639,734**	541,691

	Assets		*Liabilities and Subordinated debt*		*Equity of investment accountholders*	
	2020	*2019*	***2020***	*2019*	***2020***	*2019*
	BD '000	*BD '000*	***BD '000***	*BD '000*	***BD '000***	*BD '000*
Industry sector						
Trading and manufacturing	**152,820**	138,844	**24,392**	21,159	**71,710**	46,805
Banks and financial institutions	**375,591**	401,277	**105,641**	72,219	**163,795**	120,996
Construction	**10,712**	9,455	**3,498**	4,024	**4,673**	2,111
Others	**460,671**	285,190	**125,709**	95,251	**399,556**	371,779
	999,794	834,766	**259,240**	192,653	**639,734**	541,691

30 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

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

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

30 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The fair value of investments are disclosed in note 7 to these financial statements. However, a certain equity-type instruments at fair value through equity which are carried at cost, due to the unpredictable nature of their future cash flows and the lack of other suitable methods for arriving at a reliable fair value for these investments.

31 SEGMENTAL INFORMATION

Segmental information is presented in respect of the Group's geographical segments. The geographical segments are based upon the location of the units responsible for recording the transactions and reflects the manner in which financial information is evaluated by management and the Board of Directors.

For financial reporting purposes, the Group is divided into two geographical segments, Middle East and Other Asian Countries. Other Asian Countries predominantly includes operations in Pakistan.

The results reported for the geographic segments are based on the Group's internal financial reporting systems. The accounting policies of the segments are the same as those applied in the preparation of the Group's consolidated financial statements as set out in note 2. Transactions between segments are conducted at estimated market rates on an arm's length basis.

The segmental results of the Group were as follows:

	Middle East		*Other Asian Countries*	
	2020	*2019*	***2020***	*2019*
	BD '000	*BD '000*	***BD '000***	*BD '000*
Assets	**551,560**	452,667	**448,236**	382,099
Liabilities, equity of investment accountholders, and Subordinated debt	**487,030**	383,575	**411,944**	350,769
Total income	**19,349**	17,387	**19,207**	16,138
Total operating expenses	**(13,433)**	(12,503)	**(12,667)**	(12,850)
Net operating income	**5,916**	4,884	**6,540**	3,288
Provision for impairment - net and write back of written off	**(4,486)**	(2,788)	**(3,528)**	(3,006)
Taxation	**-**	-	**(1,583)**	(446)
Income for the year	**1,430**	2,096	**1,429**	(164)

32 SOCIAL RESPONSIBILITY

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

33 COMPARATIVE FIGURES

Certain of the prior year figures have been reclassified to conform to the presentation adopted in the current year. Such reclassification did not affect previously reported net income or owner's equity.

34 NSFR REQUIREMENTS AND CALCULATION METHODOLOGY

The Net Stable Funding Ratio ('NSFR') is calculated in accordance with the Liquidity Risk Management Module guidelines, issued by the CBB and is effective from December 2019. The minimum NSFR ratio as per CBB is 100%. The Group's consolidated NSFR ratio as of 31 December 2020 is 190.64%.

The NSFR (as a percentage) must be calculated as follows:

	Unweighted Values (i.e. before applying relevant factors)				
Item	*No specified maturity BD '000*	*Less than 6 months BD '000*	*More than 6 months and less than one year BD '000*	*Over one year BD '000*	*Total weighted value BD '000*
Available Stable Funding (ASF):					
Capital:	**73,931**	**-**	**-**	**4,491**	**78,423**
Regulatory Capital	73,931	-	-	-	73,932
Other Capital Instruments	-	-	-	4,491	4,491
Retail deposits and deposits from small business customers:	**-**	**352,945**	**14,001**	**10,806**	**341,315**
Stable deposits	-	5,154	1	-	4,897
Less stable deposits	-	347,791	14,000	10,806	336,418
Wholesale funding:	**-**	**375,951**	**67,289**	**5,021**	**130,402**
Operational deposits	-	-	-	-	-
Other wholesale funding	-	375,951	67,289	5,021	130,402
Other liabilities:	**-**	**-**	**-**	**42,651**	**42,651**
NSFR Shari'a-compliant hedging contract liabilities	-	-	-	-	-
All other liabilities not included in the above categories	-	-	-	42,651	42,651
Total ASF	**73,931**	**728,896**	**81,290**	**62,969**	**592,791**
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	280,778	-	-	-	15,423
Deposits held at other financial institutions for operational purposes	-	-	-	-	-
Performing financing and sukuk/securities:	-	-	-	-	-
Performing financing to financial institutions secured by Level 1 HQLA	-	-	-	-	-
Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	97,752	3,867	12,761	29,358

