Al Baraka Banking Group B.S.C.

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

31 DECEMBER 2021

16 Rajab 1443
17 February 2021

In the name of Allah, The Beneficent, The Merciful, Ever Merciful

Unified Shari'a Supervisory Board Report
AlBaraka Banking Group B.S.C.
For the year ended 31 December 2021

Praise be to Allah and peace be upon our Prophet Mohamed, His Apostles and Companions

To: Al Baraka Banking Group Shareholders

May peace and Allah's Mercy and Blessings Be upon You

In accordance with Article (58) of the Articles of Association of Al Baraka Banking Group, we are required to submit the following report:

First: Meetings of the Unified Shari'a and its Executive Committee

The Unified Shari'a and its Executive Committee conducted six meetings during 2021 in which we studied Shari'a audit reports prepared by the Group's Shari'a Audit for the year ended 31 December 2021 and gave few Shari'a related comments on those reports. These reports were rectified through coordination between Shari'a Audit and the relative local subsidiaries' Shari'a Boards. In addition, the Unified Shari'a Supervisory Board replied to requests for fatwa from the Group and subsidiaries and studies the contracts entered into by the Group during the year 2021.

Second: Monitoring

We have reviewed the principles applied by the Group and reviewed the 2021 Shari'a reports issued by the Group Units' Shari'a Supervisory Boards. We have also reviewed their financial statements when needed. In addition, we examined the Group's financial position as of 31 December 2021 and Statement of Income and their notes for the year then ended. We have queried from some of the Technical's on the points that need explanation and statement. We have also reviewed the process of calculating Zakah in accordance with the Shari'a Standard number (35) and the Financial Accounting Standard number (9) issued by the Accounting and Auditing Organization for Islamic financial Institutions and according to what was approved by Al Baraka Symposium1/31 and by the Unified Shari'a Supervisory Board.

Third: Responsibilities of the Unified Shari'a

The Group and Units' management are responsible for the execution and implementation of the Unified Shari'a Supervisory Board resolutions and to bring to the attention of the Unified Shari'a Supervisory Board any transactions or issues that require Shari'a approval. The Unified Shari'a Supervisory Board is responsible for supervising the implementation of the resolution from a Shari'a point of view and issue opinion based on the Group and Units' Shari'a reports and financial statements.

The Unit's Shari'a Supervisory Boards, as is clear from their report, have supervised the Units' business activities including examining on test basis documentations and procedures applied by the Group and its Units.

The Units' Shari'a Supervisory Boards, as is clear from their reports, planned and performed reviews so as to obtain all the information and explanations they considered necessary in order to provide them with sufficient evidence to provide reasonable assurance that the Group and its Units have not violated Shari'a Rules and Principles.

In our opinion:

1. The Contracts, transactions and dealings entered into by the Group and its Units during the year ended 31 December 2021 are made in compliance with Shari'a Rules and Principles.

2. The allocation of profit and charging of losses relating to investment accounts conform to the basis that have been approved by the Units' Shari'a Supervisory Boards in accordance with Shari'a Rules and Principles.

3. All earnings realized from sources or by means prohibited by Islamic Shari'a Rules and Principles have been committed by the Management to dispose it off to Charitable Causes.

4. The attached Zakah calculation was prepared in accordance with the provisions and principles of Islamic Shari'a according to the Net Invested Fund Method in accordance to the Shari'a Standard number (35) and the Financial Accounting Standard number (9) issued by the Accounting and Auditing Organization for Islamic financial Institutions and according to what was approved by the Unified Shari'a Supervisory Board.

The General Assembly, in its regular meeting held on March 23, 2021, had authorized the executive management of Al Baraka Banking Group to pay an amount of money amounting to one million fourteen thousand eight hundred and fifteen (1,014,815) US dollars as Zakah on behalf of all shareholders for the year 2020, where it to be directly deducted from the shareholders' profits. This amount was paid to those worthy of Zakah in accordance with the Shariah regulations established, approved and certified by the Unified Shariah Board. The Unified Shariah Board monitored, through the reports of the Shariah observer, the amounts paid from the Zakah to ascertain how it was distributed, as it made sure it was directed towards the eligible recipients as stipulated in the honorable verse No. (60) of Surat Al-Ma'idah.

The Unified Shariah Board reviewed the financial report and the Zakah calculation, which includes the amount of zakah due according to the Zakah base. Since the Group is not authorized to pay Zakah without obtaining an authorization from the shareholders in the general assembly, the shareholders must pay the Zakah themselves or authorize the group to pay it on their behalf. Noting that Zakah dues, in the event of lack of the necessary liquidity, can be postponed as a whole or part, so that it becomes a debt until liquidity is available.

Praise be to Allah.

Chairman and Members

Shaikh Dr. Abdulla Al Mannea
Chairman

Shaikh Dr. Abdullatif Al Mahmood
Vice Chairman

Shaikh Dr. Saad Al Shithry
Member

Shaikh Yousif Hassan Khilawy
Member

Shaikh Dr.Layachi Feddad
Member

Zakah Calculation for the year ended 31 December 2021

	US$ '000
Equity Attributable to Shareholders	1,387,370
Less: Investment of the parent on the shareholding of Al Baraka Bank Egypt, Al Baraka Bank Sudan, Itqan Capital and Al Baraka Islamic Bank	(413,970)
Perpetual tier 1 capital	(400,000)
Net Zakahable Equity Attributable to Shareholders	**573,400**
<u>Less:</u>	
Musharaka underlined by unZakahable assets	(12,067)
Investment in Islamic Sukuk underlined by unZakahable assets	(7,008)
Ijarah Muntahia Bittamleek	(234,225)
long-term investment in real estate	(27,688)
Properties and equipment	(257,113)
Intangible assets	(27,093)
Investment in Associates	(4,441)
Prepayments	(5,025)
Deferred tax asset	(22,759)
<u>Add:</u>	
Shareholders share on Zakahable Assets by Associates	4,373
Sale of long-term investment in real estate during the year	1,028
Deferred tax liability	10,826
Employees' end of services benefit	21,259
Zakahable amount	**13,467**
Zakah Percentage	2.5770%
Total Zakah due	**347**
Number of Shares (thousands)	1,212,185
Zakah per share (US$ cents)	**0.03**

alBaraka
Banking Group

Directors' Report

Economic review

The year 2021 bore testimony to the significant initiatives taken worldwide to combat Covid-19 with large parts of the world population inoculated. Global recovery continued unrelentingly, albeit a touch weakened by the effects of the pandemic, which made inroads into the efficacy of supply chains across the world, the developing economies being impacted more than the developed ones. Financial stability risks were largely contained thanks to the ongoing policy support that fuelled the global rebound. In some emerging markets and developing economies inflation pressures are expected to persist, but financial conditions have generally eased in the advanced economies, and banks by and large have remained resilient. The approach to business has experienced a substantial metamorphosis in the manner it is conducted and administered, with technology leapfrogging many development cycles to ensure greater efficiency in the delivery of services. Global trade has also been redefined by the constraints imposed by the pandemic dictating an adjustment to newer equations. Generally, the world has weathered the pandemic reasonably well and global growth is forecast to continue. The Middle East and North Africa ("MENA") region is also expected to recover from the pandemic although it is likely to be uneven, aided in many cases by a gradual rise in the prices of crude oil during the year.

Strategy Review

The board members and management leadership at Al Baraka Banking Group (ABG/or the ABG Group or the Group adopted a new approach to strategy and direction, with priority for strengthening internal processes, controls and procedures whilst ensuring a more market related business focus, especially with trade equilibrium and economics being recalibrated by the pandemic. ABG has begun consolidating on the track record of previous years to develop for itself a greater niche over the near future.

Emphasis will be on de-risking our investments and more effective deployment of capital resources towards business segments that yield greater returns, with enhanced risk management, adequate control over expenditure and tighter management information reporting and accountability. With the continued strong presence of ABG at each Subsidiary ("Unit") board level, our Group's business and operational strategy is cohesive, well-coordinated and implemented being executed effectively, cognisant of developments in our markets. The digital transformation across our Group will form the bedrock of our strategy going forward, spurred on by the need for contact-less customer interaction, technology-aided product delivery and enhanced customer experience.

The Board of Directors have resolved to withdraw our presence in Indonesia, subject to the approval of the local regulators and other authorities. The conversion of the license of ABG from an Islamic Wholesale bank to a Category 1 Investment Firm is being actively pursued and is awaiting the final approval of the Central Bank of Bahrain.

The conversion will enable the Group to greater streamline operations, enhance efficiencies and make better use of resources for the benefit of our subsidiaries.

Looking forward, we believe that the ABG Group is well-positioned to leverage opportunities that will emerge in a world that is expected to recover strongly from the pandemic and rebuild itself with renewed vigor. We shall look forward to continue providing our esteemed customers and stakeholders with excellent service as we take them along in our journey to surge ahead into the future.

Review of 2021

Al Baraka Banking Group proved its business resilience once again in the face of the challenges posed by the difficult economic environment that prevailed during the year. Astute positioning of business priorities and efficient management of resources enabled ABG to achieve yet another consistent performance.

Total operating income of the Group decreased by 8.6% in the full year 2021 to US$ 1.04 billion compared to US$ 1.14 billion in 2020.

ABG reported total net income of US$ 190 million for the full year 2021 compared to US$ 166 million in 2020, reflecting an increase of 14.3%.

The net income attributable to the equity holders of the parent increased by 69.3% to US$ 113 million compared to US$ 67 million in 2020. The Basic and Diluted Earnings per Share in 2021 were US Cents 6.71 compared to US Cents 2.90 in 2020.

Total assets of the Group were largely flat at US$ 28.18 billion at the end of 2021 compared to US$ 28.25 billion at the end of 2020.

The equity attributable to the parent's shareholders and Sukuk holders amounted to US$ 1.39 billion by end of December 2021 compared to US$ 1.42 billion by the end of December 2020 reflecting a decrease of 2.5%. Total equity stood at US$ 2.06 billion compared to US$ 2.22 billion by end of December 2020, marking a decrease of 7.4%.

The Board of Directors remuneration and other entitlements, in addition to the top management remuneration, are attached hereto as per the requirements of the Companies Commercial Law of Bahrain Article (188).

As of 31st December 2021, the ownership of the shares of ABG by the Board is immaterial and no trading of such shares took place during 2021. Details of the shares held by the directors and executive management are provided in the notes to the consolidated financial statements.

We would like to thank all our customers for their loyalty and for choosing us as their trusted banking partners. We extend our gratitude to the management and staff of ABG Group for their dedication and commitment to furthering ABG's business strategy and to achieving our strategic goals during the year. Finally, we thank our Unified Shari'a Supervisory Board, the Central Bank of Bahrain, the Ministry of Industry, Commerce and Tourism, the Bahrain Bourse, Nasdaq Dubai and all our subsidiaries' regulatory authorities for their continued support and wise guidance over the past year.

May Peace, Mercy and Blessings of Allah be upon you.

On behalf of the Board of Directors,

Abdullah Saleh Kamel
Chairman

First: Board of directors' remuneration details:

Name	Fixed remunerations					Variable remunerations					End-of-service award	Aggregate amount	Expenses Allowance *****
	Remunerations of the chairman and BOD*	Total allowance for attending Board and committee meetings	Salaries**	Others***	Total	Remunerations of the chairman and BOD	Bonus	Incentive plans	Others****	Total		(Does not include expense allowance)	
First: Independent Directors:													
1- Mr. Mohamed Ebrahim Alshroogi	44,656.70	10,179.00	-	-	54,835.70	-	-	-	-	-	-	54,835.70	-
2- Dr. Jehad El-Nakla	56,513.42	21,489.00	-	-	78,002.42	-	-	-	-	-	-	78,002.42	1,552.55
3- Dr. Khaled Abdulla Ateeq	61,668.52	21,489.00	-	-	83,157.52	-	-	-	-	-	-	83,157.52	786.54
4- Mrs. Dalia Hazem Khorshid	40,532.62	11,310.00	-	-	51,842.62	-	-	-	-	-	-	51,842.62	391.82
5- Dr. Ziad Ahmed Bahaaeldin	40,532.62	13,572.00	-	-	54,104.62	-	-	-	-	-	-	54,104.62	391.85
6- Mr. Saud Saleh Al Saleh	43,625.68	13,572.00	-	-	57,197.68	-	-	-	-	-	-	57,197.68	-
7- Dr. Mohamed Cheikh Rouhou	32,799.97	9,048.00	-	-	41,847.97	-	-	-	-	-	-	41,847.97	-
8- Mr. Naser Mohamed Al Nuwais	37,955.07	11,310.00	-	-	49,265.07	-	-	-	-	-	-	49,265.07	1,929.49
Second: Non-Executive Directors:													
1- Mr. Abdullah Saleh Kamel	57,028.93	11,310.00	-	-	68,338.93	-	-	-	-	-	-	68,338.93	1,370.40
2- Mr. Tawfig Shaker Mufti	24,464.55	6,786.00	-	-	31,250.55	-	-	-	-	-	-	31,250.55	382.53
3- Mr. Fahad Abdullah Al Rajhi	41,563.64	13,572.00	-	-	55,135.64	-	-	-	-	-	-	55,135.64	714.04
Third: Executive Directors:													
1- Mr. Mazin Manna	40,532.62	11,310.00	**	-	51,842.62	-	-	-	-	-	-	51,842.62	-
2- Mr. Abdul Elah Abdul Rahim Sabbahi	43,625.68	13,572.00	-	-	57,197.68	-	-	-	-	-	-	57,197.68	787.20
Total	**565,500.00**	**168,519.00**	-	-	**734,019.00**	-	-	-	-	-	-	**734,019.00**	**8,306.40**

Notes:
All amounts stated in Bahraini Dinars.

Remunerations of the chairman and BOD:
* * Includes fixed remunerations and remunerations calculated by points system. The remuneration is the proposed amuonts and are subject to approval by the Shareholders in the AGM.

Salaries:
** Mr. Mazin Manna's salary is included in the Executive Management remuneration disclosure.

Other remunerations:
*** It includes in-kind benefits – specific amount - remuneration for technical, administrative and advisory works (if any).
**** It includes the board member's share of the profits - Granted shares (insert the value) (if any).

Expenses Allowance:
***** It includes Per-diem, Ticket and Hotel Fees.

Second: Executive management remuneration details:

Executive management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/ in kind remuneration for 2021	Aggregate Amount
Top 6 remunerations for executives, including CEO* and Senior Financial Officer**	BHD 1,330,777.488	Not available	0	BHD 1,330,777.488

Note: All amounts stated in Bahraini Dinars.

