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 2021**

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# 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 2021 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 2021, 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 2021 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. Prior to the date of this auditors' report, we obtained the Directors report which forms part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not 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.

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

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

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

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 2021 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
22 February 2022
Manama, Kingdom of Bahrain

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

| | Notes | 2021 BD'000 | 2020 BD'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with banks and financial institutions | 3 | **117,854** | 111,168 |
| Receivables | 4 | **182,934** | 210,155 |
| Ijara muntahia bittamleek and ijara receivables | 5 | **173,976** | 121,210 |
| Musharaka | 6 | **124,040** | 132,055 |
| Investments | 7 | **419,837** | 372,510 |
| Investment in joint venture | 8 | **7,050** | 5,516 |
| Investments in real estate | 9 | **3,592** | 3,700 |
| Premises and equipment | 10 | **21,248** | 17,472 |
| Goodwill | 11 | **4,796** | 5,297 |
| Other assets | 12 | **24,192** | 20,713 |
| **TOTAL ASSETS** | | **1,079,519** | 999,796 |
| **LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED MUDARABA AND OWNERS' EQUITY** | | | |
| **Liabilities** | | | |
| Current accounts | | **133,241** | 144,820 |
| Murabaha and other payables | | **91,710** | 69,824 |
| Other liabilities | 13 | **41,337** | 39,739 |
| **Total liabilities** | | **266,288** | 254,383 |
| **Equity of investment accountholders (IAH)** | 14 | **703,262** | 639,734 |
| **Subordinated mudaraba** | 15 | **7,329** | 4,857 |
| **Owners' Equity** | 16 | | |
| Share capital | | **51,445** | 51,445 |
| Additional tier-1 capital | | **41,847** | 41,847 |
| Reserves | | **(1,791)** | (892) |
| Retained earnings / (accumulated losses) | | **1,929** | (1,317) |
| **Equity attributable to parent's shareholders** | | **93,430** | 91,083 |
| Non-controlling interest | | **9,210** | 9,739 |
| **Total owners' equity** | | **102,640** | 100,822 |
| **TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED MUDARABA AND OWNERS' EQUITY** | | **1,079,519** | 999,796 |
| **OFF-BALANCE SHEET ITEMS:** | | | |
| **EQUITY OF INVESTMENT ACCOUNTHOLDERS** | | **253,801** | 197,249 |
| **CONTINGENCIES AND COMMITMENTS** | 17 | **188,858** | 143,866 |

Saleh Salman Al Kawari
Chairman

Hamad Abdulla Aloqab
Chief Executive Officer and
Board Member

The attached explanatory notes 1 to 33 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2021

| | Notes | 2021 BD'000 | 2020 BD'000 |
|---|---|---|---|
| **INCOME FROM JOINTLY FINANCED ASSETS** | | | |
| Financings | 18 | **30,785** | 32,415 |
| Investments | 19 | **6,210** | 4,438 |
| **Income from jointly financed assets** | | **36,995** | 36,853 |
| Return on equity of investment accountholders before Group's share as a Mudarib | | **(31,269)** | (32,964) |
| Group's share as a Mudarib | | **9,189** | 8,926 |
| **Return on equity of investment accountholders** | | **(22,080)** | (24,038) |
| **Group's share as a Mudarib and Rabalmal** | | **14,915** | 12,815 |
| **INCOME FROM SELF FINANCED ASSETS** | | | |
| Financings | 18 | **2,630** | 3,582 |
| Share of income / (loss) from investment in joint venture | 8 | **1,534** | (32) |
| Investments | 19 | **14,963** | 16,810 |
| **Income from self financed assets** | | **19,127** | 20,360 |
| **INCOME FROM BANKING SERVICES AND OTHERS** | | | |
| Revenue from banking services | 20 | **4,282** | 3,289 |
| Other income | 21 | **2,450** | 2,755 |
| Group's mudarib / agency fee from off-balance sheet equity of investment accountholders | | **49** | 221 |
| **Income from banking services and others** | | **6,781** | 6,265 |
| **TOTAL OPERATING INCOME BEFORE OTHER FINANCING COST** | | **40,823** | 39,440 |
| Other financing costs | | **(2,146)** | (846) |
| **TOTAL OPERATING INCOME** | | **38,677** | 38,594 |
| **OPERATING EXPENSES** | | | |
| Staff expenses | | **(13,022)** | (12,239) |
| Depreciation and amortization | 10 | **(3,750)** | (1,868) |
| Other operating expenses | 22 | **(10,606)** | (11,993) |
| **TOTAL OPERATING EXPENSES** | | **(27,378)** | (26,100) |
| **NET OPERATING INCOME** | | **11,299** | 12,494 |
| Expected Credit Losses / Allowances for impairment - net | 23 | **(6,536)** | (8,052) |
| **INCOME BEFORE TAXATION** | | **4,763** | 4,442 |
| Taxation | 24 | **(15)** | (1,583) |
| **INCOME FOR THE YEAR** | | **4,748** | 2,859 |
| Attributable to: | | | |
| Equity shareholders of the parent | | **3,803** | 2,274 |
| Non-controlling interest | | **945** | 585 |
| | | **4,748** | 2,859 |

Saleh Salman Al Kawari
Chairman

Hamad Abdulla Aloqab
Chief Executive Officer and
Board Member

The attached explanatory notes 1 to 33 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2021

| | *Equity attributable to shareholders of the parent* | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | *Reserves* | | | | | | | | | |
| | *Share capital BD'000* | *Additional tier-1 capital BD'000* | *Statutory BD'000* | *General BD'000* | *Employee defined benefit plan BD'000* | *Cumulative changes in fair value of investments BD'000* | *Revaluation of premises and equipment BD'000* | *Foreign exchange BD'000* | *Retained earnings/ accumulated losses BD'000* | *Total BD'000* | *Non-controlling interest BD'000* | *Total owners' equity BD'000* |
| **Balance at 1 January 2021** | 51,445 | 41,847 | 8,983 | 3,275 | (36) | 588 | - | (13,702) | (1,317) | 91,083 | 9,739 | 100,822 |
| Cumulative changes in fair value | - | - | - | - | - | 1,049 | - | - | - | 1,049 | (148) | 901 |
| Translation of foreign currency operations | - | - | - | - | - | - | - | (2,504) | - | (2,504) | (1,447) | (3,951) |
| Remeasurement loss on defined benefit plan | - | - | - | - | (2) | - | - | - | - | (2) | (2) | (4) |
| Distribution of Zakah | - | - | - | - | - | - | - | - | (177) | (177) | - | (177) |
| Revaluation of land (Net off deferred tax) | - | - | - | - | - | - | 178 | - | - | 178 | 123 | 301 |
| Net income for the year | - | - | - | - | - | - | - | - | 3,803 | 3,803 | 945 | 4,748 |
| Allocation to statutory reserve | - | - | 380 | - | - | - | - | - | (380) | - | - | - |
| **Balance at 31 December 2021** | **51,445** | **41,847** | **9,363** | **3,275** | **(38)** | **1,637** | **178** | **(16,206)** | **1,929** | **93,430** | **9,210** | **102,640** |
| 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 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

| | ***2021*** | *2020* |
|---|---|---|
| | ***BD'000*** | *BD'000* |
| **OPERATING ACTIVITIES** | | |
| Net income before taxation | **4,763** | 4,442 |
| Adjustments for: | | |
| Depreciation and amortization | **3,750** | 1,868 |
| Allowances for impairment - net | **6,536** | 8,052 |
| Gain on sale of premises and equipment | **(15)** | (62) |
| Share of income / (loss) from investment in joint venture | **(1,534)** | 32 |
| Gain on sale of investments | **(1,372)** | (6,014) |
| Unrealized loss on revaluation of investment properties | **44** | 373 |
| Modification loss in lieu of payments moratorium | **-** | (3,331) |
| Operating profit before changes in operating assets and liabilities | **12,172** | 5,360 |
| Net changes in operating assets and liabilities: | | |
| Balances with central banks in mandatory reserves | **(4,972)** | 32,678 |
| Receivables | **(13,509)** | 9,805 |
| Ijara muntahia bittamleek and ijara receivables | **(52,447)** | (15,465) |
| Musharaka | **7,471** | (43,492) |
| Other assets | **(2,767)** | 1,924 |
| Other liabilities | **(7,491)** | 4,257 |
| Murabaha and other payables | **21,887** | 22,524 |
| Current accounts | **(11,577)** | 40,435 |
| Equity of investment accountholders | **63,528** | 98,043 |
| Taxation paid | **(775)** | (245) |
| Net cash generated from operating activities | **11,520** | 155,824 |
| **INVESTING ACTIVITIES** | | |
| Purchase of investments | **(140,650)** | (403,270) |
| Investments sold / matured | **95,845** | 319,787 |
| Purchase of premises and equipment | **(1,980)** | (1,768) |
| Sale of premises and equipment | **253** | 120 |
| Net cash used in investing activities | **(46,532)** | (85,131) |
| **FINANCING ACTIVITIES** | | |
| Receipt / (Repayment) of subordinated mudaraba | **2,472** | (673) |
| Receipt of government grant | **-** | 722 |
| Net cash from financing activities | **2,472** | 49 |
| Foreign currency translation adjustments | **(186)** | (567) |
| **NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS** | **(32,726)** | 70,175 |
| Cash and cash equivalents at 1 January | **144,311** | 74,136 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER (note 25)** | **111,585** | 144,311 |

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

For the year ended 31 December 2021

| | ***Balance at 1 January 2021 BD'000*** | ***Net deposits / withdrawals BD'000*** | ***Gross income BD'000*** | ***Mudarib's / agency fee BD'000*** | ***Balance at 31 December 2021 BD'000*** |
|---|---|---|---|---|---|
| ***Wakala Bi Al-Istithmar*** | | | | | |
| On balance sheet jointly financed assets | **137,283** | **54,974** | **5,481** | **(3,701)** | **194,037** |
| | **137,283** | **54,974** | **5,481** | **(3,701)** | **194,037** |
| **Others** | | | | | |
| Receivables | **51,406** | **(11,365)** | **4,169** | **(50)** | **44,160** |
| Investments | **8,560** | **7,044** | **-** | **-** | **15,604** |
| | **59,966** | **(4,321)** | **4,169** | **(50)** | **59,764** |
| | **197,249** | **50,653** | **9,650** | **(3,751)** | **253,801** |

| | *Balance at 1 January 2020 BD '000* | *Net deposits / withdrawals BD '000* | *Gross income BD '000* | *Mudarib's / agency fee BD '000* | *Balance at 31 December 2020 BD '000* |
|---|---|---|---|---|---|
| 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 |

## 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 five commercial branches in the Kingdom of Bahrain. The Bank is 92% (2020: 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 22 February 2022.