34 NSFR REQUIREMENTS AND CALCULATION METHODOLOGY (continued)

Item	*Unweighted Values (i.e. before applying relevant factors)* No specified maturity BD '000	Less than 6 months BD '000	More than 6 months and less than one year BD '000	Over one year BD '000	*Total weighted value BD '000*
Performing financing to non-financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	132,081	35,868	198,117	83,974
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	-	-
Performing residential mortgages, of which:					
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	42,834	27,842
Securities/sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	949	12,916	12,678	18,548
Other assets:					
Physical traded commodities, including gold	-	-	-	-	-
Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs	-	-	-	-	-
NSFR Shari'a-compliant hedging assets	67,673	-	-	-	67,673
NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	-	-	-	-
All other assets not included in the above categories	64,642	-	-	-	64,642
OBS items	69,889	-	-	-	3,494
Total RSF	**482,982**	**230,782**	**52,651**	**266,390**	**310,954**
NSFR (%)					**190.64%**

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

COVID-19 pandemic has spread across various geographies globally, causing disruption to business and economic activities. COVID-19 has brought about uncertainties in the global economic environment. Global equity and commodity markets, in particulars the hydrocarbon sector, experienced significant volatility. The estimation uncertainty is associated with extent and duration of the economic downturn. This includes the volatility in capital market, deterioration of credit quality of financial assets and escalating the liquidity management challenges. In this regards, the Group has undertaken various initiatives to ensure the protection of its human capital along-with uninterrupted supply of services to our customer base. Further, the strict prudential practices were followed to maintain sufficient liquidity levels and mitigate the possible impacts on assets base of the Bank. Further, the Group is actively monitoring the progress and impacts of such outbreak on its operations like possible loss of revenues, expected credit losses, onerous contract etc.

The fiscal and monetary authorities, both domestic and international, have announced various support measures across the globe to counter possible adverse implications and offset such slowdown in economies. More specifically, the Central Bank of Bahrain and government has introduced following fiscal stimulus package:

• Payment holiday for 6 months to eligible customers free of any additional profit;
• Concessionary repo to eligible banks free of cost or zero percent profit rate;
• Reduction of cash reserve ratio as 5% to 3% of subjective liabilities;
• Reduction of liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) ratio from 100% to 80%;
• Allowing to addback any additional impact on “Owners’ Equity”, from modification loss and expected credit loss net of any subsidy/ grant, to equity for the determination of capital adequacy ratio during the financial year 2020 and 2021. Thereafter, such amount will be amortized over period of three year on an equal basis.
• Support provided to local business in the form of subsidy in utility bills and staff salaries for a period of three months.

A summary of major financial impacts on the Group are given as follows:

	Net Impacts on Group's		
	Consolidated income statement BD '000	***Consolidated statement of financial position BD '000***	***Consolidated Statement of Changes in Owner's Equity BD '000***
Modification loss	-	(3,331)	(3,331)
Amortization of Modification Loss	3,331	3,331	3,331
Government Grant	-	-	722
Concessionary REPO(matured during the period)	-	30,000	-
Average Reduction In Reserves	-	4,246	-
ECLs attributable to COVID 19	(869)	(869)	(869)

In lieu of spread of such pandemic, the overall business activities were deeply affected during the current financial period. In this regards, the volume of business activities was significantly reduced both on assets and liability side. Further, due to reduction in consumer spending and travelling, the credit cards, funds transfer and other core banking services were also deeply affected. Furthermore, the trade finance operations were extremely slowdown due to massive reduction in business activity in this segment.

This information has not been subject to a formal review by external auditors.