* The highest authority in the executive management of the company, the name may vary: (CEO, President, General Manager (GM), Managing Director...etc).

**** The company's highest financial officer (CFO, Finance Director, ...etc)**

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AL BARAKA BANKING GROUP B.S.C.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Al Baraka Banking Group B.S.C. ("the Bank") and its subsidiaries (together "the Group"), which compromise 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"] ("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 period under audit.

Basis for opinion

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued ("ASIFI") by AAOIFI. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section in 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material judgment of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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

Key audit matters (continued)

<table>
<tr><th colspan="2">1. Expected Credit Loss on Financing Facilities and Ijarah Muntahia Bittamleek</th></tr>
<tr><th>Description of key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>The process for estimating the impairment provision on financing facilities and Ijarah Muntahia Bittamleek in accordance with FAS 30 – Impairment, Credit Losses and Onerous Commitment ("FAS 30") is a significant and complex area. FAS 30 requires use of expected credit loss ("ECL") models for the purposes of calculating impairment loss. The ECL model requires the Group to exercise significant judgement using subjective assumptions when determining both the timing and the amounts of ECL for financing facilities and Ijarah Muntahia Bittamleek.

The Covid-19 global pandemic has significantly impacted management's determination of ECL due to the fact that it has required application of significant judgements resulting in higher uncertainty of ECL estimates as well as forward-looking macroeconomic inputs. This may result in material changes to the estimates of ECL for Stage 1 and 2 in future periods.

In order to capture the future uncertainties and related impacts arising due to effects of the payment holidays provided by the Group and the local regulators and other government initiatives which were not captured by the modelled ECL, the management has applied their expert judgement with respect to: a) assigning scenario weightages; b) determination of LGD; and c) determination of significant increase in credit risk and consequent staging of customers with special emphasis on customers severely affected by Covid-19.</td><td>Our approach included testing the controls associated with the relevant processes for estimating ECL and performing substantive procedures on such estimates.

Our procedures, among others, focused on following:

• Assessment of:

- Compliance of Group's FAS 30 based impairment provisioning policy including significant increase in credit risk criteria with the requirements of FAS 30 and regulatory guidelines issued with respect to Covid-19;

- Group's ECL modeling techniques and methodology against the requirements of FAS 30 incorporating consideration of Covid-19 impacts;

- the basis of determination of any management overlays applied by the Group to incorporate the effects of Covid-19 global pandemic on its modelled ECL outcome;

- the theoretical soundness and mathematical integrity of the models.

• We obtained an understanding of the design and tested the operating effectiveness of relevant controls over ECL models, including approvals for any changes to the models, ongoing monitoring / validation, model governance and mathematical accuracy. We have also checked completeness and accuracy of the data used and the reasonableness of the management assumptions.
• We understood and assessed the significant modeling assumptions for exposures as well as overlays incorporating the consideration of Covid-19 impacts with a focus on:</td></tr>
</table>

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS
OF AL BARAKA BANKING GROUP B.S.C.**

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

Key audit matters (continued)

1. Expected Credit Loss on Financing Facilities and Ijarah Muntahia Bittamleek (continued)	
Description of key audit matter	**How our audit addressed the key audit matter**
Because of the complexity of the requirements under FAS 30, the significance of the judgements applied, the high degree of estimation uncertainty arising due to Covid-19 and the Group's exposure to financing facilities forming a major portion of the Group's assets, the audit of ECL is a key area of focus. As at 31 December 2021, the Group's gross financing facilities amounted to US$ 17,568 million and the related ECL amounted to US$ 930 million, comprising US$ 389 million of ECL against Stage 1 and 2 exposures and US$ 541 million against exposures classified under Stage 3. Refer to note 2.3 (b) which contains the disclosure of critical accounting judgements, estimates and assumptions relating to the impairment losses on financial assets and the impairment assessment methodology used by the Group; notes 4, 5, 7 and 22 which contain the disclosures of impairment against the financing facilities; and note 28 (b) for details of credit quality analysis and key assumptions and factors considered in determination of ECL.	- Key modeling assumptions adopted by the Group; and - Basis for and data used to determine overlays. • For a sample of exposures, we performed procedures to evaluate: - Appropriateness of exposure at default, probability of default and loss given default (including collateral values used) in the calculation of ECL; - Timely identification of exposures with a significant increase in credit risk and appropriateness of the Group's staging keeping in view the long-term effects of Covid-19 on customers severely affected by it; and - ECL calculation. • For forward looking information used by the Group's management in its ECL calculations, we held discussions with management and checked internal approvals by management for economic outlook used for purposes of calculating ECL; • We considered the adequacy of the disclosures in the consolidated financial statements in relation to impairment of financing facilities and Ijarah Muntahia Bittamleek as required under FAS 30. We also involved our internal specialists in performing the above procedures. We also assessed the appropriateness of ECL related disclosures included in the consolidated financial statements of the Group.

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

Other information included in the Group’s 2021 Annual Report

Other information consists of the information included in the Group’s 2021 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.

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 Group's Board of Directors.

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the 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 judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

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

Building a better
working world

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
AL BARAKA BANKING GROUP B.S.C. (continued)

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

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

Report on Other Legal and 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) except for what has been reported in note 2 to the consolidated financial statements, 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, regulations and associated resolutions, rules and procedures of the Bahrain Bourse 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 auditor's report is Kazim Merchant.

Ernst + Young

Partner's registration no. 244
23 February 2022
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	Notes	**2021 US$ '000**	2020 US$ '000
ASSETS			
Cash and balances with banks	3	**5,923,878**	5,361,444
Receivables	4	**10,996,072**	11,945,993
Mudaraba and Musharaka financing	5	**3,623,315**	2,854,658
Investments	6	**4,472,649**	5,097,189
Ijarah Muntahia Bittamleek	7	**2,018,800**	1,747,627
Property and equipment	8	**539,960**	478,572
Other assets	9	**607,503**	764,516
TOTAL ASSETS		**28,182,177**	28,249,999
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
LIABILITIES			
Customer current and other accounts		**7,728,895**	7,508,344
Due to banks		**1,303,793**	1,642,085
Long term financing	10	**286,833**	319,364
Other liabilities	11	**1,205,122**	1,327,623
TOTAL LIABILITIES		**10,524,643**	10,797,416
EQUITY OF INVESTMENT ACCOUNTHOLDERS			
Financial institutions		**744,845**	538,177
Non-financial institutions and individuals		**14,854,562**	14,692,012
Total equity of investment accountholders	12	**15,599,407**	15,230,189
EQUITY			
Share capital	13	**1,242,879**	1,242,879
Treasury shares	13	**(15,655)**	(17,462)
Share premium		**16,619**	18,084
Reserves		**196,539**	183,121
Cumulative changes in fair values		**57,404**	32,940
Foreign currency translations	13	**(940,728)**	(800,489)
Retained earnings		**430,312**	364,496
Equity attributable to parent's shareholders		**987,370**	1,023,569
Perpetual tier 1 capital	14	**400,000**	400,000
Equity attributable to parent's shareholders and Sukuk holders		**1,387,370**	1,423,569
Non-controlling interest		**670,757**	798,825
TOTAL EQUITY		**2,058,127**	2,222,394
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND EQUITY		**28,182,177**	28,249,999

Abdullah Saleh Kamel
Chairman

Mazin Manna
Member of the Board and Group Chief Executive

The attached notes 1 to 32 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2021

	Notes	**2021** US$ '000	2020 US$ '000
INCOME			
Net income from jointly financed contracts and investments	15	**1,304,017**	1,285,391
Return on equity of investment accountholders before Group's share as a Mudarib		**(1,070,743)**	(1,066,575)
Group's share as a Mudarib	16	**364,142**	354,552
Return on equity of investment accountholders		**(706,601)**	(712,023)
Group's share of income from equity of accountholders (as a Mudarib and Rabalmal)		**597,416**	573,368
Mudarib share for managing off-balance sheet equity of investment accountholders		**12,122**	14,654
Net income from self financed contracts and investments	15	**162,948**	265,075
Other fees and commission income	17	**180,599**	165,988
Other operating income	18	**121,408**	155,063
		1,074,493	1,174,148
Profit paid on long term financing	19	**(33,031)**	(34,399)
TOTAL OPERATING INCOME		**1,041,462**	1,139,749
OPERATING EXPENSES			
Staff expenses		**284,035**	308,623
Depreciation and amortisation	20	**58,765**	39,591
Other operating expenses	21	**186,586**	212,105
TOTAL OPERATING EXPENSES		**529,386**	560,319
NET OPERATING INCOME FOR THE YEAR BEFORE NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT AND TAXATION		**512,076**	579,430
Net allowance for credit losses / impairment	22	**(253,713)**	(290,121)
NET INCOME BEFORE TAXATION		**258,363**	289,309
Taxation		**(68,682)**	(123,420)
NET INCOME FOR THE YEAR		**189,681**	165,889
Attributable to:			
Equity holders of the parent		**112,750**	66,580
Non-controlling interest		**76,931**	99,309
		189,681	165,889
Basic and diluted earnings per share - US cents	23	**6.71**	2.90

Abdullah Saleh Kamel
Chairman

Mazin Manna
Member of the Board and Group Chief Executive

The attached notes 1 to 32 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Notes	**2021 US$ '000**	2020 US$ '000
OPERATING ACTIVITIES			
Net income before taxation		**258,363**	289,309
Adjustments for:			
Depreciation and amortisation	20	**58,765**	39,591
Depreciation on Ijarah Muntahia Bittamleek	15.4	**133,349**	211,751
Unrealised gain on equity and debt-type instruments at fair value through statement of income	15.3	**(15,319)**	(24,705)
Gain on sale of property and equipment	18	**(19,114)**	(10,484)
Gain on sale of investment in real estate	15.3	**(3,266)**	(3,303)
Gain on sale of equity type instruments at fair value through equity	15.3	**(2,400)**	(1,076)
Gain on sale of equity and debt-type instruments at fair value through statement of income	15.3	**(1,751)**	(3,664)
Income from associates	15.3	**(9,896)**	(5,049)
Net allowance for credit losses / impairment		**253,713**	290,121
Operating profit before changes in operating assets and liabilities		**652,444**	782,491
Net changes in operating assets and liabilities:			
Reserves with central banks		**(410,840)**	(122,577)
Receivables		**700,369**	(1,260,739)
Mudaraba and Musharaka financing		**(768,938)**	357,075
Ijarah Muntahia Bittamleek		**(394,757)**	(210,724)
Other assets		**157,067**	(117,012)
Customer current and other accounts		**220,541**	1,313,287
Due to banks		**(324,241)**	521,108
Other liabilities		**(161,127)**	175,806
Equity of investment accountholders		**372,189**	76,054
Taxation paid		**(68,169)**	(110,458)
Net cash (used in) / from operating activities		**(25,462)**	1,404,311
INVESTING ACTIVITIES			
Net sale/ (purchase) of investments		**653,137**	(1,190,872)
Net purchase of property and equipment		**(64,590)**	(43,872)
Dividends received from associates		**5,332**	1,955
Disposal of investment in associate		**7,075**	2,354
Net cash from / (used in) investing activities		**600,954**	(1,230,435)
FINANCING ACTIVITIES			
Long term financing		**(32,531)**	(59,905)
Dividends paid to equity holders of the parent		**-**	(24,858)
Net movement in treasury shares		**(363)**	(8,129)
Profit distributed on perpetual tier 1 capital		**(31,500)**	(31,500)
Movement related to subsidiaries' tier 1 capital		**5,706**	7,695
Net changes in non-controlling interest		**(44,439)**	(13,392)
Net cash used in financing activities		**(103,127)**	(130,089)
Foreign currency translation adjustments		**(320,785)**	(191,795)
NET CHANGES IN CASH AND CASH EQUIVALENTS		**151,580**	(148,008)
Cash and cash equivalents at 1 January		**2,778,177**	2,926,185
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	24	**2,929,757**	2,778,177

The attached notes 1 to 32 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2021

	Attributable to equity holders of the parent												
				Reserves		*Cumulative changes in fair values*							
	Share capital	*Treasury shares*	*Share premium*	*Statutory reserve*	*Other reserves*	*Investments*	*Property and equipment*	*Foreign currency translations reserve*	*Retained earnings*	*Total*	*Perpetual tier 1 capital*	*Non-controlling interest*	*Total equity*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Balance at 1 January 2021	1,242,879	(17,462)	18,084	182,776	345	8,786	24,154	(800,489)	364,496	1,023,569	400,000	798,825	2,222,394
Movement in treasury shares	-	1,807	(1,465)	-	-	-	-	-	(705)	(363)	-	-	(363)
Net movement in cumulative change in fair value for investments	-	-	-	-	-	1,689	-	-	-	1,689	-	229	1,918
Net movement in cumulative change in fair value for property and equipment	-	-	-	-	-	-	22,775	-	-	22,775	-	9,973	32,748
Net movement in other reserves	-	-	-	-	2,143	-	-	-	-	2,143	-	1,640	3,783
Foreign currency translation	-	-	-	-	-	-	-	(150,317)	-	(150,317)	-	(180,547)	(330,864)
Net income for the year	-	-	-	-	-	-	-	-	112,750	112,750	-	76,931	189,681
Transfer to statutory reserve (note 13)	-	-	-	11,275	-	-	-	-	(11,275)	-	-	-	-
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(18,196)	(18,196)
Zakah paid on behalf of shareholders (note 13)	-	-	-	-	-	-	-	-	(1,015)	(1,015)	-	-	(1,015)
Profit distributed on perpetual tier 1 capital	-	-	-	-	-	-	-	-	(31,500)	(31,500)	-	-	(31,500)
Movement related to subsidiaries' tier 1 capital	-	-	-	-	-	-	-	-	5,706	5,706	-	(12,706)	(7,000)
Effect of change in ownership	-	-	-	-	-	-	-	10,078	(8,145)	1,933	-	(1,933)	-
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	(3,459)	(3,459)
Balance at 31 December 2021	**1,242,879**	**(15,655)**	**16,619**	**194,051**	**2,488**	**10,475**	**46,929**	**(940,728)**	**430,312**	**987,370**	**400,000**	**670,757**	**2,058,127**

The attached notes 1 to 32 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2021