## 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 and debt-type instruments through statement of income, equity-type instruments through equity and land owned by the Bank (classified as premises and equipment) that have been measured at fair value.

The consolidated financial statements are presented in United States Dollars, being the reporting currency of the Bank. 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 amounted to BD 3.3 million during 2020 on financial assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional profit in statement of changes 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.

**2 ACCOUNTING POLICIES (continued)**

**2.2 Statement of compliance (continued)**

(b) recognition of financial assistance amounted to BD 722 thousand during 2020 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 statement of changes in equity as a result of (a) above, and the balance amount to be recognized in profit or loss. Any other financial assistance is recognised in accordance with the relevant requirements of FAS issued by AAOIFI.

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.

The Group had provided payment holidays to certain customers on the basis of regulatory directives issued by the CBB as concessionary measures to mitigate the impact of COVID-19 and requests received. As of 31 December 2021, the outstanding balance of customers to whom such payment holidays have been provided amounted to BD 73.5 million (year ended 31 December 2020: BD 37 million). However, this did not result in any modification loss as these deferrals were provided to the customers at the profit rate as per the terms of original agreement.

**2.3 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.

**2.4 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)

### 2.4 Basis of consolidation (continued)

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

| *Bank* | *Ownership for 2021 / 2020* | *Year of incorporation* | *Country of incorporation* | *No. of branches/ offices at 31 December 2021 / 2020* |
|---|---|---|---|---|
| ***Held directly by the Bank*** | | | | |
| Al Baraka Bank (Pakistan) Limited* | 59.13%/ 59.13% | 2004 | Pakistan | 180/ 190 |

*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.

### 2.5 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted by group upon the adoption of FAS 32 are as follows:

#### 2.5.1 Adoption of FAS 32 Ijarah

This standard supersedes FAS 8 “Ijarah and Ijarah Muntahia Bittamleek”. FAS 32 sets out the principles for the classification, recognition, measurement, presentation and disclosure of Ijarah type transactions including their different forms entered into by an institution, in both the capacities of lessor and lessee. This standard is effective for financial years beginning 1 January 2021, with early adoption permitted.

Under this standard, an institution, in its capacity either as lessor or lessee shall classify each of its Ijarah into a) operating Ijarah b) Ijara Muntahia Biltamleek with expected transfer of ownership after the end of the Ijarah term – either through sale or gift; and c) Ijarah Muntahia Biltamleek with gradual transfer – with gradual transfer of ownership during the Ijarah term including Diminishing Musharaka Ijarah.

The standard includes two recognition exemptions for lessees – leases of “low-value” assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of the lease, a lessee will recognize an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset) and a net Ijarah liability, duly comprising of a) gross Ijarah liability and b) deferred Ijarah cost (shown as contra-liability).

The Group adopted FAS 32 using modified retrospective method and recognises lease liabilities to make lease payments and right-of-use asset representing the right to use the underlying assets on 1 January 2021. In accordance with the FAS 32, the Group has recognised the right-of-use assets and corresponding lease liability amounted to BD 5.4 million on 1 January 2021 in the consolidated financial statements.

**2 ACCOUNTING POLICIES (continued)**

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

**2.5.1 Adoption of FAS 32 Ijarah (continued)**

a) Right-of-use asset
The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use asset is measured at cost, less any accumulated amortisation and impairment losses, and adjustment for any effect of Ijarah modification or reassessment. The cost of right-of-use assets represents the fair value of total consideration paid/ payable and includes initial direct costs and any dismantling or decommissioning costs. The Group amortises the right-of-use asset from the commencement date to the end of the useful economic life of the right-of use assets which coincides with the end of the Ijarah term using a systematic basis that is reflective of the pattern of utilization of benefits from the right-of-use asset. Right-of-use asset is also subject to impairment in line with FAS 30 requirements. The carrying value of right-of-use asset is recognised under "Premises and equipment" in the consolidated statement of financial position.

b) Ijarah liability
At the commencement date of the lease (i.e., the date the underlying asset is available for use), the Group recognises Ijarah liability measured at the fair value of total rentals payable for Ijarah term. After the commencement date, the amount of Ijarah liability is increased to reflect return on the Ijarah liability – by way of amortisation of deferred Ijarah cost and reduced to reflect the Ijarah rentals made. In addition, the carrying amount of Ijarah liability is remeasured if there is a modification, a change in the Ijarah term or change in the in-substance fixed lease payments. The carrying value of Ijarah liability is recognised under "Other liabilities" in the consolidated statement of financial position.

**2.5.2 Adoption of FAS 33 Investment in sukuk, shares and similar instruments**
This standard 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 for financial years beginning or after 1 January 2021 with early adoption permitted. For the purpose of this standard, each investment is to be categorized as one of the below investment categories depending on it nature:

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

*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.

## 2 ACCOUNTING POLICIES (continued)

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

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

*Classification (continued)*
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".

*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.

#### 2.5.3 FAS 35 Risk Reserves
This standard defines the accounting and financial reporting principles for risk reserves to be in line with global best practices for accounting and risk management. This standard complements FAS 30 "Impairment, Credit Losses and Onerous Commitments". Both standards FAS 35 & FAS 30 together supersede the earlier FAS 11 "Provisions and Reserves". This standard is effective beginning on 1 January 2021 and the adoption of this standard does not have any impact on the Group's consolidated financial statements.

## 2 ACCOUNTING POLICIES (continued)

### 2.6 New standards, amendments and interpretations issued but not yet effective

#### 2.6.1 FAS 37 Financial Reporting by Waqf Institutions

AAOIFI issued FAS 37 "Financial Reporting by Waqf Institutions" in 2020. The objective of the standard is to establish principles of financial reporting by Waqf institutions, which are established and operated in line with Shari'ah principles and rules. This standard shall be effective for the financial periods beginning on or after 1 January 2022 with early adoption permitted.

The Board of Directors does not expect the above accounting standard to have an impact on the consolidated financial statements of the Group.

#### 2.6.2 FAS 38 Wa'ad, Khiyar and Tahawwut

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

'The Group's management is currently assessing the impact of the above standard on the consolidated financial statements of the Group.

### 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 Impairment, Credit Losses and Onerous Commitments

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.

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)

### 2.7.3 Impairment, Credit Losses and Onerous Commitments (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.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of a provision account and the amount of the loss is recognised in the consolidated statement of income.

Financing contracts together with the associated provisions are written off when there is no realistic prospect of future recovery and collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced in the consolidated statement of income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective profit rate. If a financial asset has a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable.

**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.

## 2 ACCOUNTING POLICIES (continued)

### 2.7 Summary of accounting policies (continued)

### 2.7.3 Impairment, Credit Losses and Onerous Commitments (continued)

***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’.

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.

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of accounting policies (continued)**

**2.7.3 Impairment, Credit Losses and Onerous Commitments (continued)**

**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.

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.

## 2 ACCOUNTING POLICIES (continued)

### 2.7 Summary of accounting policies (continued)

### 2.7.3 Impairment, Credit Losses and Onerous Commitments (continued)

***Renegotiated financial assets (continued)***
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:

*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.

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of accounting policies (continued)**

**2.7.3 Impairment, Credit Losses and Onerous Commitments (continued)**

**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.

**2.7.4 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.

*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.

*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.

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 ACCOUNTING POLICIES (continued)

### 2.7 Summary of accounting policies (continued)

### 2.7.5 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.

### 2.7.6 Financial instruments - initial recognition and subsequent measurement

***Date of recognition***

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. All financial assets and liabilities are initially recognised on the trade date, i.e. the date that the Group becomes a party to the contractual provisions of the instrument.

***Initial and subsequent measurement of financial instruments***

The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets recorded at fair value through statement of income.

***(i) Due from banks***

Murabahas are international commodity murabaha transactions. The Bank arranges a murabaha transaction by buying a commodity (which represents the object of the murabaha) and then resells this commodity to the beneficiary murabeh (after computing a profit margin). The sale price (cost plus the profit margin) is paid either lump sum at maturity or in installments by the murabeh over the agreed period.

Murabaha with banks are stated net of deferred profits and provision for impairment, if any. Wakala with banks are stated at cost less provision for impairment, if any.

***(ii) Financing contracts***

*(a) Murabaha*

Murabaha represents the sale of goods at cost plus an agreed profit. Murabaha receivables are stated net of deferred profits, any amounts written off and provision for impairment, if any. Promise made in the murabaha to the purchase orderer is not obligatory upon the customer.

*(b) Ijarah Muntahia Bittamleek*

Ijarah Muntahia Bittamleek mainly comprise of land and buildings and certain other assets. Ijarah Muntahia Bittamleek is a lease whereby the legal title of the leased asset passes to the lessee at the end of the ijarah (lease term), provided that all ijarah installments are settled.

Assets under Ijarah Muntahia Bittamleek are initially recognised at cost and subsequently depreciated at rates calculated to write off the cost of each asset over its useful life to its residual value.

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of accounting policies (continued)**

**2.7.6 Financial instruments - initial recognition and subsequent measurement (continued)**

***Initial and subsequent measurement of financial instruments (continued)***

***(ii) Financing contracts (continued)***

*(c) Musharaka*

Musharaka represents a partnership between the Group and a customer whereby each party contributes to the capital in equal or varying proportions to establish a new project or share in an existing one, and whereby each of the parties becomes an owner of the capital on a permanent or declining basis and shall have a share of profits or losses. These are stated at the fair value of consideration given less any amounts written off and provision for impairment, if any.

***(iii) Investments***

The Bank accounts for the investments in accordance with the FAS 33 - Investment in sukuk, shares and similar instruments that has been adopted from 1 January 2020. Refer section 2.6 for details.

***(iv) Equity of investment account holders***

Equity of investment account holders is invested in cash, balances with banks and Central Bank of Bahrain, due from banks, sukuk and financing contracts. No priority is granted to any party for the purpose of distribution of profits. According to the terms of acceptance of the investment account holders funds, 100% of these funds are invested after deductions of mandatory reserve and sufficient operational cash requirements.

Equity of investment account holders is carried at fair value of consideration received less amounts settled. Expenses are allocated to investment accounts in proportion of average equity of investment account holders to average assets, however, investment related expenses and assets are excluded.

Income is allocated proportionately between equity of investment account holders and owners' equity on the basis of the average balances outstanding during the year and share of the funds invested.

**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.

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

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of accounting policies (continued)**

**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**

Equity of investment account holders is invested in cash, balances with banks and Central Bank of Bahrain, due from banks, sukuk and financing contracts. No priority is granted to any party for the purpose of distribution of profits. According to the terms of acceptance of the investment account holders funds, 100% of these funds are invested after deductions of mandatory reserve and sufficient operational cash requirements.

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

| | | ***2021*** | *2020* |
|---|---|---|---|
| | | ***BD'000*** | *BD '000* |
| Cash in hand | | **12,654** | 16,720 |
| Balances with State Bank of Pakistan | | | |
| Current account | | **1,790** | 1,223 |
| Mandatory reserves | 3.1 | **25,467** | 20,977 |
| | | **27,257** | 22,200 |
| Balances with CBB | | | |
| Current account | | **334** | 3,438 |
| Mandatory reserves | 3.1 | **7,036** | 6,553 |
| | | **7,370** | 9,991 |
| Balances with other banks and financial institutions | | **70,573** | 62,257 |
| | | **117,854** | 111,168 |

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

## 4 RECEIVABLES

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | **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 placements with FIs | **-** | **26,243** | **26,243** | - | 60,704 | 60,704 |
| Salam financing | **-** | **20,879** | **20,879** | - | 23,073 | 23,073 |
| Istisna'a financing | **-** | **56,504** | **56,504** | - | 50,174 | 50,174 |
| Murabaha | **424** | **113,025** | **113,449** | 535 | 93,515 | 94,050 |
| Bills receivable and others | **-** | **5,380** | **5,380** | - | 12,833 | 12,833 |
| Gross receivables | **424** | **222,031** | **222,455** | 535 | 240,299 | 240,834 |
| Deferred profits | **-** | **(10,929)** | **(10,929)** | (20) | (6,858) | (6,878) |
| | **424** | **211,102** | **211,526** | 515 | 233,441 | 233,956 |
| Allowances for expected credit losses (4.2) | **(5)** | **(28,587)** | **(28,592)** | (140) | (23,661) | (23,801) |
| Net receivables | **419** | **182,515** | **182,934** | 375 | 209,780 | 210,155 |

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.

| | 2021 | | | |
|---|---|---|---|---|
| | **Stage 1: 12-month ECL BD'000** | **Stage 2: Lifetime ECL not credit-impaired BD'000** | **Stage 3: Lifetime ECL credit-impaired BD'000** | **Total BD'000** |
| Good (1-4) | **95,905** | **7,498** | **-** | **103,403** |
| Satisfactory (5-7) | **41,603** | **35,189** | **-** | **76,792** |
| Default (8-10) | **-** | **-** | **31,331** | **31,331** |
| | **137,508** | **42,687** | **31,331** | **211,526** |

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

During the year ended 31 December 2020, the modification loss amounted to BD 942 thousand was recorded in equity on payment holiday provided to eligible customers impacted by COVID 19 Pandemic against such receivables.

## 4 RECEIVABLES (continued)

### 4.1 Movements in deferred profit from murabaha contracts:

| | ***2021*** | *2020* |
|---|---|---|
| | ***BD'000*** | *BD '000* |
| Deferred profit at the beginning of the year | **6,826** | 7,223 |
| Murabaha sales revenue during the year | **434,925** | 84,945 |
| Murabaha cost of sales | **(425,649)** | (81,810) |
| Profit accrued during the year | **(4,689)** | (3,532) |
| Deferred profit written off during the year | **(441)** | - |
| Exchange Differences | **(101)** | - |
| **Deferred profit at the end of the year** | **10,871** | 6,826 |

### 4.2 Allowances for expected credit losses

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

| | ***2021*** | | | |
|---|---|---|---|---|
| | ***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** | **586** | **5,529** | **17,686** | **23,801** |
| **Changes during the year:** | | | | |
| - transferred to Stage 1: 12 month ECL | **10** | **(7)** | **(3)** | **-** |
| - transferred to Stage 2: Lifetime ECL not credit-impaired | **(75)** | **531** | **(456)** | **-** |
| - transferred to Stage 3: Lifetime ECL credit-impaired | **-** | **(1,559)** | **1,560** | **1** |
| Net remeasurement of loss allowance | **278** | **(110)** | **7,659** | **7,827** |
| Recoveries | **-** | **-** | **(1,534)** | **(1,534)** |
| | **213** | **(1,145)** | **7,226** | **6,294** |
| Allocation from investment risk reserve | **-** | **-** | **104** | **104** |
| Amounts written off during the year | **-** | **(1,292)** | **(1,177)** | **(2,469)** |
| Write back of written off | **-** | **-** | **2,183** | **2,183** |
| FX translation | **(17)** | **(21)** | **(1,283)** | **(1,321)** |
| **Balance at 31 December** | **782** | **3,071** | **24,739** | **28,592** |

| | *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 | - | - | (129) | (129) |
| | 172 | 1,587 | 4,128 | 5,887 |
| Reclassification to 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 |

## 5 IJARA MUNTAHIA BITTAMLEEK AND IJARA RECEIVABLES

| | **2021** | | | *2020* | | |
|---|---|---|---|---|---|---|
| | ***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) | **10,004** | **151,163** | **161,167** | 9,206 | 97,497 | 106,703 |
| Ijara receivables (5.2) | **3,450** | **12,701** | **16,151** | 4,627 | 13,647 | 18,274 |
| | **13,454** | **163,864** | **177,318** | 13,833 | 111,144 | 124,977 |
| Allowance for expected credit losses (5.3) | **(120)** | **(3,222)** | **(3,342)** | (144) | (3,623) | (3,767) |
| | **13,334** | **160,642** | **173,976** | 13,689 | 107,521 | 121,210 |

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.

| | **2021** | | | |
|---|---|---|---|---|
| | ***Stage 1: 12-month ECL BD'000*** | ***Stage 2: Lifetime ECL not credit-impaired BD'000*** | ***Stage 3: Lifetime ECL credit-impaired BD'000*** | ***Total BD'000*** |
| Good (1-4) | **166,475** | **4** | **-** | **166,479** |
| Satisfactory (5-7) | **1,514** | **2,276** | **-** | **3,790** |
| Default (8-10) | **-** | **-** | **7,049** | **7,049** |
| | **167,989** | **2,280** | **7,049** | **177,318** |

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

During the year ended 31 December 2020, the modification loss amounted to BD 2.3 million was recorded in equity on payment holiday provided to eligible customers impacted by COVID 19 Pandemic against such Ijara Muntahia Bittamleek.