	Attributable to equity holders of the parent													
				Reserves		*Cumulative changes in fair values*								
	Share capital	*Treasury shares*	*Share premium*	*Statutory reserve*	*Other reserves*	*Investments*	*Property and equipment*	*Foreign currency translations reserve*	*Retained earnings*	*Proposed appropriat-ions*	*Total*	*Perpetual tier 1 capital*	*Non-controlling interest*	*Total equity*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Balance at 1 January 2020	1,242,879	(8,308)	18,138	176,118	1,136	5,216	24,154	(752,068)	335,089	24,858	1,067,212	400,000	855,978	2,323,190
Dividends paid	-	-	-	-	-	-	-	-	-	(24,858)	(24,858)	-	-	(24,858)
Movement in treasury shares	-	(9,154)	(54)	-	-	-	-	-	1,079	-	(8,129)	-	-	(8,129)
Net movement in cumulative change in fair value for investments	-	-	-	-	-	3,570	-	-	-	-	3,570	-	941	4,511
Net movement in other reserves	-	-	-	-	(791)	-	-	-	-	-	(791)	-	(385)	(1,176)
Foreign currency translation	-	-	-	-	-	-	-	(48,421)	-	-	(48,421)	-	(143,390)	(191,811)
Net income for the year	-	-	-	-	-	-	-	-	66,580	-	66,580	-	99,309	165,889
Transfer to statutory reserve (note 13)	-	-	-	6,658	-	-	-	-	(6,658)	-	-	-	-	-
Proposed dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(12,727)	(12,727)
Zakah paid on behalf of shareholders (note 13)	-	-	-	-	-	-	-	-	(1,656)	-	(1,656)	-	-	(1,656)
Profit distributed on perpetual tier 1 capital	-	-	-	-	-	-	-	-	(31,500)	-	(31,500)	-	-	(31,500)
Movement related to subsidiaries' tier 1 capital	-	-	-	-	-	-	-	-	7,695	-	7,695	-	(12,706)	(5,011)
Modification loss net of government assistance	-	-	-	-	-	-	-	-	(6,370)	-	(6,370)	-	(552)	(6,922)
Effect of change in ownership	-	-	-	-	-	-	-	-	237	-	237	-	(237)	-
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	12,594	12,594
Balance at 31 December 2020	1,242,879	(17,462)	18,084	182,776	345	8,786	24,154	(800,489)	364,496	-	1,023,569	400,000	798,825	2,222,394

The attached notes 1 to 32 form part of these consolidated financial statements.

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

For the year ended 31 December 2021

	Cash	*Sales receivables*	*Mudaraba financing*	*Investment in real estate*	*Ijarah Muntahia Bittamleek*	*Investments*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Balance at 1 January 2021	72,556	569,572	503,823	48,099	160,352	227,508	1,581,910
Transfer on adoption of FAS 31	-	(15,001)	(68,433)	-	-	-	(83,434)
Deposits	96,945	216,628	24,708	4,689	65,447	38,574	446,991
Withdrawals	(101,786)	(317,961)	(377,269)	(389)	(19,000)	(28,893)	(845,298)
Income net of expenses	-	35,558	3,017	940	12,831	16,964	69,310
Mudarib's share	-	(11,876)	-	(20)	(218)	(8)	(12,122)
Foreign exchange translations	-	(20,698)	-	-	-	(8,956)	(29,654)
Balance at 31 December 2021	**67,715**	**456,222**	**85,846**	**53,319**	**219,412**	**245,189**	**1,127,703**
Balance at 1 January 2020	56,041	464,361	422,488	46,720	143,002	286,329	1,418,941
Deposits	170,514	352,327	339,485	1,953	34,392	120,784	1,019,455
Withdrawals	(153,999)	(272,262)	(258,722)	(1,093)	(22,968)	(185,492)	(894,536)
Income net of expenses	-	20,603	2,641	519	6,065	7,351	37,179
Mudarib's share	-	(12,269)	(2,069)	-	(139)	(177)	(14,654)
Foreign exchange translations	-	16,812	-	-	-	(1,287)	15,525
Balance at 31 December 2020	72,556	569,572	503,823	48,099	160,352	227,508	1,581,910

The attached notes 1 to 32 form part of these consolidated financial statements.

1 CORPORATE INFORMATION AND ACTIVITIES

Al Baraka Banking Group B.S.C. ("the Bank") is a joint stock company incorporated in the Kingdom of Bahrain on 27 June 2002, under Commercial Registration (CR) number 48915. The Bank is engaged in banking activities in the Middle East, Europe, North African and South African region. The address of the Bank's registered office is Bahrain Bay, P.O. Box 1882, Manama, Kingdom of Bahrain. The Bank is listed on Bahrain Bourse and NASDAQ Dubai.

The Bank operates under an Islamic wholesale banking license issued by the Central Bank of Bahrain ('the CBB').

The principal activities of the Bank and its subsidiaries ("the Group") comprise of international and commercial banking, financing, treasury and investment activities. The Bank is supervised and regulated by the CBB.

On 30 November 2020, the shareholders of the Bank resolved in an extra-ordinary meeting to change the license of the Bank from Wholesale Banking to “Investment Business Firm - Category 1” subject to approval by the CBB. Furthermore, the shareholders also resolved to change the name of the Bank from Al Baraka Banking Group B.S.C. to Al Baraka Group B.S.C. subject to the approval of Ministry of Industry, Commerce and Tourism (“MOICT”). The change in the name and the activities are still in process and the Bank’s CR is not updated to reflect these changes.

The consolidated financial statements were approved by the Board of Directors on 23 February 2022.

2 ACCOUNTING POLICIES

Basis of preparation
The consolidated financial statements have been prepared on a historical cost basis, except for investment in real estate, equity and debt-type instruments at fair value through statement of income, equity-type instruments at fair value through equity and land occupied by the Group (classified as property and equipment) that have been measured at fair value. The consolidated financial statements are presented in United States Dollars ('US$') being the reporting currency of the Group. All values are rounded to the nearest US$ thousand ('US$ '000') unless otherwise indicated.

Statement of compliance
The consolidated financial statements have been prepared in accordance with Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ('AAOIFI') as modified by Central Bank of Bahrain ("CBB") including two exceptions which are set out below, the Shari’a Rules and Principles as determined by the Shari’a Supervisory Board of the Group, 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, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank’s memorandum and articles of association. In accordance with the requirements of AAOIFI, for matters for which no AAOIFI standard exists, the Group uses the relevant International Financial Reporting Standards ('the IFRS') as issued by the International Accounting Standards Board (the 'IASB'), given it does not contradict with Shari'a Rules and Principles and the conceptual framework of AAOIFI.

The two exceptions mentioned above are as follows:

(a) to recognise modification losses amounted to US$ 8.8 million during the period ended 31 December 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 the statement of income as required by FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30"). Any other modification gain or loss on financial assets are recognised in accordance with the requirements of FAS 30. Please refer below for further details; and

2 ACCOUNTING POLICIES (continued)

Statement of compliance (continued)

(b) recognition of financial assistance amounted to US$ 1.9 million during the period ended 31 Deceber 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 owner's 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 US$ 195 million (year ended 31 December 2020: US$ 98 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.

COVID-19

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

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%.

Regulatory compliance

As required by CBB rulebook, the bank is required to compute Group capital adequacy ratio and Head Office solo capital adequacy ratio. The Group capital adequacy ratio, which is of primary importance is above the minimum regulatory threshold of 12.5%. However, at solo level, the Bank breached rule CA 2.2.1A as the solo core equity tier 1 (CET1) ratio has declined below 4.5% which is the minimum regulatory threshold for solo CET 1 as prescribed by the CBB rule book volume 2 - capital adequacy module. Management believes that there will be no impact of this breach on the business of the Group or any of its operations.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at and for the year ended 31 December each year. The financial statements of the subsidiaries are 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 resulting from intra-group transactions are eliminated in full.

2 ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that control ceases. Control is achieved where the Group 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 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.

The following are the principal subsidiaries of the Bank, which are consolidated in these consolidated financial statements:

	Ownership for 2021	*Ownership for 2020*	*Year of incorporation*	*Country of incorporation*	***No. of branches/ offices at 31 December 2021***
Held directly by the Bank					
Banque Al Baraka D'Algerie (BAA)	**55.67%**	55.67%	1991	Algeria	**31**
Al Baraka Islamic Bank - Bahrain (AIB)	**92.03%**	92.03%	1984	Bahrain	**186**
Al Baraka Bank Tunis (ABT)	**78.40%**	78.40%	1983	Tunisia	**37**
Al Baraka Bank Egypt (ABE)	**73.47%**	73.47%	1980	Egypt	**32**
Al Baraka Bank Lebanon (ABBL)	**98.98%**	98.98%	1991	Lebanon	**3**
Jordan Islamic Bank (JIB)	**65.82%**	65.82%	1978	Jordan	**109**
Al Baraka Turk Participation Bank (ATPB)**	**38.02%**	38.02%	1985	Turkey	**231**
Al Baraka Bank Limited (ABL)	**64.51%**	64.51%	1989	South Africa	**10**
Al Baraka Bank Sudan (ABS)	**75.73%**	75.73%	1984	Sudan	**29**
Al Baraka Bank Syria (ABBS) *	**29.00%**	23.00%	2009	Syria	**15**
BTI Bank *	**49.00%**	49.00%	2017	Morocco	**5**

* The Group consolidates BTI Bank (49% ownership) and Al Baraka Bank Syria (29% ownership) due to the Group's control through the power to govern their financial and operating policies.

** The ownership of Al Baraka Turk Participation bank (ATPB) reduced from 56.64% to 38.02% in December 2019. ATPB did rights issue to increase its capital from TRY 900 million to TRY 1,350 million in December 2019. The Bank did not participate into this rights issue. The majority of the rights eligibility of the Bank were assigned to Dallah Al Baraka Holding Company BSC. By subscribing to this rights issue, Dallah Al Baraka Holding Company BSC became 15.38% owner of ATPB shares. However, Dallah Al Baraka through a management agreement assigned all their voting power to the Bank. On the basis of this management agreement and the 38.02% ownership of shares in ATPB, the management and control of ATPB was held by the Bank. Based on the management agreement, the Bank controls 53.4% of voting power in ATPB and hence has the power to govern the financial and operating policies of ATPB. On the basis of these controls ATPB is treated as a subsidiary and is consolidated in the financials of the Group.

2 ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

The following are the subsidiaries held indirectly through the principal subsidiaries of the Bank:

	Subsidiary held through	***Effective Ownership for 2021***	*Effective Ownership for 2020*	*Year of incorporation*	*Country of incorporation*
Held indirectly by the Bank					
Al Baraka Bank (Pakistan) Limited	AIB	**54.42%**	54.42%	2010	Pakistan
Itqan Capital	AIB	**76.45%**	76.45%	2007	Saudi Arabia
Al-Omariya School Company	JIB	**65.69%**	65.69%	1987	Jordan
Al-Samaha Real Estate Company	JIB	**65.82%**	65.82%	1998	Jordan
Future Applied Computer Technology Company	JIB	**65.82%**	65.82%	1998	Jordan
Sanable Alkhair for Financial Investment	JIB	**65.82%**	65.82%	2006	Jordan
Al Baraka Properties (Pty) Ltd.	ABL	**64.51%**	64.51%	1991	South Africa
Insha GMBH	ATPB	**38.02%**	38.02%	2018	Germany

Significant accounting policies

The significant accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year, except for the adoption of new standards and interpretations effective as of 1 January 2021:

2.1 Adoption of new and amended standards and interpretations

These consolidated financial statements have been prepared using accounting policies, which are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2020 except for the new standards, interpretations and amendments issued and effective as of 1 January 2021 which are as follows:

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

This standard defines the accounting principles and reporting requirements for investment agency (Al-Wakala Bi Al-Istithmar) transactions and instruments, in the hands of both the principal and the agent. This standard shall be effective beginning on or after 1 January 2021, with early adoption permitted. The standard requires the principal to evaluate the nature of the investment as either a) a pass-through investment or b) wakala venture.

In case of a pass-through investment approach, the principal shall initially recognize the assets underlying the wakala arrangement in its books of account applying the initial recognition principles as applicable in line with respective FAS. The principal may opt to apply the wakala venture approach if, and only if, the investment agency contract meets any of the conditions described below:

- The instrument is transferable; or
- The investment is 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.

In case of wakala venture approach, an investment shall be accounted for in the books of the investor applying the “equity method of accounting”; where the investment shall be recognized initially at cost and subsequently shall be measured at the end of the financial period at carrying amount and shall be adjusted to include the investor’s share in profit or loss of the wakala venture.

2 ACCOUNTING POLICIES (continued)

2.1 Adoption of new and amended standards and interpretations (continued)

FAS 31 Investment Agency (Al-Wakala Bi Al-Istithmar) (continued)
From the agent perspective, the standard requires that at inception of the transaction the agent shall recognize an agency arrangement under off-balance sheet approach since the agent does not control the related assets / business. However, there are exceptions to off-balance sheet approach where by virtue of additional considerations attached to the instrument based on investment agency may mandate the same to be accounted for as on-balance sheet. An agent may maintain multi-level investment arrangements. Under such arrangement, the Group is reinvesting Wakala funds into a secondary contract. Such secondary contracts shall be accounted for in line with the requirements of respective FAS in the books of the agent.

The Group has adopted the standard with effect from 1 January 2021.

From the principal perspective, the Group opted to use Wakala venture approach instead of pass-through approach given the difficulties for the principal to identify in which assets the funds are invested in, and hence, the investment is accounted for applying the equity method of accounting.

The Group provides funds to other financial institutions under this Wakala venture arrangement where the Group is acting as principal. Those Wakala funds are mainly invested in money market placements.

From agent perspective, a multi-level investment arrangement is maintained, whereby the Group invests funds under the investment agency into unrestricted investment arrangements, under a separate contract and accounted for accordingly based on the relevant accounting standard.

The adoption of the above accounting standard did not have a material impact on net profit or equity. However, the standard affects the classification of the Bank’s Wakala based contracts previously accounted for as part of on-balance sheet liabilities or off-balance sheet equity of investment accountholders.

As a result of this, the Group has accounted for all wakala contracts as follows:

- Contracts falling within the definition of Restricted Investment Account (“RIA”) were classified as off-balance sheet equity of investment accountholders as being done before the adoption of this standard; and

- Other wakala contracts are classified as either on-balance sheet or off-balance sheet depending on the relevant terms of the contract and whether the Group has invested such funds into secondary contracts through multi-level arrangement.

Further, based on the directions of CBB, all Wakala contracts (except RIA) managed within Bahrain, either directly by the Bank or its Bahrain based banking subsidiary, have been invested into secondary contract under multi-level arrangement and have been recorded on-balance sheet as either other liabilities, due to banks or (on balance-sheet) equity of investment accountholders. This resulted in wakala balances amounting to US$ 83,434 thousand outstanding as at 31 December 2020 previously classified as off-balance sheet equity of investment accountholders being reclassified to due to banks (with an equivalent increase in total assets; sales receivable and mudaraba financing increased by US$ 15,001 thousand and US$ 68,433 thousand respectively) with effect from 1 January 2021 upon formalization of multi-level arrangement.

FAS 32 Ijarah
This standard supersedes FAS 8 “Ijarah and Ijarah Muntahia Bittamleek”. The standard aims at setting out 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 shall be effective beginning or after 1 January 2021, with early adoption permitted.

2 ACCOUNTING POLICIES (continued)

2.1 Adoption of new and amended standards and interpretations (continued)

FAS 32 Ijarah (continued)
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 the modified retrospective method and recognised lease liabilities to make lease payments and right-of-use asset representing the right to use the underlying assets. In accordance with FAS 32, the Group has recognised the right-of-use assets and corresponding lease liability on 1 January 2021 in the consolidated financial statements.

a) Right-of-use asset
The Group recognised 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 "Property 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 recognised 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 payment of 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.

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

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

2 ACCOUNTING POLICIES (continued)

2.1 Adoption of new and amended standards and interpretations (continued)

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

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

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

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

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

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

Subsequent measurement

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

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

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

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 ACCOUNTING POLICIES (continued)

2.1 Adoption of new and amended standards and interpretations (continued)

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

Recognition and initial measurement (continued)

Reclassification (continued)
The Group has adopted the standard retrospectively and the adoption of the above accounting standard did not have a material impact on the consolidated financial statements.

FAS 34 Financial Reporting for Sukuk-holders
This standard prescribes the accounting principles and reporting requirements for underlying assets of a sukuk instrument. It requires the originator to prepare or cause to prepare financing reports as needed under this standard. This standard shall be effective from the financial periods beginning on or after 1 January 2021, with early adoption permitted.

The Group has adopted the standard retrospectively and the adoption of the above accounting standard did not have a material impact on the consolidated financial statements.

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 shall be effective beginning or after 1 January 2021, with early adoption is permitted, only if the financial institution decided to early adopt FAS 30.

The Group has adopted the standard retrospectively and the adoption of the above accounting standard did not have a material impact on the consolidated financial statements.

2.2 New standards, amendments and interpretations issued but not yet effective

2.2.1 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.

2.2.2 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.

2.3 Summary of significant accounting policies

a. Financial contracts
Financial contracts consist of cash and balances with banks, receivables, Mudaraba (net of deferred profit) and Musharaka financing, Investments - debt type instruments at amortised cost, Ijarah Muntahia Bittamleek (where the estimates of future cash flows dependent on a single customer) and certain other assets. In addition it consist of off-balance sheets exposures such as letter of credit, letter of guaranties and undrawn commitments. Balances relating to these contracts are stated net of allowance for credit losses.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

b. Impairment assessment

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

Stage 1: twelve months ECL
For exposures where there has not been a Significant Increase in Credit Risk ("SICR"), since initial recognition, a portion of the lifetime ECL's that represent the ECL that result from default events on a financial contract that is possible within 12 months after the reporting date (or a shorter period if the expected life of the financial instrument is less than 12 months) of the lifetime ECL associated with the probability of default events occurring within next twelve months after the reporting date is recognised.

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.

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

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

For Stage 3 financial contracts, the provisions for credit-impairment are determined based on the difference between the net carrying amount and the recoverable amount of the financial contract. As this uses the same criteria as under FAS 11, the Group methodology for specific allowance for credit losses remains largely unchanged.

In cases where there are no collaterals or guarantees which the Group can recover its exposure, the past due rules as per Group's policy or local requirements, whichever is more strict, are applied for allowance for credit losses calculation.

<u>Credit-impaired financial assets</u>
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 borrower or issuer;
- a breach of contract such as a default or past due event;
- probability that the borrower will enter bankruptcy or other financial reorganization; or
- the restructuring of a facility by the Group on terms that the Group would not consider otherwise.

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).

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

b. Impairment assessment

Measurement of ECL (continued)
These parameters are generally derived from internally developed models and other historical data. These are adjusted to reflect forward-looking information as described below.

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

Probability of default
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 generate 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.

Each component (subsidiary) of the Group uses combination of key macro-economic indicators including, fiscal surplus/deficit as a percentage of GDP, gross domestic product (GDP) growth, oil prices, government spending, stock market volatility, cost of funding, lending rates credit growth, inflation rate and unemployment.

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 as per the diagnostic tool.

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.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

b. Impairment assessment (continued)

Loss Given Default
LGD is a percentage that determine the amount of loss that will arise if the borrower was to default. This is calculated by looking at the collateral and other resources 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 units can estimate LGDs 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.

Exposure At Default
EAD represents estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, and expected drawdowns on committed facilities.

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 methods to work out CCF for off- balance sheet EADs.

CCF based on internal data - The Group performs off-balance sheet product based analysis to study the average percentage utilization/conversion over a period of 3- 5 years. Based on the analysis product wide conversion/utilization factors are estimated. For Letters of Credit (LCs) and Letters of Guarantees (LGs) issued, units determines CCF by estimating total amount of LCs/LGs devolved/converted over last 3-5 years as a percentage of total LC/LG issued to arrive at the expected exposure over the future for these off-balance sheet items.

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

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

b. Impairment assessment (continued)

Collective ECL computation and staging
ECL on individually large exposures and credit-impaired loans are generally measured individually. For retail exposures and other exposures to small and medium-sized enterprises, where less client-specific information is available, ECL is measured on a collective basis. This incorporates borrower-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 groups 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.

The assessment is carried out for specific instrument rather than a counterparty. As each instrument 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 accounts which are performing prior to restructuring but restructured due to financial difficulty are categorised under stage 2. The accounts that are non-performing or meet any criteria for classifying as non-performing (prior to restructuring), then such restructured accounts are categorized under stage 3.

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 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.
- A minimum cool-off/cure period of 12 months for non-performing and restructured facilities.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

b. Impairment assessment (continued)

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 borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written-off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

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

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

- financial assets measured at amortised cost, as a deduction from the gross carrying amount of the assets;
- financing commitments and financial guarantee contracts: generally as a provision included in other liabilities; and
- where a financial contract includes both a drawn and undrawn component, and the Group has identified the ECL on the financing commitments / off-balance sheet component separately from those on the drawn component, allowance for credit losses on undrawn component is presented as a provision in other liabilities.

c. Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash and cash in transit, balances with central banks excluding mandatory reserves and balances with other banks with an original maturity of three months or less.

d. Receivables

Receivables comprise Sales (Murabaha) receivables, Ijarah receivables, Salam receivables and Istisna'a receivables.

Sales (Murabaha) receivables

Sales (Murabaha) receivables consist mainly of murabaha and international commodities stated net of deferred profits and provision for doubtful amount. The Group considers promise made in sales (murabaha) receivables to the purchase orderer as obligatory.

Ijarah receivables

Ijarah receivables is the outstanding rental at the end of the year less any provision for doubtful amount.

Salam receivables

Salam receivables is the outstanding amount at the end of the year less any provision for doubtful amount.

Istisna'a receivables

Istisna'a receivables is the outstanding amount at the end of the year less any provision for doubtful amount.

e. Mudaraba and Musharaka financing

Mudaraba and Musharaka financing are partnerships in which the Bank contributes capital. These are stated at the fair value of consideration given less impairment.

f. Investments

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

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

f. Investments (continued)

Investment in real estate

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

The Group's investment in associates is accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The consolidated statement of income reflects the Group's share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in owners' equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The reporting dates of the associates and the Group are identical and the associates accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Equity and debt-type instruments at fair value through statement of income

This includes instruments held for trading purposes to gain profits from market fluctuations in the short term. These are initially recognised at cost, being the fair value of the consideration given excluding acquisition costs. These are subsequently re-measured at fair value. All related realised and unrealised gains or losses are included in the consolidated statement of income.

All other investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs.

Equity-type instruments at fair value through equity

This includes all instruments that are not covered above. Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value with unrealised gains or losses recognised proportionately in owners' equity and equity of investment accountholders until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in owners' equity or equity of investment accountholders is recognised in consolidated statement of income.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

f. Investments (continued)

Debt-type instruments at amortised cost

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

g. Ijarah 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.

h. Property and equipment

Property and equipment are initially recognised at cost. Subsequent to initial recognition property and equipment are stated at cost less accumulated depreciation and accumulated impairment in value, except for land which is carried at fair value. 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 provided on the straight-line basis over the estimated useful lives of the assets other than freehold land, which is deemed to have an indefinite life.

The calculation of depreciation is on the following basis:

Buildings	30 - 50 years
Office furniture and equipment	4 - 10 years
Vehicles	3 years
Others	4 - 5 years

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.

i. Fair values

For investments actively traded in organised financial markets, fair value is determined by reference to quoted market bid prices.

For investment where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument, which is substantially the same or is based on the assessment of future cash flows. The cash equivalent values are determined by the Group at current profit rates for contracts with similar term and risk characteristics.

For Sales (Murabaha) receivables the fair value is determined at the Bank or subsidiary level at the end of the financial period at their cash equivalent value.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

j. Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. 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.

k. Intangible assets

Intangible assets comprise principally the value of computer software. Intangible assets acquired are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

l. Collateral pending sale

Collateral acquired in settlement of certain financing facilities is stated at the lower of the net realisable value of the related financing facilities and the current fair value of such assets. Gains or losses on disposal, and revaluation losses, are recognised in the consolidated statement of income.

m. Employees' end of service benefits

The Group provides for end of service benefits to its employees. Entitlement to these benefits is based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued for over the period of employment.

n. Provision

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount of the obligation.

o. Dividends

Dividends to shareholders are recognised as liabilities in the year in which they are declared.

p. Equity of investment accountholders

All equity of investment accountholders are carried at cost plus accrued profit and related reserves. Investment risk reserves and profit equalisation reserves are made at the Bank or subsidiary level.

q. 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 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

r. 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.

s. Sukuk

Sukuk issued by the Group are treated based on the underlying contracts and structure.

t. Off-balance sheet equity of investment accountholders

Off-balance sheet equity of investment accountholders represent funds received by the Group from third parties for investment in specified products as directed by them. These products are managed in a fiduciary capacity and the Group has no entitlement to these products. Third parties bear all of the risks and earn all of the rewards on these products. 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 products except within the conditions of the contract between the Group and third parties.

u. Treasury shares

Own equity instruments which are reacquired (treasury shares) are deducted from equity of the parent and accounted for at weighted average cost. Consideration paid or received on the purchase, sale, issue or cancellation of the Group's own equity instruments are recognised directly in equity of the parent. No gain or loss is recognised in consolidated statement of income on the purchase, sale, issue or cancellation of own equity instruments.

v. Revenue recognition

Sales (Murabaha) receivables

Profit from Sales (Murabaha) receivables is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised on 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 90 days overdue is excluded from the consolidated statement of income.

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.

Mudaraba and Musharaka financing

Income on Mudaraba and Musharaka financing is recognised when the right to receive payment is established or on distribution by the Mudarib. Income related to accounts that are 90 days overdue is excluded from the consolidated statement of income.

Ijarah Muntahia Bittamleek

Income net of depreciation is recognised on a time-apportioned basis over the lease term.

Fee and commission income

Fee and commission income is recognised when earned.

Other income

Other income on investments is recognised when the right to receive payment is established.

Group's share as a Mudarib

The Group's share of profit as a Mudarib for managing equity of investment accountholders is based on the terms and conditions of the related mudarib agreements.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

v. Revenue recognition (continued)

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.

w. Return on equity of investment accountholders

Equity of investment accountholders' share of income is calculated based on the applicable local laws and based on the underlining individual Mudaraba contract. It represents the income generated from joint investment accounts and after deducting other expenses. Other expenses include all expenses incurred by the Group including specific provisions. The Group's share is deducted before distributing such income.

x. Joint and self financed

Investments, financing and receivables 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 receivables that are financed solely by the Group are classified under "self financed".

y. Taxation

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on foreign operations is provided in accordance with the fiscal regulations of the respective countries in which the subsidiaries operate. The Group accounts for its share of associates profit after accounting for corporate taxation. Deferred income tax is provided using the liability method on temporary differences at the financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

z. Shari'a supervisory board

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

aa. Zakah

The article of association of Al Baraka Banking Group is not empowering the Group for paying Zakah on behalf of the shareholders and there is no such law in Kingdom of Bahrain requiring the Group to pay Zakah on behalf of the shareholders, unless there is a direct empowerment from the general assembly to the Group to pay Zakah on the behalf of the shareholders.

ab. Earnings prohibited by Shari'a

The Group is committed to avoid recognising any income generated from non-Islamic source. Accordingly, all non-Islamic income is credited to a charity account where the Group uses these funds for various social welfare activities.

ac. Impairment of financial assets

An assessment is made at each financial position date to determine whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the assessment by the Group of the estimated cash equivalent value, is recognised in the consolidated statement of income. Specific provisions are created to reduce all impaired financial contracts to their realisable cash equivalent value. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment value was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated statement of income.

2 ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

ac. Impairment of financial assets (continued)

In addition, the Group maintains a provision to reflect a potential loss that may occur as a result of currently unidentifiable risks in relation to receivables, financings or investment assets. The amount reflects estimated losses affecting these assets attributable to events that have already occurred at the date of the financial statements, and not estimated losses attributable to future events.

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

ae. Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. The monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the financial position date. All differences are taken to income statement at the entity level.

Foreign currency translations

As at the reporting date, the assets and liabilities in foreign currencies are translated into the presentation currency of the Group (United States Dollars) at the rate of exchange ruling at the financial position date and their income statements 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 entity, the deferred cumulative amount recognised in owners' equity relating to that particular foreign entity is recognised in the consolidated statement of income.

af. Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which affects the amounts recognised in the consolidated financial statements:

Classification of investments

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

Going concern

The Group's management has made an assessment of the Group's 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 financial statements continue to be prepared on the going concern basis.

ag. Use of estimates in preparation of the consolidated financial statements

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of financial assets and liabilities at the date of the consolidated financial statements. The use of estimates is used primarily to the determination of provisions for sales (Murabaha) receivable, mudaraba financing, musharaka financing, equity-type instrument at fair value through equity, debt-type instrument at amortised cost, ijarah receivable and other assets.