## 5 IJARA MUNTAHIA BITTAMLEEK AND IJARA RECEIVABLES (continued)

### 5.1 Ijara muntahia bittamleek

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | 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 | - | 179,610 | 179,610 | - | 125,066 | 125,066 |
| Accumulated depreciation | - | (29,907) | (29,907) | - | (28,243) | (28,243) |
| Net book value | - | 149,703 | 149,703 | - | 96,823 | 96,823 |
| **Equipment** | | | | | | |
| Cost | 13,405 | 3,335 | 16,740 | 15,868 | 443 | 16,311 |
| Accumulated depreciation | (3,401) | (1,972) | (5,373) | (6,662) | (364) | (7,026) |
| Net book value | 10,004 | 1,363 | 11,367 | 9,206 | 79 | 9,285 |
| **Others** | | | | | | |
| Cost | - | 238 | 238 | - | 3,106 | 3,106 |
| Accumulated depreciation | - | (141) | (141) | - | (2,511) | (2,511) |
| Net book value | - | 97 | 97 | - | 595 | 595 |
| **TOTAL** | | | | | | |
| Cost | 13,405 | 183,183 | 196,588 | 15,868 | 128,615 | 144,483 |
| Accumulated depreciation | (3,401) | (32,020) | (35,421) | (6,662) | (31,118) | (37,780) |
| **Net book value** | 10,004 | 151,163 | 161,167 | 9,206 | 97,497 | 106,703 |

### 5.2 Ijara receivables

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | Self financed BD'000 | Jointly financed BD'000 | Total BD'000 | Self financed BD'000 | Jointly financed BD'000 | Total BD'000 |
| Ijara receivable | 3,450 | 12,701 | 16,151 | 4,627 | 13,647 | 18,274 |
| | 3,450 | 12,701 | 16,151 | 4,627 | 13,647 | 18,274 |

## 5 IJARA MUNTAHIA BITTAMLEEK AND IJARA RECEIVABLES (continued)

### 5.3 Allowances for expected credit losses

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

| | ***2021*** | | | |
|---|---|---|---|---|
| | ***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** | **337** | **86** | **3,345** | **3,768** |
| **Changes during the year:** | | | | |
| - transferred to Stage 1: 12 month ECL | **108** | **(46)** | **(62)** | **-** |
| - transferred to Stage 2: Lifetime ECL not credit-impaired | **-** | **250** | **(250)** | **-** |
| - transferred to Stage 3: Lifetime ECL credit-impaired | **-** | **-** | **-** | **-** |
| Net remeasurement of loss allowance | **(152)** | **(272)** | **181** | **(243)** |
| Recoveries / write-backs | **-** | **-** | **(78)** | **(78)** |
| Allowances for credit losses | **(44)** | **(68)** | **(209)** | **(321)** |
| Amounts written off during the year | **-** | **-** | **(9)** | **(9)** |
| FX translation | **-** | **-** | **(96)** | **(96)** |
| **Balance at 31 December** | **293** | **18** | **3,031** | **3,342** |

| | *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 |

## 6 MUSHARAKA

| | **2021** | | | 2020 | | |
|---|---|---|---|---|---|---|
| | ***Self financed BD'000*** | ***Jointly financed BD'000*** | ***Total BD'000*** | *Self financed BD'000* | *Jointly financed BD'000* | *Total BD'000* |
| Musharakas | **19,932** | **107,955** | **127,887** | 12,683 | 123,170 | 135,853 |
| Allowances for expected credit losses (6.1) | **-** | **(3,847)** | **(3,847)** | - | (3,798) | (3,798) |
| | **19,932** | **104,108** | **124,040** | 12,683 | 119,372 | 132,055 |

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.

| | **2021** | | | |
|---|---|---|---|---|
| | ***Stage 1: 12-month ECL BD'000*** | ***Stage 2: Lifetime ECL not credit-impaired BD'000*** | ***Stage 3: Lifetime ECL credit-impaired BD'000*** | ***Total BD'000*** |
| Good (1-4) | **97,270** | **9,904** | **-** | **107,174** |
| Satisfactory (5-7) | **2,273** | **14,020** | **-** | **16,293** |
| Default (8-10) | **-** | **-** | **4,420** | **4,420** |
| | **99,543** | **23,924** | **4,420** | **127,887** |

| | 2020 | | | |
|---|---|---|---|---|
| | *Stage 1: 12-month ECL BD'000* | *Stage 2: Lifetime ECL not credit-impaired BD'000* | *Stage 3: Lifetime ECL credit-impaired BD'000* | *Total BD'000* |
| Good (1-4) | 76,921 | 37,343 | - | 114,264 |
| Satisfactory (5-7) | 6,121 | 11,509 | - | 17,630 |
| Default (8-10) | - | - | 3,959 | 3,959 |
| | 83,042 | 48,852 | 3,959 | 135,853 |

## 6 MUSHARAKAS (continued)

### 6.1 Allowances for expected credit losses

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

| | **2021** | | | |
|---|---|---|---|---|
| | ***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** | **620** | **1,035** | **2,143** | **3,798** |
| **Changes during the year:** | | | | |
| - transferred to Stage 2: Lifetime ECL not credit-impaired | **(33)** | **33** | **-** | **-** |
| Net remeasurement of loss allowance | **119** | **(113)** | **608** | **614** |
| Recoveries / write-backs | **-** | **-** | **(207)** | **(207)** |
| | **86** | **(80)** | **401** | **407** |
| FX translation | **(58)** | **(98)** | **(202)** | **(358)** |
| **Balance at 31 December** | **648** | **857** | **2,342** | **3,847** |

| | *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 |

## 7 INVESTMENTS

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | ***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 | **-** | **12,687** | **12,687** | - | 1,278 | 1,278 |
| **ii) Debt-type instruments at amortised cost (Note 7.1)** | | | | | | |
| **Quoted** | | | | | | |
| Sukuk | **209,379** | **124,507** | **333,886** | 179,167 | 104,493 | 283,660 |
| **Unquoted** | | | | | | |
| Sukuk | **5,745** | **29,064** | **34,809** | 13,437 | 38,351 | 51,788 |
| | **215,124** | **153,571** | **368,695** | 192,604 | 142,844 | 335,448 |
| Allowances for expected credit losses | **(124)** | **(44)** | **(168)** | (243) | (13) | (256) |
| | **215,000** | **153,527** | **368,527** | 192,361 | 142,831 | 335,192 |
| **iii) Equity-type instruments at fair value through statement of income** | | | | | | |
| **Quoted** | | | | | | |
| Listed equity shares | **-** | **-** | **-** | - | 13 | 13 |
| **iv) Equity-type instruments at fair value through equity - note (Note 7.2)** | | | | | | |
| **Quoted** | | | | | | |
| Listed equity shares | **11,414** | **115** | **11,529** | 11,598 | 132 | 11,730 |
| **Unquoted** | | | | | | |
| Unlisted equity shares | **23,849** | **167** | **24,016** | 23,877 | 123 | 24,000 |
| Managed funds | **377** | **-** | **377** | 377 | - | 377 |
| Real estate funds | **617** | **4,202** | **4,819** | 617 | 1,637 | 2,254 |
| | **36,257** | **4,484** | **40,741** | 36,469 | 1,892 | 38,361 |
| Provision for impairment | **(1,959)** | **(159)** | **(2,118)** | (2,158) | (176) | (2,334) |
| | **34,298** | **4,325** | **38,623** | 34,311 | 1,716 | 36,027 |
| **Total investments** | **249,298** | **170,539** | **419,837** | 226,672 | 145,838 | 372,510 |

Within unquoted investments which are held at fair value through equity are investments amounting to BD 27.8 million (2020: BD 25.4 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 381.2 million (2020: BD 336.5 million ) has a fair value amounting to BD 381.6 million (2020: BD 337.0 million).

Investments stated at a carrying amount of BD 187.0 million (2020: BD 165.5 million) are placed in custody of a financial institution to secure a financing line.

## 7 INVESTMENTS (continued)

### 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.

| | **2021** | | |
|---|---|---|---|
| | ***Stage 1: 12-month ECL BD'000*** | ***Stage 2: Lifetime ECL not credit-impaired BD'000*** | ***Total BD'000*** |
| Good (1-4) | **157,462** | **-** | **157,462** |
| Satisfactory (5-7) | **211,233** | **-** | **211,233** |
| | **368,695** | **-** | **368,695** |

| | *2020* | | |
|---|---|---|---|
| | *Stage 1: 12-month ECL BD'000* | *Stage 2: Lifetime ECL not credit-impaired BD'000* | *Total BD'000* |
| Good (1-4) | 140,016 | - | 140,016 |
| Satisfactory (5-7) | 182,122 | 13,310 | 195,432 |
| | 322,138 | 13,310 | 335,448 |

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

| | **2021** | | |
|---|---|---|---|
| | ***Stage 1: 12-month ECL BD'000*** | ***Stage 2: Lifetime ECL not credit-impaired BD'000*** | ***Total BD'000*** |
| **Balance at 1 January** | **172** | **84** | **256** |
| **Changes during the year** | | | |
| - transferred to Stage 1: 12 month ECL | **28** | **(28)** | **-** |
| Net remeasurement of loss allowance | **(31)** | **(56)** | **(87)** |
| | **(3)** | **(84)** | **(87)** |
| FX translation | **(1)** | **-** | **(1)** |
| **Balance at 31 December** | **168** | **-** | **168** |

## 7 INVESTMENTS (continued)

### 7.1 Debt-type instruments at amortised cost (continued)

| | 2020 | | |
|---|---|---|---|
| | *Stage 1: 12-month ECL BD'000* | *Stage 2: Lifetime ECL not 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 |

### 7.2 Provision for impairment on equity type investments

| | ***2021 BD'000*** | *2020 BD'000* |
|---|---|---|
| **Balance at 1 January** | **2,334** | 2,191 |
| Charges for the year | **315** | 451 |
| Reversal for the year | **(414)** | (265) |
| Exchange difference | **(117)** | (43) |
| **Balance at 31 December** | **2,118** | 2,334 |

## 8 INVESTMENT IN JOINT VENTURE

| | ***2021 BD'000*** | *2020 BD'000* |
|---|---|---|
| **Balance at 1 January** | **5,516** | 5,548 |
| Net share of income / (loss) for the year | **1,534** | (32) |
| **Balance at 31 December** | **7,050** | 5,516 |

| ***Name*** | ***Nature of Business*** | ***Ownership*** | |
|---|---|---|---|
| | | ***2021*** | *2020* |
| Danaat Al-Baraka | Real estate development | **51%** | 51% |