2 ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

ah. 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 the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of income.

3 CASH AND BALANCES WITH BANKS

	2021	*2020*
	US$ '000	*US$ '000*
Balances with central banks*	**4,572,189**	4,027,943
Balances with other banks	**646,835**	497,408
Cash and cash in transit	**708,578**	839,830
Allowance for credit losses (note 22)	**(3,724)**	(3,737)
	5,923,878	5,361,444

* Balances with central banks include mandatory reserves amounting to US$ 2,997,845 thousand (2020: US$ 2,587,004 thousand). These amounts are not available for use in the Group's day-to-day operations.

4 RECEIVABLES

	2021	*2020*
	US$ '000	*US$ '000*
Sales (Murabaha) receivables (note 4.1)	**11,279,456**	12,126,087
Ijarah receivables (note 4.2)	**140,805**	150,787
Salam receivables (note 4.3)	**259,295**	225,550
Istisna'a receivables (note 4.4)	**198,926**	198,804
Allowance for credit losses	**(882,410)**	(755,235)
	10,996,072	11,945,993

4 RECEIVABLES (continued)

4.1 Sales (Murabaha) receivables

	2021			2020		
	Self financed US$ '000	**Jointly financed US$ '000**	**Total US$ '000**	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Commodity murabaha	**61,144**	**532,345**	**593,489**	58,485	569,723	628,208
Other murabaha	**1,668,364**	**10,129,562**	**11,797,926**	2,466,023	10,332,891	12,798,914
Gross sales (murabaha) receivables	**1,729,508**	**10,661,907**	**12,391,415**	2,524,508	10,902,614	13,427,122
Deferred profits (note 4.1(a))	**(180,162)**	**(931,797)**	**(1,111,959)**	(296,564)	(1,004,471)	(1,301,035)
	1,549,346	**9,730,110**	**11,279,456**	2,227,944	9,898,143	12,126,087
Allowance for credit losses (note 22)	**(290,041)**	**(508,005)**	**(798,046)**	(221,835)	(455,075)	(676,910)
Net sales (murabaha) receivables	**1,259,305**	**9,222,105**	**10,481,410**	2,006,109	9,443,068	11,449,177

	2021 US$ '000	2020 US$ '000
Non-performing	**645,795**	769,795

4.1(a) Murabaha deferred profit movement

	2021 US$ '000	2020 US$ '000
Deferred profit at the beginning of the year	**1,301,035**	1,564,665
Murabaha sales during the year	**2,875,541**	3,960,783
Murabaha cost of sales	**(2,226,503)**	(3,493,121)
	1,950,073	2,032,327
Deferred profit collected during the year	**(408,726)**	(498,002)
Deferred profit settled during the year	**(20,591)**	(31,019)
Deferred profit waived during the period	**(1,923)**	(3,172)
FX translation	**(406,874)**	(199,099)
Deferred profit at the end of the year	**1,111,959**	1,301,035

4.2 Ijarah receivables

	2021			2020		
	Self financed US$ '000	**Jointly financed US$ '000**	**Total US$ '000**	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Gross ijarah receivables	**9,150**	**131,655**	**140,805**	12,272	138,515	150,787
Allowance for credit losses (note 22)	**(318)**	**(47,671)**	**(47,989)**	(382)	(51,593)	(51,975)
Net ijarah receivables	**8,832**	**83,984**	**92,816**	11,890	86,922	98,812

	2021 US$ '000	2020 US$ '000
Non-performing	**111,857**	127,733

4 RECEIVABLES (continued)

4.3 Salam receivables

	2021			2020		
	Self financed US$ '000	***Jointly financed US$ '000***	***Total US$ '000***	*Self financed US$ '000*	*Jointly financed US$ '000*	*Total US$ '000*
Gross salam receivables	**-**	**259,295**	**259,295**	-	225,550	225,550
Allowance for credit losses (note 22)	**-**	**(18,912)**	**(18,912)**	-	(15,186)	(15,186)
Net salam receivables	**-**	**240,383**	**240,383**	-	210,364	210,364

	2021 US$ '000	*2020 US$ '000*
Non-performing	**30,040**	22,619

4.4 Istisna'a receivables

	2021			2020		
	Self financed US$ '000	***Jointly financed US$ '000***	***Total US$ '000***	*Self financed US$ '000*	*Jointly financed US$ '000*	*Total US$ '000*
Gross istisna'a receivables	**-**	**198,926**	**198,926**	-	198,804	198,804
Allowance for credit losses (note 22)	**-**	**(17,463)**	**(17,463)**	-	(11,164)	(11,164)
Net istisna'a receivables	**-**	**181,463**	**181,463**	-	187,640	187,640

	2021 US$ '000	*2020 US$ '000*
Non-performing	**19,570**	14,682

The table below shows the receivables credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification.

	31 December 2021			
	Stage 1 US$ '000	***Stage 2 US$ '000***	***Stage 3 US$ '000***	***Total US$ '000***
Good (1-4)	**2,954,925**	**185,249**	**-**	**3,140,174**
Satisfactory (5-7)	**6,173,234**	**1,757,812**	**-**	**7,931,046**
Default (8-10)	**-**	**-**	**807,262**	**807,262**
Allowance for credit losses	**(59,970)**	**(305,981)**	**(516,459)**	**(882,410)**
	9,068,189	**1,637,080**	**290,803**	**10,996,072**

	31 December 2020			
	Stage 1 US$ '000	*Stage 2 US$ '000*	*Stage 3 US$ '000*	*Total US$ '000*
Good (1-4)	2,816,741	228,144	-	3,044,885
Satisfactory (5-7)	7,018,497	1,703,017	-	8,721,514
Default (8-10)	-	-	934,829	934,829
Allowance for credit losses	(73,192)	(179,520)	(502,523)	(755,235)
	9,762,046	1,751,641	432,306	11,945,993

4 RECEIVABLES (continued)

The below table shows the movement in allowance for credit losses by stage:

	31 December 2021			
	Stage 1: 12-month ECL ***US$ '000***	***Stage 2: Lifetime ECL not credit-impaired*** ***US$ '000***	***Stage 3: Lifetime ECL credit-impaired*** ***US$ '000***	***Total*** ***US$ '000***
Balance at 1 January	**73,192**	**179,520**	**502,523**	**755,235**
Changes due to receivables recognised in opening balance that have:				
- transferred to Stage 1	**5,727**	**(2,711)**	**(3,016)**	**-**
- transferred to Stage 2	**(3,846)**	**12,704**	**(8,858)**	**-**
- transferred to Stage 3	**(150)**	**(42,681)**	**42,831**	**-**
Net remeasurement of loss allowance	**7,413**	**121,665**	**198,809**	**327,887**
Recoveries / write-backs	**-**	**-**	**(78,333)**	**(78,333)**
Allocation from (to) investment risk reserve	**(8,093)**	**(2,184)**	**7,687**	**(2,590)**
Amounts written off	**-**	**-**	**(41,305)**	**(41,305)**
FX translation / others	**(14,273)**	**39,668**	**(103,879)**	**(78,484)**
	59,970	**305,981**	**516,459**	**882,410**

	31 December 2020			
	Stage 1: 12-month ECL *US$ '000*	*Stage 2: Lifetime ECL not credit-impaired* *US$ '000*	*Stage 3: Lifetime ECL credit-impaired* *US$ '000*	*Total* *US$ '000*
Balance at 1 January	54,358	115,719	401,005	571,082
Changes due to receivables recognised in opening balance that have:				
- transferred to Stage 1	12,761	(3,304)	(9,457)	-
- transferred to Stage 2	(1,223)	(37,684)	38,907	-
- transferred to Stage 3	(65)	(1,800)	1,865	-
Net remeasurement of loss allowance	11,701	95,572	153,572	260,845
Recoveries / write-backs	-	-	(57,534)	(57,534)
Allocation from (to) investment risk reserve	(6,439)	12,794	13,325	19,680
Amounts written off	-	-	(13,185)	(13,185)
FX translation / others	2,099	(1,777)	(25,975)	(25,653)
	73,192	179,520	502,523	755,235

5 MUDARABA AND MUSHARAKA FINANCING

	2021 ***US$ '000***	*2020* *US$ '000*
Mudaraba financing (note 5.1)	**2,698,975**	1,784,183
Musharaka financing (note 5.2)	**958,669**	1,106,881
Allowance for credit losses	**(34,329)**	(36,406)
	3,623,315	2,854,658

5 MUDARABA AND MUSHARAKA FINANCING (continued)

5.1 Mudaraba financing

	2021			2020		
	Self financed US$ '000	***Jointly financed US$ '000***	***Total US$ '000***	*Self financed US$ '000*	*Jointly financed US$ '000*	*Total US$ '000*
Gross mudaraba financing	**381,618**	**2,317,357**	**2,698,975**	427,218	1,356,965	1,784,183
Allowance for credit losses (note 22)	**(420)**	**(17,311)**	**(17,731)**	(420)	(14,198)	(14,618)
Net mudaraba financing	**381,198**	**2,300,046**	**2,681,244**	426,798	1,342,767	1,769,565

	2021 US$ '000	*2020 US$ '000*
Non-performing	**30,227**	15,994

5.2 Musharaka financing

	2021			2020		
	Self financed US$ '000	***Jointly financed US$ '000***	***Total US$ '000***	*Self financed US$ '000*	*Jointly financed US$ '000*	*Total US$ '000*
Gross musharaka financing	**333,261**	**625,408**	**958,669**	451,433	655,448	1,106,881
Allowance for credit losses (note 22)	**(4,049)**	**(12,549)**	**(16,598)**	(8,436)	(13,352)	(21,788)
Net musharaka financing	**329,212**	**612,859**	**942,071**	442,997	642,096	1,085,093

	2021 US$ '000	*2020 US$ '000*
Non-performing	**27,920**	26,167

The table below shows the mudaraba and musharaka credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification.

	31 December 2021			
	Stage 1 US$ '000	***Stage 2 US$ '000***	***Stage 3 US$ '000***	***Total US$ '000***
Good (1-4)	**1,194,146**	**79,440**	**-**	**1,273,586**
Satisfactory (5-7)	**2,148,254**	**177,657**	**-**	**2,325,911**
Default (8-10)	**-**	**-**	**58,147**	**58,147**
Allowance for credit losses	**(6,461)**	**(3,883)**	**(23,985)**	**(34,329)**
	3,335,939	**253,214**	**34,162**	**3,623,315**

	31 December 2020			
	Stage 1 US$ '000	*Stage 2 US$ '000*	*Stage 3 US$ '000*	*Total US$ '000*
Good (1-4)	1,219,723	139,196	-	1,358,919
Satisfactory (5-7)	1,170,475	319,509	-	1,489,984
Default (8-10)	-	-	42,161	42,161
Allowance for credit losses	(12,269)	(9,381)	(14,756)	(36,406)
	2,377,929	449,324	27,405	2,854,658

5 MUDARABA AND MUSHARAKA FINANCING (continued)

The below table shows the movement in allowance for credit losses by stage:

	31 December 2021			
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Stage 3: Lifetime ECL credit-impaired***	***Total***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***
Balance at 1 January	**12,269**	**9,381**	**14,756**	**36,406**
Changes due to financing recognised in opening balance that have:				
- transferred to Stage 1	**498**	**(496)**	**(2)**	**-**
- transferred to Stage 2	**(239)**	**263**	**(24)**	**-**
- transferred to Stage 3	**(3)**	**(211)**	**214**	**-**
Net remeasurement of loss allowance	**(1,207)**	**(4,731)**	**6,776**	**838**
Recoveries / write-backs	**-**	**-**	**(553)**	**(553)**
Allocation from (to) investment risk reserve	**(1,069)**	**(26)**	**94**	**(1,001)**
Amounts written off	**-**	**-**	**(11,579)**	**(11,579)**
FX translation / others	**(3,788)**	**(297)**	**14,303**	**10,218**
	6,461	**3,883**	**23,985**	**34,329**

	31 December 2020			
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
Balance at 1 January	2,496	2,406	14,723	19,625
Changes due to financing recognised in opening balance that have:				
- transferred to Stage 1	(252)	262	(10)	-
- transferred to Stage 2	(2,581)	2,583	(2)	-
- transferred to Stage 3	(4)	(4)	8	-
Net remeasurement of loss allowance	12,860	4,235	266	17,361
Recoveries / write-backs	-	-	(482)	(482)
Allocation (to) from investment risk reserve	346	(2)	(3)	341
Amounts written off	-	-	-	-
FX translation / others	(596)	(99)	256	(439)
	12,269	9,381	14,756	36,406

6 INVESTMENTS

	2021	*2020*
	US$ '000	*US$ '000*
Equity and debt-type instruments at fair value through statement of income (note 6.1)	**52,688**	234,405
Equity-type instruments at fair value through equity (note 6.2)	**87,451**	107,971
Debt-type instruments at amortised cost (note 6.3)	**4,102,509**	4,533,589
	4,242,648	4,875,965
Investment in real estate (note 6.4)	**186,767**	176,136
Investment in associates (note 6.5)	**43,234**	45,088
	4,472,649	5,097,189

6.1 Equity and debt-type instruments at fair value through statement of income

	2021			*2020*		
	Self financed US$ '000	***Jointly financed US$ '000***	***Total US$ '000***	*Self financed US$ '000*	*Jointly financed US$ '000*	*Total US$ '000*
Quoted investments						
Debt instruments	**-**	**33,653**	**33,653**	3,308	3,389	6,697
Equity securities	**7,569**	**4,596**	**12,165**	221,493	686	222,179
	7,569	**38,249**	**45,818**	224,801	4,075	228,876
Unquoted investments						
Equity securities	**6,870**	**-**	**6,870**	1,885	3,644	5,529
	6,870	**-**	**6,870**	1,885	3,644	5,529
	14,439	**38,249**	**52,688**	226,686	7,719	234,405

6 INVESTMENTS (continued)

6.2 Equity-type instruments at fair value through equity

	2021			2020		
	Self financed US$ '000	***Jointly financed US$ '000***	***Total US$ '000***	*Self financed US$ '000*	*Jointly financed US$ '000*	*Total US$ '000*
Quoted investments						
Equity securities	**13,754**	**31,552**	**45,306**	20,292	30,044	50,336
Managed funds	**3,382**	**11,146**	**14,528**	3,515	4,342	7,857
	17,136	**42,698**	**59,834**	23,807	34,386	58,193
Unquoted investments						
Equity securities	**10,215**	**15,157**	**25,372**	7,216	14,039	21,255
Managed funds	**546**	**9,032**	**9,578**	993	34,949	35,942
	10,761	**24,189**	**34,950**	8,209	48,988	57,197
Provisions for impairment	**(6,911)**	**(422)**	**(7,333)**	(6,952)	(467)	(7,419)
	20,986	**66,465**	**87,451**	25,064	82,907	107,971

6.3 Debt-type instruments at amortised cost

	2021			2020		
	Self financed US$ '000	***Jointly financed US$ '000***	***Total US$ '000***	*Self financed US$ '000*	*Jointly financed US$ '000*	*Total US$ '000*
Quoted investments						
Sukuk and similar items	**1,913,519**	**1,504,459**	**3,417,978**	1,673,465	1,556,333	3,229,798
Unquoted investments						
Sukuk and similar items	**97,905**	**594,194**	**692,099**	119,526	1,192,521	1,312,047
Allowance for credit losses	**(502)**	**(7,066)**	**(7,568)**	(772)	(7,484)	(8,256)
	2,010,922	**2,091,587**	**4,102,509**	1,792,219	2,741,370	4,533,589

The table below shows the debt type instruments credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification.

	31 December 2021			
	Stage 1 US$ '000	***Stage 2 US$ '000***	***Stage 3 US$ '000***	***Total US$ '000***
Good (1-4)	**3,483,937**	**-**	**-**	**3,483,937**
Satisfactory (5-7)	**611,661**	**11,914**	**-**	**623,575**
Default (8-10)	**-**	**-**	**2,565**	**2,565**
Allowance for credit losses	**(4,966)**	**(37)**	**(2,565)**	**(7,568)**
	4,090,632	**11,877**	**-**	**4,102,509**

6 INVESTMENTS (continued)

6.3 Debt-type instruments at amortised cost (continued)

	31 December 2020			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
Good (1-4)	3,959,071	-	-	3,959,071
Satisfactory (5-7)	517,658	62,551	-	580,209
Default (8-10)	-	-	2,565	2,565
Allowance for credit losses	(4,490)	(1,201)	(2,565)	(8,256)
	4,472,239	61,350	-	4,533,589

The below table shows the movement in allowance for credit losses by stage:

	31 December 2021			
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Stage 3: Lifetime ECL credit-impaired***	***Total***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***
Balance at 1 January	**4,490**	**1,201**	**2,565**	**8,256**
Changes due to instruments recognised in opening balance that have:				
- transferred to Stage 1	**74**	**(74)**	**-**	**-**
- transferred to Stage 2	**710**	**(710)**	**-**	**-**
Net remeasurement of loss allowance	**464**	**(370)**	**-**	**94**
Allocation to investment risk reserve	**(620)**	**-**	**-**	**(620)**
FX translation / others	**(152)**	**(10)**	**-**	**(162)**
	4,966	**37**	**2,565**	**7,568**

	31 December 2020			
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
Balance at 1 January	4,651	584	2,565	7,800
Net remeasurement of loss allowance	(272)	480	-	208
Allocation from investment risk reserve	54	126	-	180
FX translation / others	57	11	-	68
	4,490	1,201	2,565	8,256

6 INVESTMENTS (continued)

6.4 Investment in real estate

	2021			2020		
	Self financed US$ '000	***Jointly financed US$ '000***	***Total US$ '000***	*Self financed US$ '000*	*Jointly financed US$ '000*	*Total US$ '000*
Land	**1,973**	**100,572**	**102,545**	3,951	114,316	118,267
Buildings	**12,348**	**71,874**	**84,222**	11,573	46,296	57,869
	14,321	**172,446**	**186,767**	15,524	160,612	176,136

The following is a reconciliation between carrying amounts of investment in real estate at the beginning and end of the year:

	2021 US$ '000	*2020 US$ '000*
Beginning balance of the year	**176,136**	206,108
Acquisitions	**33,113**	3,729
Net loss from fair value adjustments	**(6,843)**	(4,063)
Disposals	**(11,467)**	(26,531)
Foreign exchange translation / others - net	**(4,172)**	(3,107)
	10,631	(29,972)
Ending balance of the year	**186,767**	176,136

6.5 Investment in associates

Investment in associates comprise of the following:

	2021			
	Self financed US$ '000	***Jointly financed US$ '000***	***Total US$ '000***	***Market value US$ '000***
Quoted associates	**-**	**12,767**	**12,767**	**11,834**
Unquoted associates	**30,447**	**20**	**30,467**	
	30,447	**12,787**	**43,234**	

	2020			
	Self financed US$ '000	*Jointly financed US$ '000*	*Total US$ '000*	*Market value US$ '000*
Quoted associates	-	11,729	11,729	9,742
Unquoted associates	33,359	-	33,359	
	33,359	11,729	45,088	

7 IJARAH MUNTAHIA BITTAMLEEK

	2021			2020		
	Self financed US$ '000	***Jointly financed US$ '000***	***Total US$ '000***	*Self financed US$ '000*	*Jointly financed US$ '000*	*Total US$ '000*
Land and building						
Cost	**2,340**	**2,209,182**	**2,211,522**	16,679	1,942,652	1,959,331
Accumulated depreciation	**(328)**	**(408,494)**	**(408,822)**	(114)	(395,219)	(395,333)
Allowance for credit losses	**-**	**(8,384)**	**(8,384)**	(170)	(15,506)	(15,676)
Net book value	**2,012**	**1,792,304**	**1,794,316**	16,395	1,531,927	1,548,322
Equipment						
Cost	**76,581**	**233,925**	**310,506**	72,853	224,737	297,590
Accumulated depreciation	**(13,100)**	**(71,703)**	**(84,803)**	(24,673)	(70,157)	(94,830)
Allowance for credit losses	**(259)**	**(4,337)**	**(4,596)**	(431)	(7,712)	(8,143)
Net book value	**63,222**	**157,885**	**221,107**	47,749	146,868	194,617
Others						
Cost	**-**	**5,349**	**5,349**	-	12,780	12,780
Accumulated depreciation	**-**	**(1,964)**	**(1,964)**	-	(8,061)	(8,061)
Allowance for credit losses	**-**	**(8)**	**(8)**	-	(31)	(31)
Net book value	**-**	**3,377**	**3,377**	-	4,688	4,688
TOTAL						
Cost	**78,921**	**2,448,456**	**2,527,377**	89,532	2,180,169	2,269,701
Accumulated depreciation	**(13,428)**	**(482,161)**	**(495,589)**	(24,787)	(473,437)	(498,224)
Less: allowance for credit losses (note 22)	**(259)**	**(12,729)**	**(12,988)**	(601)	(23,249)	(23,850)
Net book value	**65,234**	**1,953,566**	**2,018,800**	64,144	1,683,483	1,747,627

The table below shows the ijarah muntahia bittamleek credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification.

	31 December 2021			
	Stage 1 US$ '000	***Stage 2 US$ '000***	***Stage 3 US$ '000***	***Total US$ '000***
Good (1-4)	**570,992**	**4,872**	**-**	**575,864**
Satisfactory (5-7)	**1,217,341**	**238,570**	**-**	**1,455,911**
Default (8-10)	**-**	**-**	**13**	**13**
Allowance for credit losses	**(2,355)**	**(10,631)**	**(2)**	**(12,988)**
	1,785,978	**232,811**	**11**	**2,018,800**

7 IJARAH MUNTAHIA BITTAMLEEK (continued)

	31 December 2020			
	Stage 1 US$ '000	*Stage 2 US$ '000*	*Stage 3 US$ '000*	*Total US$ '000*
Good (1-4)	447,363	6,548	-	453,911
Satisfactory (5-7)	1,051,050	266,465	-	1,317,515
Default (8-10)	-	-	51	51
Allowance for credit losses	(2,408)	(21,434)	(8)	(23,850)
	1,496,005	251,579	43	1,747,627

The below table shows the movement in allowance for credit losses by stage:

	31 December 2021			
	Stage 1: 12-month ECL US$ '000	***Stage 2: Lifetime ECL not credit-impaired US$ '000***	***Stage 3: Lifetime ECL credit-impaired US$ '000***	***Total US$ '000***
Balance at 1 January	**2,408**	**21,434**	**8**	**23,850**
Net remeasurement of loss allowance	**201**	**(9,964)**	**-**	**(9,763)**
Allocation to (from) investment risk reserve	**53**	**-**	**-**	**53**
FX translation / others	**(307)**	**(839)**	**(6)**	**(1,152)**
	2,355	**10,631**	**2**	**12,988**

	31 December 2020			
	Stage 1: 12-month ECL US$ '000	*Stage 2: Lifetime ECL not credit-impaired US$ '000*	*Stage 3: Lifetime ECL credit-impaired US$ '000*	*Total US$ '000*
Balance at 1 January	4,627	13,160	-	17,787
Changes due to ijarah muntahia bittamleek recognised in opening balance that have:				
- transferred to Stage 1	(8)	-	8	-
Net remeasurement of loss allowance	(1,820)	9,918	-	8,098
FX translation / others	(391)	(1,644)	-	(2,035)
	2,408	21,434	8	23,850

8 PROPERTY AND EQUIPMENT

	Buildings	*Lands*	*Office furniture and equipment*	*Vehicles*	*Others*	*Right of use asset**	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Cost:							
At 1 January 2020	236,059	161,094	228,432	11,903	74,550	-	712,038
Additions	22,480	19,968	22,004	1,496	30,631	-	96,579
Disposals	(7,781)	-	(3,087)	(961)	(5,154)	-	(16,983)
Foreign exchange translations	(8,298)	(11,119)	(7,999)	(1,181)	(14,123)	-	(42,720)
At 31 December 2020	242,460	169,943	239,350	11,257	85,904	-	748,914
Additions	768	12,973	17,907	362	18,113	103,370	153,493
Revaluation	-	42,035	-	-	-	-	42,035
Disposals	(2,512)	(645)	(12,679)	(672)	(258)	(2,798)	(19,564)
Foreign exchange translations	(13,738)	(25,599)	(20,766)	(3,705)	(18,301)	(18,154)	(100,263)
At 31 December 2021	**226,978**	**198,707**	**223,812**	**7,242**	**85,458**	**82,418**	**824,615**
Depreciation:							
At 1 January 2020	59,018	-	177,081	5,359	15,549	-	257,007
Charged during the year (note 20)	7,835	-	18,376	888	3,716	-	30,815
Relating to disposals	(74)	-	(2,760)	(86)	(461)	-	(3,381)
Foreign exchange translations	(5,048)	-	(5,999)	(382)	(2,670)	-	(14,099)
At 31 December 2020	61,731	-	186,698	5,779	16,134	-	270,342
Charged during the year (note 20)	8,516	-	17,384	734	3,500	14,956	45,090
Relating to disposals	(651)	-	(12,181)	(361)	(37)	(4,327)	(17,557)
Foreign exchange translations	(7,290)	-	(12,845)	(1,270)	(5,828)	14,013	(13,220)
At 31 December 2021	**62,306**	**-**	**179,056**	**4,882**	**13,769**	**24,642**	**284,655**
Net book values:							
At 31 December 2021	**164,672**	**198,707**	**44,756**	**2,360**	**71,689**	**57,776**	**539,960**
At 31 December 2020	180,729	169,943	52,652	5,478	69,770	-	478,572

*Additions includes right-of-use assets recognized by Group on adoption of FAS 32 Ijarah on 1 January 2021 amounted to USD 74.3 million.

9 OTHER ASSETS

	2021	*2020*
	US$ '000	*US$ '000*
Bills receivables	**214,699**	297,067
Goodwill and intangible assets (note 9 (a))	**76,026**	75,788
Collateral pending sale	**114,751**	176,126
Good faith qard	**97,675**	115,012
Deferred taxation	**79,451**	60,284
Prepayments	**27,396**	25,606
Others	**24,885**	39,684
	634,883	789,567
Impairment / allowance for credit losses	**(27,380)**	(25,051)
	607,503	764,516

9 OTHER ASSETS (continued)

9 (a) Goodwill and intangible assets

	2021			*2020*		
	Goodwill US$ '000	***Intangible assets US$ '000***	***Total US$ '000***	*Goodwill US$ '000*	*Intangible assets US$ '000*	*Total US$ '000*
At 1 January	**46,804**	**28,984**	**75,788**	51,360	23,722	75,082
Additions	**-**	**18,910**	**18,910**	117	14,603	14,720
Amortisation charge for the year (note 20)	**-**	**(13,675)**	**(13,675)**	-	(8,776)	(8,776)
Impairment loss for the year	**-**	**-**	**-**	(2,500)	-	(2,500)
Foreign exchange translations	**(3,428)**	**(1,569)**	**(4,997)**	(2,173)	(565)	(2,738)
At 31 December	**43,376**	**32,650**	**76,026**	46,804	28,984	75,788

Goodwill acquired through business combinations with indefinite lives have been allocated to four individual cash-generating units. The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2021 US$ '000	*2020 US$ '000*
Al Baraka Turk Participation Bank	**3,004**	5,107
Al Barak Bank Egypt	**1,004**	1,001
Jordan Islamic Bank	**26,646**	26,646
Al Baraka Bank (Pakistan) Limited	**12,722**	14,050
	43,376	46,804

The recoverable amounts of the cash-generating units were determined based on value in use calculation using cash flow projections from financial budgets covering a five year period or market capitalisation approved by the Group's senior management. For cashflow projections, management determined budgeted spreads based on the cash-generating units' past performance and its expectation of market development.

10 LONG TERM FINANCING

	2021 US$ '000	*2020 US$ '000*
Murabaha financing	**15,889**	35,787
Subordinated financing obtained by a subsidiary	**270,944**	283,577
	286,833	319,364

11 OTHER LIABILITIES

	2021 US$ '000	2020 US$ '000
Payables	**407,696**	600,558
Cash margins	**280,934**	236,028
Managers' cheques	**89,928**	102,106
Current taxation *	**84,269**	80,612
Deferred taxation *	**27,391**	11,368
Accrued expenses	**84,987**	99,712
Charity fund	**25,640**	30,077
Net Ijarah liability	**60,791**	-
Others	**57,715**	80,646
Allowance for credit losses (note 22)	**85,771**	86,516
	1,205,122	1,327,623

* In view of the operations of the Group being subject to various tax jurisdictions and regulations, it is not practical to provide a reconciliation between the accounting and taxable profits together with details of effective tax rates.