**Summarised statement of financial position**

| | ***2021 BD'000*** | *2020 BD'000* |
|---|---|---|
| Non-current assets | **8,753** | 16,602 |
| Current assets | **5,933** | 57 |
| Term liabilities | **-** | (4,300) |
| Current liabilities | **(864)** | (1,545) |
| **Net assets** | **13,822** | 10,814 |
| Group's ownership in equity | **7,050** | 5,516 |
| **Net carrying amount** | **7,050** | 5,516 |

## 8 INVESTMENT IN JOINT VENTURE (continued)

| | **2021** | 2020 |
|---|---|---|
| | ***BD'000*** | *BD'000* |
| **Summarised statement of profit and loss** | | |
| Total income | **3,286** | - |
| Total expenses | **(278)** | (62) |
| **Total comprehensive income / (loss)** | **3,008** | (62) |
| **Group's net share of profit / (loss)** | **1,534** | (32) |

## 9 INVESTMENTS IN REAL ESTATE

| | **2021** | 2020 |
|---|---|---|
| | ***BD'000*** | *BD'000* |
| **Balance at 1 January** | **3,700** | 5,790 |
| Disposals during the year | **(64)** | (1,717) |
| Unrealized loss on remeasurement | **(44)** | (373) |
| **Balance at 31 December** | **3,592** | 3,700 |

## 10 PREMISES AND EQUIPMENT

| | *Land,Building & Right of Use Assets* | *Computer Software & license* | *Office furniture and equipment* | *Vehicles* | *Total* |
|---|---|---|---|---|---|
| | *BD'000* | *BD'000* | *BD'000* | *BD'000* | *BD'000* |
| Cost: | | | | | |
| **At 1 January 2021** | **13,803** | **7,805** | **13,578** | **285** | **35,471** |
| Additions (10.1) | **9,088** | **1,232** | **349** | **12** | **10,681** |
| Revaluation (10.2) | **349** | **-** | **-** | **-** | **349** |
| Disposals | **(656)** | **(2,838)** | **(3,968)** | **(96)** | **(7,558)** |
| Exchange difference | **(1,165)** | **(359)** | **(482)** | **(18)** | **(2,024)** |
| **At 31 December 2021** | **21,419** | **5,840** | **9,477** | **183** | **36,919** |
| Accumulated depreciation: | | | | | |
| **At 1 January 2021** | **4,655** | **5,576** | **9,836** | **190** | **20,257** |
| Depreciation for the year | **2,151** | **505** | **1,071** | **23** | **3,750** |
| Related to disposals | **(423)** | **(2,838)** | **(3,965)** | **(96)** | **(7,322)** |
| Exchange difference | **(381)** | **(252)** | **(372)** | **(9)** | **(1,014)** |
| **At 31 December 2021** | **6,002** | **2,991** | **6,570** | **108** | **15,671** |
| Net book values: | | | | | |
| **At 31 December 2021** | **15,417** | **2,849** | **2,907** | **75** | **21,248** |
| At 31 December 2020 | 11,405 | 2,230 | 3,742 | 95 | 17,472 |
| Estimated useful life for calculation of depreciation | 20-30 years | 4-5 years | 1-10 years | 4-5 years | 1-10 years |

**10.1** Additions includes right-of-use assets recognized by Group on adoption of FAS 32 Ijarah on 1 January 2021 amounted to BD 5.4 million.

**10.2** The Group carries Its lands at fair value and engaged an independent valuation specialist to asses fair values as at 31 December 2021 for lands in Middle East and other South Asian countries.

The increase in the carrying amount of lands has been recognized in the statement of changes in equity and the decrease in the amount of lands has been recognized in the statement of income.

Deferred taxes related to the revaluation of lands have been calculated at the tax rate of the jurisdiction in which they located.

## 11 GOODWILL

| | 2021 BD'000 | 2020 BD'000 |
|---|---|---|
| Balances at 1 January | **5,297** | 5,467 |
| Foreign exchange translation | **(501)** | (170) |
| **Balances at 31 December** | **4,796** | 5,297 |

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

| | 2021 BD'000 | 2020 BD'000 |
|---|---|---|
| Collaterals pending sale | **5,021** | 5,421 |
| Deferred tax (12.1) | **7,080** | 7,457 |
| Advance against capital expenditure | **1,479** | 2,340 |
| Accounts receivable | **8,256** | 5,113 |
| Advance tax | **217** | 251 |
| Income receivable | **23** | 135 |
| Prepayments | **1,140** | 661 |
| Others | **1,832** | 259 |
| Total | **25,048** | 21,637 |
| Provision for impairment | **(856)** | (924) |
| | **24,192** | 20,713 |

**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

| | 2021 BD'000 | 2020 BD'000 |
|---|---|---|
| Accounts payable | **11,517** | 5,014 |
| Margins received | **8,149** | 13,586 |
| Security deposit against ijara muntahia bittamleek | **343** | 713 |
| Bills payable | **10,236** | 11,589 |
| Provision for employees benefits | **3,737** | 2,639 |
| Charity fund | **235** | 303 |
| Allowance for expected credit losses-unfunded facilities | **271** | 139 |
| Operating Ijarah liability | **4,262** | - |
| Others | **2,587** | 5,756 |
| | **41,337** | 39,739 |

## 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.

| | ***2021*** | *2020* |
|---|---|---|
| | ***BD'000*** | *BD'000* |
| IAH - Non-banks | **517,135** | 500,983 |
| IAH - Banks | **185,972** | 138,621 |
| Profit equalisation reserve (note 14.1) | **155** | 130 |
| | **703,262** | 639,734 |

### 14.1 Movement in profit equalisation reserve

| | ***2021*** | *2020* |
|---|---|---|
| | ***BD'000*** | *BD'000* |
| **Balance at 1 January** | **129** | 86 |
| Amount apportioned from income allocable to equity of investment accountholders | **26** | 43 |
| **Balance at 31 December** | **155** | 129 |

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 upto a maximum of 70% (2020: upto 70%) as per the terms of IAH agreements.

The Group has charged a total administrative expense of BD 3 million (2020: BD 5.3 million) to equity of investment account holders for the year ended 31 December 2021.

## 14 EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH) (continued)

### 14.2 Equity of Investment Accountholders by maturity

| | ***2021*** | *2020* |
|---|---|---|
| | ***BD'000*** | *BD'000* |
| Saving Accounts | **302,327** | 278,675 |
| One Month Investment Account | **69,235** | 41,160 |
| Three Months Investment Account | **96,288** | 84,947 |
| Six Months Investment Account | **33,967** | 20,377 |
| Nine Months Investment Account | **1,646** | 12,933 |
| 1 Year Investment Account | **181,990** | 179,346 |
| 2 Years Investment Account | **2,050** | 2,846 |
| 3 Years Investment Account | **9,427** | 12,611 |
| 4 Years Investment Account | **-** | 7 |
| 5 Years Investment Account | **6,332** | 6,832 |
| | **703,262** | 639,734 |

### 14.3 Equity of Investment Accountholders by type

| | ***2021*** | *2020* |
|---|---|---|
| | ***BD'000*** | *BD'000* |
| Accounts on demand | **302,327** | 278,675 |
| Accounts on a contractual basis * | **400,935** | 361,059 |
| | **703,262** | 639,734 |

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

## 15 SUBORDINATED MUDARABA

| | ***2021*** | *2020* |
|---|---|---|
| | ***BD'000*** | *BD'000* |
| Subordinated Mudaraba Sukuk | **7,329** | 4,857 |
| | **7,329** | 4,857 |

| **Particular** | **Principal** | **Profit** | **Profit rate** | **Maturity** |
|---|---|---|---|---|
| Al Baraka Pakistan Limited Tier 2 Sukuk Second issue | Bullet | Semi-Annually | 6 M Kibor + 0.75% | 2024 |
| Al Baraka Pakistan Limited Tier 2 Sukuk Third issue | Bullet | Semi-Annually | 6 M Kibor + 1.50% | 2031 |

During the year first issue of AL Baraka Pakistan Limited Tier 2 Sukuk has matured having an interest rate of 6 M Kibor + 1.25% followed to an second issuance of same.

## 16 OWNERS' EQUITY

| | ***2021*** | *2020* |
|---|---|---|
| | ***BD'000*** | *BD'000* |
| *(i) Share capital* | | |
| Authorised 6,000,000 ordinary shares (2020: 6,000,000) of BD 37.7 each | **226,200** | 226,200 |

| | ***2021*** | *2020* |
|---|---|---|
| | ***BD'000*** | *BD'000* |
| Issued and fully paid 1,364,578 ordinary shares (2020: 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:

| | | ***2021*** | |
|---|---|---|---|
| ***Name*** | ***Domicile*** | ***No. of shares*** | ***% holding*** |
| Al Baraka Banking Group B.S.C. | **Bahrain** | **1,255,755** | **92.03%** |

| | | *2020* | |
|---|---|---|---|
| ***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:

| | | | ***2021*** | | | *2020* |
|---|---|---|---|---|---|---|
| | ***Number of shares*** | ***Number of shareholders*** | ***% of total outstanding shares*** | *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*

| | ***2021 BD'000*** | *2020 BD'000* |
|---|---|---|
| Subordinated Mudaraba | **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**

| | ***2021*** | *2020* |
|---|---|---|
| | ***BD'000*** | *BD'000* |
| Letters of credit | **40,718** | 39,989 |
| Guarantees | **41,026** | 22,908 |
| Foreign exchange contracts | **98,943** | 76,130 |
| Acceptances | **6,201** | 4,265 |
| Taxation | **1,960** | 544 |
| Others | **10** | 30 |
| | **188,858** | 143,866 |