12 EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH)

	2021 US$ '000	2020 US$ '000
Equity of investment accountholders *	**15,530,827**	15,152,840
Profit equalisation reserve (note 12.1)	**3,597**	6,345
Investment risk reserve (note 12.2)	**62,800**	65,202
Cumulative changes in fair value attributable to equity of investment accountholders - net (note 12.3)	**2,183**	5,802
	15,599,407	15,230,189

** Medium term Sukuk*

This includes unsecured, sub-ordinated and privately placed unrestricted mudaraba sukuk amounting to US$ 19,439 thousand (2020: US$ 12,883 thousand) issued by Al Baraka Bank (Pakistan) Limited (ABPL) during 2014 and 2021 and will mature in 2024 and 2031 respectively. The issuance of sukuk is intended to comply with regulatory requirements related to capital adequacy ratio of ABPL. The principal repayment, started after six months of the drawdown date and is being made semi-annually on a straight line basis.

12.1 Profit equalisation reserve

The following shows the movement in profit equalisation reserve:

	2021 US$ '000	2020 US$ '000
Balance at 1 January	**6,345**	7,400
Amount apportioned from income allocable to equity of investment accountholders	**1,302**	2,423
Amount used during the year	**(3,556)**	(2,582)
Foreign exchange translations	**(494)**	(896)
Balance at 31 December	**3,597**	6,345

12 EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH) (continued)

12.2 Investment risk reserve

The following shows the movement in investment risk reserve:

	2021	*2020*
	US$ '000	*US$ '000*
Balance at 1 January	**65,202**	77,199
Amount appropriated to provision (note 22)	**4,159**	(20,201)
Amount apportioned from income allocable to equity of investment accountholders	**(6,145)**	8,469
Foreign exchange translations	**(416)**	(265)
Balance at 31 December	**62,800**	65,202

12.3 Movement in cumulative changes in fair value attributable to equity of investment accountholders - net

	2021	*2020*
	US$ '000	*US$ '000*
Balance at 1 January	**5,802**	7,423
Change in fair values during the year	**(714)**	(1,215)
Realised gain transferred to consolidated statement of income	**(2,406)**	(157)
Deferred taxation effect	**1,186**	521
Transfer to shareholders equity	**(1,685)**	(770)
Balance at 31 December	**2,183**	5,802
Attributable to investment in real estate	**4,136**	8,591
Attributable to equity-type instruments at fair value through equity	**(1,953)**	(2,789)
	2,183	5,802

13 EQUITY

	2021	*2020*
	US$ '000	*US$ '000*
Share capital		
Authorised: 2,500,000,000 (2020: 2,500,000,000) ordinary shares of US$ 1 each	**2,500,000**	2,500,000
Issued and fully paid up:		
At beginning of the year 1,242,879,755 (2020: 1,242,879,755) shares of US$1 each	**1,242,879**	1,242,879
At end of the year 1,242,879,755 (2020: 1,242,879,755) shares of US$1 each	**1,242,879**	1,242,879

13 EQUITY (continued)

Treasury shares

	Number of shares ('000)	***2021 US$ '000***	*2020 US$ '000*
At 1 January	**32,502**	**17,462**	8,308
Purchase of treasury shares	**1,914**	**1,914**	9,636
Sale of treasury shares	**(3,721)**	**(3,721)**	(482)
At 31 December	**30,695**	**15,655**	17,462

The market value of the treasury shares is US$ 9,209 thousand (2020: US$ 8,386 thousand) and it represents 2.5% (2020: 2.6%) of the outstanding shares.

Additional information on shareholding pattern

i) Names and nationalities of the major shareholders and the number of shares in which they have an interest of 5% or more of outstanding shares:

At 31 December 2021

Names	***Nationality/ Incorporation***	***Number of shares***	***% holding***
Late Saleh Abdullah Kamel	Saudi	**374,236,973**	**30.11%**
Dallah AlBaraka Holding Company E.C.	Bahrain	**306,194,694**	**24.64%**
Altawfeek Company For Investment Funds	Cayman Island	**240,173,054**	**19.32%**
Abdulla AbdulAziz AlRajihi	Saudi	**87,313,197**	**7.03%**

At 31 December 2020

Names	*Nationality/ Incorporation*	*Number of shares*	*% holding*
Late Saleh Abdullah Kamel	Saudi	374,236,973	30.11%
Dallah AlBaraka Holding Company E.C.	Bahrain	306,194,694	24.64%
Altawfeek Company For Investment Funds	Cayman Island	240,173,054	19.32%
Abdulla AbdulAziz AlRajihi	Saudi	87,313,197	7.03%

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

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

At 31 December 2021

	Number of shares	***Number of shareholders***	***% of total outstanding shares***
Less than 1%	**104,607,036**	**1,083**	**8.42%**
1% up to less than 5%	**130,354,801**	**5**	**10.48%**
5% up to less than 10%	**87,313,197**	**1**	**7.03%**
10% up to less than 20%	**240,173,054**	**1**	**19.32%**
20% up to less than 50%	**680,431,667**	**2**	**54.75%**
	1,242,879,755	**1,092**	**100.00%**

13 EQUITY (continued)

Additional information on shareholding pattern (continued)

At 31 December 2020

Categories:	*Number of shares*	*Number of shareholders*	*% of total outstanding shares*
Less than 1%	104,768,232	1,101	8.43%
1% up to less than 5%	130,193,605	5	10.47%
5% up to less than 10%	87,313,197	1	7.03%
10% up to less than 20%	240,173,054	1	19.32%
20% up to less than 50%	680,431,667	2	54.75%
	1,242,879,755	1,110	100.00%

a. Share premium/Equity transaction cost

Amounts collected in excess of the par value of the issued share capital during any new issue of shares, net of issue costs, are treated as share premium. This amount is not available for distribution, but can be utilised as stipulated in the Bahrain Commercial Companies Law (BCCL).

Equity transaction cost, represent costs incurred by the Bank that are directly related to raising capital and have been incurred in cash.

b. Statutory reserve

In accordance with the BCCL and the Bank's articles of association, 10% of the parent's share 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. During the year US$ 11,275 thousand (2020: US$ 6,658 thousand) was transferred to statutory reserve.

c. Cumulative changes in fair values

This represents the net unrealised fair value gains and losses relating to the equity of the parent on equity-type instruments at fair value through equity, investment in real estate and land occupied by the Group (classified as property and equipment).

d. Foreign currency translations

The foreign currency translations are used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

The following table summarises the subsidiary wise foreign currency translation reserve as at 31 December:

Subsidiary	***Currency***	***2021 US$ '000***	*2020 US$ '000*
Banque Al Baraka D'Algerie (BAA)	Algerian Dinar	**74,184**	68,594
Al Baraka Bank (Pakistan) Limited	Pakistani Rupees	**37,615**	31,499
Al Baraka Bank Egypt (ABE)	Egyptian Pound	**116,329**	117,960
Al Baraka Turk Participation Bank (ATPB)	Turkish Lira	**475,106**	392,992
Al Baraka Bank Limited (ABL)	South African Rand	**22,674**	19,637
Al Baraka Bank Sudan (ABS)	Sudanese Pound	**128,790**	91,312
Al Baraka Bank Tunis (ABT)	Tunisian Dinar	**33,046**	28,677
Al Baraka Bank Syria (ABBS)	Syrian Pound	**53,267**	50,480
BTI Bank	Moroccan Dirham	**(283)**	(662)
		940,728	800,489

13 EQUITY (continued)

Additional information on shareholding pattern (continued)

e. Other reserves

Other reserves mainly consist of general banking risk reserves maintained by the subsidiaries in accordance with local regulations.

f. Zakah paid on behalf of shareholders

The General Assembly in its annual meeting conducted on 20 March 2021 empowered the Executive Management of Al Baraka Banking Group to pay an amount of US$ 1,015 thousand as Zakah on behalf of the shareholders deducted from the retained earnings for the financial year of 2020. The Group has paid and distributed the full amount to those who are entitled to receive Zakah as per Shari’a boundaries and as approved by the Unified Shari’a Board.

	2021	*2020*
	US$ '000	*US$ '000*
Zakah to be paid on behalf of shareholders for the year	**1,015**	1,656
Uses of Zakah:		
Zakah for the poor and needy	**427**	751
Zakah for new converts to islam	**-**	20
Scholarships	**588**	650
Total uses	**1,015**	1,421
Remaining Zakah to be paid	**-**	235

g. Net movement in non-controlling interest

This mainly includes the effect of changes in capital of subsidiaries, buying (selling) by the non-controlling interest from (to) the Group.

Non-controlling interest

Non-controlling interest constitutes equity in a subsidiary not attributable, directly or indirectly, to a parent. This includes the portion of the Tier 1 Mudaraba Sukuk amounted to US$ 50 million (31 December 2020: US$ 50 million) issued by the Group's subsidiary in February 2018 which is not subscribed by the parent.

14 PERPETUAL TIER 1 CAPITAL

On 31 May 2017, the Bank completed an issuance of US$ 400 million Additional Tier 1 Mudaraba Sukuk in compliance with CBB regulations; listed on Irish Stock Exchange. Profit shall be payable subject to and in accordance with terms and conditions on the outstanding nominal amount of the Sukuk at an expected profit of 7.875% per annum, payable on semi-annual basis. These Sukuks are recognised under equity in the consolidated statement of financial position and the corresponding profit payable on those Sukuk are accounted as appropriation of profits. Expenses relating to the issuance have been included in the retained earnings. As per the terms and conditions, the Sukuk holders will not have a right to claim the profit and such event of non-payment of profit will not be considered as event of default.

15 NET INCOME FROM JOINTLY AND SELF FINANCED CONTRACTS AND INVESTMENTS

	2021	*2020*
	US$ '000	*US$ '000*
Receivables (note 15.1)	**925,161**	924,381
Mudaraba and Musharaka financing (note 15.2)	**245,465**	180,308
Investments (note 15.3)	**337,312**	435,390
Ijarah Muntahia Bittamleek (note 15.4)	**121,803**	104,300
Others	**6,831**	2,226
	1,636,572	1,646,605
Net income from jointly financed contracts and investments	**1,304,017**	1,285,391
Gross income from self financed contracts and investments	**332,555**	361,214
	1,636,572	1,646,605
Gross income from self financed contracts and investments	**332,555**	361,214
Profit paid on short term financing	**(169,607)**	(96,139)
Net income from self financed contracts and investments	**162,948**	265,075

15.1 Receivables

	2021	*2020*
	US$ '000	*US$ '000*
Sales (Murabaha) receivables	**897,431**	889,571
Salam receivables	**15,652**	16,727
Istisna'a receivables	**12,078**	18,083
	925,161	924,381

15.2 Mudaraba and Musharaka financing

	2021	*2020*
	US$ '000	*US$ '000*
Mudaraba financing	**187,290**	121,292
Musharaka financing	**58,175**	59,016
	245,465	180,308

15.3 Investments

	2021	*2020*
	US$ '000	*US$ '000*
Equity-type instruments at fair value through equity	**4,584**	3,560
Debt-type instruments at amortised cost	**297,017**	394,642
Unrealised gain on equity and debt-type instruments at fair value through statement of income	**15,319**	24,705
Gain on sale of equity-type instruments at fair value through equity	**2,400**	1,076
Gain on sale of equity and debt-type instruments at fair value through statement of income	**1,751**	3,664
Gain (loss) income from investment in real estate	**3,079**	(609)
Income from associates	**9,896**	5,049
Gain on sale of investment in real estate	**3,266**	3,303
	337,312	435,390

15 NET INCOME FROM JOINTLY AND SELF FINANCED CONTRACTS AND INVESTMENTS (continued)

15.4 Ijarah Muntahia Bittamleek

	2021	2020
	US$ '000	*US$ '000*
Income from Ijarah Muntahia Bittamleek	**255,152**	316,051
Depreciation on Ijarah Muntahia Bittamleek	**(133,349)**	(211,751)
	121,803	104,300

16 GROUP'S SHARE AS A MUDARIB

Group's share as a Mudarib is determined at the level of each subsidiary and is based on the terms and conditions of the related agreements.

17 OTHER FEES AND COMMISSION INCOME

	2021	2020
	US$ '000	*US$ '000*
Banking fees and commissions	**124,754**	104,569
Letters of credit	**24,107**	31,181
Guarantees	**24,701**	24,793
Acceptances	**7,037**	5,445
	180,599	165,988

18 OTHER OPERATING INCOME

	2021	2020
	US$ '000	*US$ '000*
Foreign exchange gain*	**102,294**	122,593
Gain on sale of property and equipment	**19,114**	32,470
	121,408	155,063

*An amount of US$ 25 million (2020: US$ 37 million) is related to foreign currency revaluation gain from subsidiaries.

19 PROFIT PAID ON LONG TERM FINANCING

	2021	2020
	US$ '000	*US$ '000*
Murabaha financing	**986**	4,255
Subordinated financing obtained by a subsidiary	**30,387**	28,353
Wakala	**1,658**	1,791
	33,031	34,399

20 DEPRECIATION AND AMORTISATION

	2021	2020
	US$ '000	*US$ '000*
Property and equipment depreciation (note 8)	**45,090**	30,815
Intangible assets amortisation (note 9 (a))	**13,675**	8,776
	58,765	39,591

21 OTHER OPERATING EXPENSES

	2021	*2020*
	US$ '000	*US$ '000*
General and administration expenses	**124,345**	133,458
Professional and business expenses	**26,570**	29,145
Premises related expenses	**35,671**	49,502
	186,586	212,105

22 NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT

2021	Cash and balances with banks US$ '000 (note 3)	Sales (Murabaha) receivables US$ '000 (note 4.1)	Ijarah receivables US$ '000 (note 4.2)	Salam receivables US$ '000 (note 4.3)	Istisna'a receivables US$ '000 (note 4.4)	Mudaraba financing US$ '000 (note 5.1)	Musharaka financing US$ '000 (note 5.2)	Investments US$ '000 (note 6.2 & 6.3)	Ijarah Muntahia Bittamleek US$ '000 (note 7)	Other assets US$ '000 (note 9)	Other liabilities US$ '000 (note 11)	Total US$ '000
Allowance at 31 December	**3,737**	**676,910**	**51,975**	**15,186**	**11,164**	**14,618**	**21,788**	**15,675**	**23,850**	**25,051**	**86,516**	**946,470**
Charged during the year	**(17)**	**302,660**	**8,729**	**5,769**	**10,729**	**(68)**	**906**	**2,448**	**(9,763)**	**3,457**	**9,673**	**334,523**
Written back / recovered during the year	**-**	**(63,962)**	**(11,450)**	**(885)**	**(2,036)**	**-**	**(553)**	**(2,284)**	**-**	**(747)**	**716**	**(81,201)**
	(17)	**238,698**	**(2,721)**	**4,884**	**8,693**	**(68)**	**353**	**164**	**(9,763)**	**2,710**	**10,389**	**253,322**
	3,720	**915,608**	**49,254**	**20,070**	**19,857**	**14,550**	**22,141**	**15,839**	**14,087**	**27,761**	**96,905**	**1,199,792**
Written off during the year	**-**	**(41,282)**	**(23)**	**-**	**-**	**(11,579)**	**-**	**-**	**-**	**-**	**-**	**(52,884)**
Amount appropriated from investment risk reserve (note 12.2)	**-**	**(1,088)**	**(32)**	**-**	**(1,470)**	**-**	**(1,001)**	**(621)**	**53**	**-**	**-**	**(4,159)**
Foreign exchange translations/others - net	**4**	**(75,192)**	**(1,210)**	**(1,158)**	**(924)**	**14,760**	**(4,542)**	**(317)**	**(1,152)**	**(381)**	**(11,134)**	**(81,246)**
Allowance at 31 December	**3,724**	**798,046**	**47,989**	**18,912**	**17,463**	**17,731**	**16,598**	**14,901**	**12,988**	**27,380**	**85,771**	**1,061,503**

During the year, an impairment loss of US$ 391 thousand (2020: US$ 4,106 thousand) was charged against investments.