**18 INCOME FROM FINANCINGS**

| | ***2021*** | *2020* |
|---|---|---|
| | ***BD'000*** | *BD'000* |
| Sales and other receivables | **11,312** | 17,407 |
| Ijarah Muntahia Bittamleek | **8,295** | 5,840 |
| Musharaka | **13,808** | 12,750 |
| | **33,415** | 35,997 |

| | ***2021*** | *2020* |
|---|---|---|
| | ***BD'000*** | *BD'000* |
| Income from jointly financed financings | **30,785** | 32,415 |
| Income from self financed financings | **2,630** | 3,582 |
| | **33,415** | 35,997 |

## 19 INCOME FROM INVESTMENTS

| | ***2021*** | *2020* |
|---|---|---|
| | ***BD'000*** | *BD'000* |
| Yield, coupon or return on investments | **16,772** | 14,983 |
| Gain on sale of investments | **1,372** | 6,013 |
| Dividends | **2,477** | 919 |
| Gain/ (loss) on disposal and revaluation of investment properties | **486** | (696) |
| Rental Income | **66** | 29 |
| | **21,173** | 21,248 |

| | ***2021*** | *2020* |
|---|---|---|
| | | *BD'000* |
| Income from jointly financed investments | **6,210** | 4,438 |
| Income from self financed investments | **14,963** | 16,810 |
| | **21,173** | 21,248 |

## 20 REVENUE FROM BANKING SERVICES

| | ***2021*** | *2020* |
|---|---|---|
| | ***BD'000*** | *BD'000* |
| Fees and commissions | **3,045** | 2,255 |
| Letters of credit and acceptances | **961** | 837 |
| Guarantees | **276** | 197 |
| | **4,282** | 3,289 |

## 21 OTHER INCOME

| | ***2021*** | *2020* |
|---|---|---|
| | ***BD'000*** | *BD'000* |
| Foreign exchange gain - net | **1,982** | 2,313 |
| Others | **468** | 442 |
| | **2,450** | 2,755 |

## 22 OTHER OPERATING EXPENSES

| | ***2021*** | *2020* |
|---|---|---|
| | ***BD'000*** | *BD'000* |
| Administrative expenses | **2,225** | 2,613 |
| Premises costs | **1,999** | 3,908 |
| Business expenses | **5,914** | 5,031 |
| General expenses | **468** | 441 |
| | **10,606** | 11,993 |

## 23 EXPECTED CREDIT LOSSES / ALLOWANCES FOR IMPAIRMENT - NET

| | ***2021*** | *2020* |
|---|---|---|
| | ***BD'000*** | *BD'000* |
| Receivables (note 4) | **(6,293)** | (5,887) |
| Ijara Muntahia Bittamleek and Ijara Receivables (note 5) | **321** | (837) |
| Musharakas (note 6) | **(407)** | (971) |
| Investments at amortized cost (note 7) | **87** | (144) |
| Investments at fair value through equity (note 7.2) | **99** | (186) |
| Contingencies and commitments | **(138)** | (20) |
| Others (23.1) | **(205)** | (7) |
| | **(6,536)** | (8,052) |

**23.1** Others mainly includes the revaluation loss on land owned by the Group amounted to BD 128 thousand (2020: Nil)

## 24 TAXATION

Taxation relates to subsidiary in Pakistan and comprise:

| | ***2021*** | *2020* |
|---|---|---|
| | ***BD'000*** | *BD'000* |
| **Consolidated statement of financial position:** | | |
| Advance tax - net | **217** | 251 |
| Deferred tax | **7,080** | 7,457 |
| **Consolidated statement of income:** | | |
| Current tax | **(418)** | (757) |
| Deferred tax | **403** | (826) |
| | **(15)** | (1,583) |

## 25 CASH AND CASH EQUIVALENTS

For the purpose of cash flows, cash and cash equivalents represent:

| | ***2021*** | *2020* |
|---|---|---|
| | ***BD'000*** | *BD'000* |
| Cash in hand | **12,654** | 16,720 |
| Balances with central banks (unrestricted accounts) | **2,124** | 4,661 |
| Balances with other banks and financial institutions | **70,572** | 62,257 |
| Receivables, commodities and wakala placements (with an original maturity of 90 days or less) | **26,235** | 60,673 |
| | **111,585** | 144,311 |

## 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.

## 26 RELATED PARTY BALANCES AND TRANSACTIONS (continued)

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

| | *Parent and Other Shareholders* | | *Other Related Parties* | | *Total* | |
|---|---|---|---|---|---|---|
| **Assets:** | ***2021*** | *2020* | ***2021*** | *2020* | ***2021*** | *2020* |
| | ***BD'000*** | *BD'000* | ***BD'000*** | *BD'000* | ***BD'000*** | *BD'000* |
| Cash and balances with banks and financial institutions | **2** | 2 | **340** | 1,925 | **342** | 1,927 |
| Receivables | **-** | - | **2,052** | 6,649 | **2,052** | 6,649 |
| Musharaka | **-** | - | **540** | 647 | **540** | 647 |
| Investments | **8,603** | 7,614 | **33,234** | 29,797 | **41,837** | 37,411 |
| Other assets | **3,355** | 2,573 | **202** | 162 | **3,557** | 2,735 |
| | **11,960** | 10,189 | **36,368** | 39,180 | **48,328** | 49,369 |
| **Liabilities:** | | | | | | |
| Current account | **2,221** | 4,850 | **1,126** | 11,522 | **3,347** | 16,372 |
| Other liabilities | **2** | 37 | **665** | 340 | **667** | 377 |
| | **2,223** | 4,887 | **1,791** | 11,862 | **4,014** | 16,749 |
| **Equity of investment accountholders** | **13,695** | 2,723 | **7,152** | 16,206 | **20,847** | 18,929 |
| **Off-balance sheet equity of investment accountholders** | **15,604** | 11,625 | **44,161** | 47,479 | **59,765** | 59,104 |
| **Contingencies and commitments** | **819** | 1 | **3,894** | 11,655 | **4,713** | 11,656 |

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

| | *Parent and Other Shareholders* | | *Other Related Parties* | | *Total* | |
|---|---|---|---|---|---|---|
| | ***2021*** | *2020* | ***2021*** | *2020* | ***2021*** | *2020* |
| | ***BD'000*** | *BD'000* | ***BD'000*** | *BD'000* | ***BD'000*** | *BD'000* |
| **Income** | | | | | | |
| Income from jointly financed sales | **-** | - | **141** | 120 | **141** | 120 |
| Income from jointly financed, other financings and investments | **-** | - | **39** | 22 | **39** | 22 |
| Other income | **120** | 120 | **15** | - | **135** | 120 |
| investment accountholders | **-** | - | **-** | 16 | **-** | 16 |
| | **120** | 120 | **195** | 158 | **315** | 278 |
| **Expenses** | | | | | | |
| Return on equity of investment accountholders before Group's share as a Mudarib | **18** | 8 | **308** | 651 | **326** | 659 |
| Other expenses | **132** | 132 | **1,008** | 1,007 | **1,140** | 1,139 |
| | **150** | 140 | **1,316** | 1,658 | **1,466** | 1,798 |

**Compensation of key management personnel is as follows:**

| | ***2021*** | *2020* |
|---|---|---|
| | ***BD'000*** | *BD'000* |
| Salaries | **1,732** | 1,526 |
| Other benefits | **732** | 651 |
| | **2,464** | 2,177 |

## 27 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 2021 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 | **85,350** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **32,504** | **117,854** |
| Receivables | **87,058** | **36,760** | **9,186** | **18,130** | **11,059** | **7,681** | **965** | **1,466** | **10,629** | **182,934** |
| Ijara muntahia bittamleek and | | | | | | **-** | **-** | **-** | **-** | |
| ijara receivables | **1,295** | **10,052** | **5,617** | **17,880** | **17,716** | **34,600** | **62,458** | **20,009** | **4,349** | **173,976** |
| Musharaka | **4,546** | **354** | **6,567** | **29,235** | **56,889** | **14,757** | **9,241** | **-** | **2,451** | **124,040** |
| Investments | **37,657** | **71** | **-** | **23,429** | **191,117** | **133,253** | **215** | **377** | **33,718** | **419,837** |
| Investments in real estate | **-** | **-** | **-** | **3,592** | **-** | **-** | **-** | **-** | **-** | **3,592** |
| Investment in Joint Venture | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **7,050** | **7,050** |
| Premises and equipment | **98** | **98** | **195** | **780** | **782** | **1,954** | **-** | **-** | **17,341** | **21,248** |
| Goodwill | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **4,796** | **4,796** |
| Other assets | **11,537** | **959** | **760** | **2,320** | **7,640** | **-** | **-** | **-** | **976** | **24,192** |
| Total assets | **227,541** | **48,294** | **22,325** | **95,366** | **285,203** | **192,245** | **72,879** | **21,852** | **113,814** | **1,079,519** |
| **LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS SUBORDINATED MUDARABA AND OWNERS' EQUITY** | | | | | | | | | | |
| Current accounts | **133,241** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **133,241** |
| Murabaha and other payables | **18,299** | **38,095** | **13,109** | **19,238** | **92** | **2,877** | **-** | **-** | **-** | **91,710** |
| Other liabilities | **33,303** | **1,007** | **221** | **802** | **789** | **5,215** | **-** | **-** | **-** | **41,337** |
| Total liabilities | **184,843** | **39,102** | **13,330** | **20,040** | **881** | **8,092** | **-** | **-** | **-** | **266,288** |
| Equity of investment accountholders | **467,870** | **89,375** | **77,403** | **35,694** | **13,313** | **10,812** | **8,795** | **-** | **-** | **703,262** |
| Subordinated mudaraba | **407** | **12** | **-** | **3,204** | **-** | **3,706** | **-** | **-** | **-** | **7,329** |
| Total owners' equity | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **102,640** | **102,640** |
| Total liabilities, equity of investment accountholders, subordinated mudaraba and owner's equity | **653,120** | **128,489** | **90,733** | **58,938** | **14,194** | **22,610** | **8,795** | **-** | **102,640** | **1,079,519** |
| Net gap | **(425,579)** | **(80,195)** | **(68,408)** | **36,428** | **271,009** | **169,635** | **64,084** | **21,852** | **11,174** | **-** |
| Cumulative net gap | **(425,579)** | **(505,774)** | **(574,182)** | **(537,754)** | **(266,745)** | **(97,110)** | **(33,026)** | **(11,174)** | **-** | **-** |
| **Off-balance sheet equity of investment accountholders** | **14,330** | **53,224** | **86,914** | **32,968** | **28,665** | **37,700** | **-** | **-** | **-** | **253,801** |

## 27 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 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 MUDARABA 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 mudaraba | 982 | - | 337 | - | 3,538 | - | - | - | - | 4,857 |
| Total owners' equity | - | - | - | - | - | - | - | - | 100,822 | 100,822 |
| Total liabilities, Equity of investment accountholders subordinated mudaraba 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 |

**27 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 for 2020;
- 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.

**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.

Following is the Group's exposure to different currencies in equivalent Bahraini Dinar:

| | ***2021*** |
|---|---|
| | ***Total equivalent BD'000*** |
| Pakistani Rupees | **49,202** |
| Euro | **(1,194)** |
| Kuwaiti Dinars | **24** |
| Pound Sterling | **(2,596)** |
| Egyptian Pound | **1,805** |
| Algerian Dinar | **2,262** |
| Chinese Yuan | **505** |

| | *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 |
| Chinese Yuan | 185 |

## 27 RISK MANAGEMENT (continued)

### b) Market risk (continued)

*Foreign exchange risk (continued)*

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*** |
|---|---|---|---|---|
| ***2021*** | | | | |
| Pakistani Rupees | Net long Position | **20%** | **49,202** | **9,840** |
| Euro | Net short Position | **20%** | **1,194** | **239** |
| Kuwaiti Dinars | Net long Position | **20%** | **24** | **5** |
| Pound Sterling | Net short Position | **20%** | **2,596** | **519** |
| Egyptian Pound | Net long Position | **20%** | **1,805** | **361** |
| Algerian Dinar | Net long Position | **20%** | **2,262** | **452** |
| Chinese Yuan | Net long Position | **20%** | **505** | **101** |

| Currency | Particular | *Change* | *Exposures in BD '000* | *Effect on equity/ Income Statement in BD '000* |
|---|---|---|---|---|
| *2020* | | | | |
| Pakistani Rupees | Net long Position | 20% | 25,865 | 5,173 |
| Euro | Net short Position | 20% | 1,020 | 204 |
| Kuwaiti Dinars | Net long Position | 20% | 20 | 4 |
| Pound Sterling | Net short Position | 20% | 1,445 | 289 |
| Egyptian Pound | Net long Position | 20% | 1,532 | 306 |
| 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 2021 %*** | ***Effect on equity/ Income Statement 2021 BD'000*** | *Change in equity price 2020 %* | *Effect on equity/ Income Statement 2020 BD'000* |
|---|---|---|---|---|
| Pakistan Stock Exchange | **10%** | **43** | 10% | 143,984 |
| Egypt Stock Exchange | **10%** | **181** | 10% | 153,182 |
| Jordan Stock Exchange | **10%** | **860** | 10% | 761,416 |

## 27 RISK MANAGEMENT (continued)

### b) Market risk (continued)

**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 2021*** | ****GCC BD'000*** | ***Rest of the world BD'000*** | ***Total BD'000*** |
|---|---|---|---|
| Banking | **13,052** | **1,151** | **14,203** |
| Government | **199,487** | **160,328** | **359,815** |
| Investment companies | **36,082** | **-** | **36,082** |
| Manufacturing | **-** | **2,927** | **2,927** |
| Real estate | **343** | **3,920** | **4,263** |
| Others | **1,884** | **663** | **2,547** |
| | **250,848** | **168,989** | **419,837** |

| *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 |

* 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.

**27 RISK MANAGEMENT (continued)**

**c) Credit risk (continued)**

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.

***Type of credit risk***

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

*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.

*Salam*

Salam is purchase of a commodity for deferred delivery in exchange for immediate payment according to specified conditions or sale of a commodity for deferred delivery in exchange for immediate payment.

## 27 RISK MANAGEMENT (continued)

### c) Credit risk (continued)

***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* | |
|---|---|---|
| | ***2021*** | *2020* |
| | ***BD'000*** | *BD'000* |
| Receivables | **182,934** | 210,155 |
| Musharaka | **124,040** | 132,055 |
| Ijara muntahia bittamleek and ijara receivables | **173,976** | 121,210 |
| Investments at amortized cost | **368,527** | 335,192 |
| Balances with banks and financial institutions | **105,200** | 94,449 |
| Other assets | **9,472** | 4,836 |
| Contingencies and commitments | **87,945** | 143,292 |
| | **1,052,094** | 1,041,189 |

**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 expected credit losses.

| | ***31 December 2021*** | | | |
|---|---|---|---|---|
| | ***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 | **170,165** | **10,030** | **31,331** | **211,526** |
| Musharaka | **123,094** | **373** | **4,420** | **127,887** |
| Ijara muntahia bittamleek and ijara receivables | **169,937** | **332** | **7,049** | **177,318** |
| | **463,196** | **10,735** | **42,800** | **516,731** |

| | *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 |

## 27 RISK MANAGEMENT (continued)

### c) Credit risk (continued)

### Aging analysis of past due but performing Islamic financing contracts

| | ***31 December 2021*** | | | |
|---|---|---|---|---|
| | ***Less than 30 days BD'000*** | ***31 to 60 days BD'000*** | ***61 to 90 days BD'000*** | ***Total BD'000*** |
| **Type of Islamic Financing Contracts** | | | | |
| Receivable | **6,740** | **2,142** | **1,148** | **10,030** |
| Musharaka | **259** | **64** | **50** | **373** |
| Ijara Muntahia Bittamleek & Ijara income receivable | **219** | **113** | **-** | **332** |
| | **7,218** | **2,319** | **1,198** | **10,735** |

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

### Aging of Non-Performing Facilities

| | ***31 December 2021*** | | | | |
|---|---|---|---|---|---|
| | ***3-6 Months BD'000*** | ***6-12 Months BD'000*** | ***1-3 Years BD'000*** | ***3 Years & above BD'000*** | ***Total BD'000*** |
| Receivable | **8,798** | **2,110** | **6,886** | **13,537** | **31,331** |
| Musharaka | **757** | **356** | **2,131** | **1,176** | **4,420** |
| Ijara Muntahia Bittamleek and Ijara receivable | **1,134** | **123** | **3,091** | **2,701** | **7,049** |
| | **10,689** | **2,589** | **12,108** | **17,414** | **42,800** |

| | *31 December 2020* | | | | |
|---|---|---|---|---|---|
| | *3-6 Months BD'000* | *6-12 Months BD'000* | *1-3 Years BD'000* | *3 Years & Above BD'000* | *Total 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 |

### 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.

**27 RISK MANAGEMENT (continued)**

**c) Credit risk (continued)**

**Credit Risk Mitigation (continued)**
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.

   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 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.

**27 RISK MANAGEMENT (continued)**

**c) Credit risk (continued)**

**Credit Quality (continued)**

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 the COVID-19 outbreak, there were various changes in the Bank's 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 enhanced its monitoring mechanisms to identify potential risks arising from the current situation and its impact that lead to changes in the way business is conducted. The operational risk unit 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 training and education and various processes for the identification and prevention of operational risks. While these risks cannot be completely eliminated, as of 31 December 2021, the Group did not identify any significant issues relating to operational risks which were not already subject to effective control processes and thus, neutralized.

The Group categorises operational risk loss events according to the Basel II classification consisting of seven major risk families, but also takes a causal approach to these risks and pays particular attention to the causal categories below:

**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.

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.

**Personnel risk**

These relate to any risks caused by staff (internal 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 approved delegation of authorities in all critical business and operations processes, and established separate control functions and dedicated 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 improve employee competence and adherence to the required standards of work ethics.

## 28 CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS

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

| | *Assets* | | *Liabilities and Subordinated mudaraba* | | *Equity of investment accountholders* | |
|---|---|---|---|---|---|---|
| | ***2021*** | *2020* | ***2021*** | *2020* | ***2021*** | *2020* |
| | ***BD'000*** | *BD'000* | ***BD'000*** | *BD'000* | ***BD'000*** | *BD'000* |
| **Geographical region** | | | | | | |
| Middle East | **579,098** | 518,860 | **115,386** | 93,084 | **346,453** | 247,377 |
| Europe | **16,472** | 20,012 | **780** | 810 | **-** | 21 |
| Asia | **457,270** | 424,242 | **145,398** | 129,555 | **285,399** | 283,110 |
| Others | **26,679** | 36,682 | **12,053** | 35,791 | **71,410** | 109,226 |
| | **1,079,519** | 999,796 | **273,617** | 259,240 | **703,262** | 639,734 |

| | *Assets* | | *Liabilities and Subordinated mudaraba* | | *Equity of investment accountholders* | |
|---|---|---|---|---|---|---|
| | ***2021*** | *2020* | ***2021*** | *2020* | ***2021*** | *2020* |
| | ***BD'000*** | *BD'000* | ***BD'000*** | *BD'000* | ***BD'000*** | *BD'000* |
| **Industry sector** | | | | | | |
| Trading and manufacturing | **132,169** | 152,820 | **28,522** | 24,392 | **57,039** | 71,710 |
| Banks and financial institutions | **337,529** | 375,592 | **90,744** | 105,641 | **225,290** | 163,795 |
| Construction | **8,507** | 10,712 | **2,477** | 3,498 | **4,740** | 4,673 |
| Others | **601,314** | 460,672 | **151,874** | 125,709 | **416,193** | 399,556 |
| | **1,079,519** | 999,796 | **273,617** | 259,240 | **703,262** | 639,734 |

## 29 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.

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.

## 30 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.

## 30 SEGMENTAL INFORMATION (continued)

The segmental results of the Group were as follows:

| | *Middle East* | | *Other Asian Countries* | |
|---|---|---|---|---|
| | ***2021*** | *2020* | ***2021*** | *2020* |
| | ***BD'000*** | *BD'000* | ***BD'000*** | *BD'000* |
| Assets | **614,908** | 551,560 | **464,611** | 448,236 |
| Liabilities, equity of investment accountholders, and Subordinated Mudaraba | **546,765** | 487,030 | **430,114** | 411,944 |
| Total income | **18,956** | 19,349 | **19,721** | 19,207 |
| Total operating expenses | **(14,645)** | (13,433) | **(12,733)** | (12,667) |
| Net operating income | **4,311** | 5,916 | **6,988** | 6,540 |
| Expected Credit Losses / Provision for impairment - net and write back of written off | **(1,876)** | (4,486) | **(4,660)** | (3,528) |
| Taxation | **-** | - | **(15)** | (1,583) |
| Income for the year | **2,435** | 1,430 | **2,313** | 1,429 |

## 31 SOCIAL RESPONSIBILITY

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

## 32 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.

## 33 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% (reduced to 80% upto 31 December 2021). The Group's consolidated NSFR ratio as of 31 December 2021 is 206.64%.

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:** | **74,280** | **-** | **-** | **6,124** | **80,404** |
| Regulatory Capital | 74,280 | - | - | - | 74,280 |
| Other Capital Instruments | - | - | - | 6,124 | 6,124 |
| **Retail deposits and deposits from small business customers:** | **-** | **359,801** | **15,103** | **4,427** | **341,962** |
| Stable deposits | - | 2,454 | - | - | 2,331 |
| Less stable deposits | - | 357,347 | 15,103 | 4,427 | 339,631 |
| **Wholesale funding:** | **-** | **444,332** | **54,833** | **25,732** | **165,459** |
| Operational deposits | - | - | - | - | - |
| Other wholesale funding | - | 444,332 | 54,833 | 25,732 | 165,459 |
| **Other liabilities:** | **-** | **-** | **-** | **46,107** | **46,107** |
| NSFR Shari'a-compliant hedging contract liabilities | - | - | - | - | - |
| All other liabilities not included in the above categories | - | - | - | 46,107 | 46,107 |
| **Total ASF** | **74,280** | **804,133** | **69,936** | **82,390** | **633,932** |
| **Required Stable Funding (RSF):** | | | | | |
| **Total NSFR high-quality liquid assets (HQLA)** | 309,462 | - | 8,793 | - | 23,918 |
| **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 | - | 86,675 | - | 12,761 | 25,763 |

## 33 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: | - | 102,910 | 18,757 | 312,289 | 60,833 |
| 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 | - | - | - | 66,442 | 43,187 |
| Securities/sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities | - | - | - | 22,620 | 13,827 |
| **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 | 63,417 | - | - | - | 63,417 |
| NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted | - | - | - | - | - |
| All other assets not included in the above categories | 66,527 | - | - | - | 66,527 |
| **OBS items** | 186,172 | - | - | - | 9,309 |
| **Total RSF** | **625,578** | **189,585** | **27,550** | **414,112** | **306,781** |
| **NSFR (%)** | | | | | **206.64%** |

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

Spread of COVID 19 pandemic and resulted social shutdown jeopardized the economic prospects across the globe and disrupted billions of lives. In addition to loss of precious lives, such pandemic lead to plunge in investment activity amid with heightened uncertainty, erosion of human capital and the ruptures in trade and supply linkage amongst economies. Key policy maker faced severe challenges to save the people from rapidly spreading disease or potential starvation/ loss in income resulted from these resultant precautionary measures. Although, the governments and multilateral bodies introduced the fiscal stimuli (such as reduction in policy rates, sanctioning of subsidies/ grants or injecting money in economies etc.) but could not be able to contain the contraction in economies in year 2020.

During the current financial year, the uncertainties associated with prospective economic recoveries remained high, during the financial year, due to multiple waves of pandemic, evolution of new strains of virus, administrative hurdles in completing the vaccination process and lack of information about prospective capabilities of vaccine to protect from disease. Further, the fiscal stimulus programs offered by the government resulted in increase in leveraging or raising debt levels posing severe fiscal management challenges.

The Government of Bahrain, spearheaded by the National Taskforce for Combating the Coronavirus, and its associated ministries and authorities have been quick to implement their own strategies to limit both the spread of COVID-19 and its impact upon Bahrain's economy, with such strategies receiving high praise from the World Health Organization.

In order to limit the spread of COVID-19 within the country the Government of Bahrain has implemented the following:

- Health: the introduction of social distancing regulations, whereby gatherings of more than five individuals in public places are banned, a requirement for individuals to always maintain a gap of no less than one meter between one another, and the closure of nurseries, schools and universities;

- Consumer protection: the issuing of resolutions by the Ministry of Trade, Industry of Tourism fixing the maximum prices chargeable for products such as face masks and disinfectants and prohibiting the exporting of such products for a period of three months;

- Safety: the closure of all non-essential businesses from 26 March until 9 April (if able to, online trading is still permitted); and

- Law and order: a prohibition by the General Directorate of Bahrain's Criminal Investigation and Forensic Science on rumours and the spreading of fake news, with those spreading such information facing prosecution; and increased police patrols enforcing social distancing regulations.

In order to help stabilize the economy, the Government of Bahrain introduced stimulus packages to mitigate the economic impact of COVID-19 for both individuals and businesses, which includes the following key polices:

- Payments of salaries to employees of private sector;
- Waiver of electricity bills;
- Exemption from municipal fees for individuals and businesses;
- Exemption of industrial land rental fees for all businesses;
- Exemption of tourism levies for all tourism-related industry;
- Increasing the size of the liquidity support fund; and
- Redirection of all Tamkeen programs to support adversely affected businesses and the restructuring of debts issued by Tamkeen.

The Central Bank of Bahrain has introduced several regulatory measures, including:

- Multiple deferrals were offered to domestic borrowers both individuals and businesses;
- Relaxation of the loans-to-value ratio for new residential mortgages for Bahrainis;
- Increasing the maximum amount permitted by contactless payments to BHD50 ($133) from BHD20 ($53);
- Capping merchant fees imposed on debit card transactions to 0.8%;
- Provision to retail banks of concessionary repo arrangements for a period of up to six months at zero per cent interest, on a case-by-case basis in 2020
- Reduction of the cash reserve ratio for all retail banks to 3% from 5%;
- Reduction of its one-week deposit facility, overnight deposit, one-month deposit and lending rates;
- Prohibiting retail banks from blocking the accounts of customers who have either lost their employment or have retired if that customer has a financing arrangement with the bank; and
- Requiring all foreign exchange companies to sterilise all currency, both local and foreign, which includes either exposing currency to ultraviolet irradiation or high temperatures of isolation of currency for a minimum of three days.

In essence, with our core business values and being a responsible organization, the Bank stood side by side with our community in such a time of distress. Further, the safety and security of our most precious resource, “human capital” was also been remained the utmost priority of the Bank during the current financial year.

- the Bank ensured constant supply of core banking services to our esteemed customer base, in a safer environment by following best health care standards in branches/ point of sales and practices and provision of majority of basic banking services through electronic channels;
- further, the Bank provided 6months profit free payment holidays and allowed utilization of credit limits without extra charge, to ease financial burden on people in such as distressed situation in financial year 2020;
- furthermore, the Bank provided additional deferments (but with profit in accordance with terms of agreements and principles of Sharia) and offered rescheduling to customers deeply suffering from financial crises;
- moreover, the Bank given donations/ support to domestic organization to increase awareness about precautionary measures against such disease and delivered financial assistance to people in need; and
- a significant amount of investment made on technologies to support work from remotely and reduce concentration of people in office to achieve the prescribed levels of social distancing. Further, the face-to-face interactions was discouraged and people were pursued to use the electronic channels for business meetings and essential communications. Furthermore, the work place was sanitized on a regular basis, essential supplies like sanitizers, masks etc. made available on desks of employees, ensured temperature check at the time of entrance of premises and encouraged staff having symptoms to stay at home.

The Bank revamped its core business strategies and practices to protect the organization from the effects of one of the biggest economic crises in human history. The Bank strictly adhered with basics of prudent banking and undertaken immediate measures given as follows:

- maintained high liquidity levels, primarily in current accounts, to meet any potential contingency;
- fresh deployments were predominantly made in easily liquefiable modes or avenues like listed sukuk, short term bills etc.
- the management was remained in close contact with customers to provide them any requisite support (like bridge financing, deferrals etc.) in management of their finances;
- diverged energies to optimize the operations like closure of branches, ATMs, introduction of voluntary retirement programs and curtailment of unnecessary activities;
- effective utilization of domestic and regional relationships to accelerate the supply of liquidity and reemphasized market successful products; and
- foster growth in avenues/ customer/ business segments carrying lower risk like sovereigns.