An amount of US$ 7,333 thousand (2020: US$ 7,419 thousand) is related to provision of equity type instruments at fair value through equity.

2020	*Cash and balances with banks US$ '000 (note 3)*	*Sales (Murabaha) receivables US$ '000 (note 4.1)*	*Ijarah receivables US$ '000 (note 4.2)*	*Salam receivables US$ '000 (note 4.3)*	*Istisna'a receivables US$ '000 (note 4.4)*	*Mudaraba financing US$ '000 (note 5.1)*	*Musharaka financing US$ '000 (note 5.2)*	*Investments US$ '000 (note 6.2 & 6.3)*	*Ijarah Muntahia Bittamleek US$ '000 (note 7)*	*Other assets US$ '000 (note 9)*	*Other liabilities US$ '000 (note 11)*	*Total US$ '000*
Allowance at 31 December	3,685	519,229	34,452	12,441	4,960	6,831	12,794	14,610	17,787	23,181	23,137	673,107
Charged during the year	52	228,572	22,939	4,547	4,787	7,015	10,346	1,569	8,098	2,399	57,126	347,450
Written back/recovered during the year	-	(52,658)	(3,886)	(985)	(5)	-	(482)	(701)	-	(12)	(2,706)	(61,435)
	52	175,914	19,053	3,562	4,782	7,015	9,864	868	8,098	2,387	54,420	286,015
	3,737	695,143	53,505	16,003	9,742	13,846	22,658	15,478	25,885	25,568	77,557	959,122
Written off during the year	-	(13,185)	-	-	-	-	-	-	-	-	-	(13,185)
Amount appropriated from investment risk reserve (note Attributable to investment in real estate)	-	17,400	645	-	1,635	-	341	180	-	-	-	20,201
Foreign exchange translations/others - net	-	(22,448)	(2,175)	(817)	(213)	772	(1,211)	17	(2,035)	(517)	8,959	(19,668)
Allowance at 31 December	3,737	676,910	51,975	15,186	11,164	14,618	21,788	15,675	23,850	25,051	86,516	946,470

22 NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT (continued)

The provisions relate to the following geographical areas:

2021	***Cash and balances with banks US$ '000 (note 3)***	***Sales (Murabaha) receivables US$ '000 (note 4.1)***	***Ijarah receivables US$ '000 (note 4.2)***	***Salam receivables US$ '000 (note 4.3)***	***Istisna'a receivables US$ '000 (note 4.4)***	***Mudaraba financing US$ '000 (note 5.1)***	***Musharaka financing US$ '000 (note 5.2)***	***Investments US$ '000 (note 6.2 & 6.3)***	***Ijarah Muntahia Bittamleek US$ '000 (note 7)***	***Other assets US$ '000 (note 9)***	***Other liabilities US$ '000 (note 11)***	***Total US$ '000***
Middle East	**3,715**	**412,915**	**10,936**	**-**	**537**	**17,731**	**445**	**11,142**	**53**	**22,186**	**76,393**	**556,053**
North Africa	**9**	**51,426**	**34,720**	**7,394**	**918**	**-**	**1,230**	**1,782**	**12,607**	**2,777**	**2,993**	**115,856**
Europe	**-**	**312,819**	**-**	**-**	**-**	**-**	**4,037**	**12**	**320**	**1,545**	**1,839**	**320,572**
Others	**-**	**20,886**	**2,333**	**11,518**	**16,008**	**-**	**10,886**	**1,965**	**8**	**872**	**4,546**	**69,022**
Total	**3,724**	**798,046**	**47,989**	**18,912**	**17,463**	**17,731**	**16,598**	**14,901**	**12,988**	**27,380**	**85,771**	**1,061,503**
2020												
Middle East	3,677	340,437	11,738	-	2,007	14,618	1,439	10,872	-	21,365	78,393	484,546
North Africa	60	30,708	37,555	6,710	977	-	1,210	1,510	23,112	1,847	3,215	106,904
Europe	-	280,487	-	-	-	-	8,431	8	711	756	4,725	295,118
Others	-	25,278	2,682	8,476	8,180	-	10,708	3,285	27	1,083	183	59,902
Total	3,737	676,910	51,975	15,186	11,164	14,618	21,788	15,675	23,850	25,051	86,516	946,470

The fair value of collateral the Group holds relating to non-performing facilities as at 31 December 2021 amounts to US$ 488 million (2020: US$ 588.7 million). The collateral consists of cash margin, securities and properties. The utilisation of the collaterals will be on customer by customer basis and will be limited to the customer's total exposure.

23 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share amounts are calculated by dividing net income for the year attributable to equity holders of the parent by the weighted average number of shares outstanding during the year as follows:

	2021	*2020*
Net income attributable to the equity shareholders of the parent for the year - *US$ '000*	**112,750**	66,580
Profit distributed on perpetual tier 1 capital - *US$ '000*	**(31,500)**	(31,500)
	81,250	35,080
Number of shares outstanding at the beginning of the year (in thousands)	**1,242,879**	1,242,879
Treasury shares effect (in thousands)	**(32,350)**	(32,502)
Weighted average number of shares outstanding at the end of the year (in thousands)	**1,210,529**	1,210,377
Earnings per share - US cents	**6.71**	2.90

24 CASH AND CASH EQUIVALENTS

	2021 ***US$ '000***	*2020* *US$ '000*
Balances with central banks excluding mandatory reserve	**1,574,344**	1,440,939
Balances with other banks	**646,835**	497,408
Cash and cash in transit	**708,578**	839,830
	2,929,757	2,778,177

25 RELATED PARTY 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 Group and Shari'a supervisory board members.

The income and expenses in respect of related parties were as follows:

	Associated companies US$ '000	***Major shareholders US$ '000***	***Directors and key management personnel US$ '000***	***Other related parties US$ '000***	***Total 2021 US$ '000***	*Total 2020 US$ '000*
Net income from jointly financed contracts and investments	**2,011**	**(33)**	**116**	**-**	**2,094**	2,941
Return on equity of investment accountholders	**199**	**1,816**	**441**	**-**	**2,456**	3,710
Other fees and commission income	**190**	**-**	**-**	**41**	**231**	444

Compensation of key management personnel of the Bank, included in consolidated statement of income, is as follows:

	2021 US$ '000	*2020 US$ '000*
Short term benefits	**6,378**	7,415
Long term benefits	**698**	927

Short term benefits includes basic salaries, bonuses, allowances and other benefits paid during the year and long term benefits includes indemnity, social insurance benefits and investment scheme.

Director's remuneration accrued for the year ended 31 December 2021 amounted to US$ 1.5 million (2020: US$ 1.5 million).

25 RELATED PARTY TRANSACTIONS (continued)

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

	Associated companies US$ '000	***Major shareholders US$ '000***	***Directors and key management personnel US$ '000***	***Other related parties US$ '000***	***Total 2021 US$ '000***	*Total 2020 US$ '000*
Assets:						
Receivables	**196**	**-**	**913**	**-**	**1,109**	6,040
Mudaraba and Musharaka financing	**-**	**-**	**1,433**	**-**	**1,433**	1,717
Investments	**46,726**	**-**	**-**	**-**	**46,726**	16,808
Other assets	**42**	**-**	**233**	**-**	**275**	573
Liabilities:						
Customer current and other accounts	**6,187**	**178**	**1,323**	**5**	**7,693**	13,052
Due to banks	**13**	**10**	**-**	**-**	**23**	579
Other liabilities	**2**	**4**	**1**	**45**	**52**	49
Equity of investment accountholders	**21,554**	**1,086**	**14,469**	**21**	**37,130**	28,954
Off-balance sheet equity of investment accountholders	**18,817**	**8,548**	**1,901**	**-**	**29,266**	24,779

All related party exposures are performing and are free of any specific provision for credit losses.

25 RELATED PARTY TRANSACTIONS (continued)

Details of Directors' and Executive Management's direct and indirect interests in the Bank's shares as at the end of the year were:

			2021	***Transaction***
Name of directors	***Position***	***Nationality***	***Number of shares***	***Number of shares***
Abdulla Saleh Kamel	**Chairman**	**Saudi**	**338,598**	**-**
Abdul Elah Sabbahi	**Board Member**	**Saudi**	**225,899**	**-**
Fahad AlRajhi (indirect)	**Board Member**	**Saudi**	**10,815**	**-**

			2020	*Transaction*
Name of directors	*Position*	*Nationality*	*Number of shares*	*Number of shares*
Abdulla Saleh Kamel	Chairman - elected on June 2020	Saudi	338,598	-
AbdulElah Sabbahi	Board Member	Saudi	225,899	-
Fahad AlRajhi (indirect)	Board Member	Saudi	10,815	-

26 COMMITMENTS AND CONTINGENCIES

	2021	2020
	US$ '000	US$ '000
Letters of credit	**877,971**	645,083
Guarantees	**1,587,388**	1,832,887
Acceptances	**130,561**	104,947
Commitments	**1,067,056**	890,708
Sharia'a compliant promise contracts	**516,793**	869,261
	4,179,769	4,342,886

27 SEGMENTAL ANALYSIS

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 the Group's management and the Board of Directors.

For financial reporting purposes, the Group is divided into the following geographic segments:

Middle East
North Africa
Europe
Others

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.

No business segment is presented as that is not applicable to the Group.

Segment assets, liabilities and equity of investment accountholders were as follows:

	2021			2020		
	Assets	**Liabilities**	**IAH**	Assets	Liabilities	IAH
	US$ '000	**US$ '000**	**US$ '000**	US$ '000	US$ '000	US$ '000
Segment						
Middle East	**15,327,597**	**3,893,707**	**10,041,898**	13,891,840	3,430,814	9,130,834
North Africa	**2,734,389**	**1,498,991**	**943,683**	2,631,510	1,446,142	899,172
Europe	**8,051,980**	**4,428,389**	**3,400,171**	9,256,366	4,965,210	3,870,198
Others	**2,068,211**	**703,556**	**1,213,655**	2,470,283	955,250	1,329,985
	28,182,177	**10,524,643**	**15,599,407**	28,249,999	10,797,416	15,230,189

Segment operating income, net operating income and net income were as follows:

	2021			2020		
	Total operating income	**Net operating income**	**Net income**	Total operating income	Net operating income	Net income
	US$ '000	**US$ '000**	**US$ '000**	US$ '000	US$ '000	US$ '000
Segment						
Middle East	**567,621**	**324,661**	**140,727**	557,179	304,659	77,812
North Africa	**117,624**	**51,953**	**30,365**	126,688	62,264	18,339
Europe	**258,940**	**97,744**	**3,232**	325,800	152,825	36,990
Others	**97,277**	**37,718**	**15,357**	130,082	59,682	32,748
	1,041,462	**512,076**	**189,681**	1,139,749	579,430	165,889

28 RISK MANAGEMENT

Risk management is an integral part of the Group's decision-making process. The management risk committee and executive committees guide and assist with overall management of the Group's balance sheet risks. The Group manages exposures by setting limits approved by the Board of Directors. These risks and the processes to mitigate these risks have not significantly altered from the previous year.

The most important types of risk are liquidity risk, credit risk, concentration risk, market risk and other operational risk. Market risk includes profit rate risk, equity price risk and foreign exchange risk.

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 regular basis. Each of the Group's subsidiaries has a documented and implemented domestic and foreign currency liquidity policy appropriate to the nature and complexity of its business. The policy addresses the subsidiaries' goal of protecting financial strength even for stressful events.

The table next page summarises the maturity profile of the Group’s assets and liabilities based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's retention history of its investment account holders and the availability of bank lines.

28 RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

The maturity profile at 31 December 2021 was as follows:

	Up to 1 month US$ '000	*1 to 3 months US$ '000*	*3 to 6 months US$ '000*	*6 months to 1 year US$ '000*	*1 to 3 years US$ '000*	*3 to 5 years US$ '000*	*5 to 10 years US$ '000*	*10 to 20 years US$ '000*	*20 years and above US$ '000*	*Undated US$ '000*	*Total US$ '000*
Assets											
Cash and balances with banks	3,695,001	13,908	7,406	-	410,676	8,849	-	-	-	1,788,038	5,923,878
Receivables	1,336,808	1,323,233	1,430,250	1,553,715	2,525,074	2,100,390	536,841	176,496	13,265	-	10,996,072
Mudaraba and Musharaka financing	2,527,772	18,392	9,846	52,820	421,261	370,583	150,233	72,408	-	-	3,623,315
Investments	219,593	360,877	93,529	329,029	1,656,410	1,153,266	357,223	17,387	1,000	284,335	4,472,649
Ijarah Muntahia Bittamleek	31,400	32,073	84,693	119,967	406,966	318,549	497,678	472,566	54,908	-	2,018,800
Property and equipment	-	-	-	-	-	-	-	-	-	539,960	539,960
Other assets	162,762	41,334	55,939	75,568	61,635	20,079	-	1,631	-	188,555	607,503
Total assets	7,973,336	1,789,817	1,681,663	2,131,099	5,482,022	3,971,716	1,541,975	740,488	69,173	2,800,888	28,182,177
Liabilities											
Customer current and other accounts	7,728,895	-	-	-	-	-	-	-	-	-	7,728,895
Due to banks	729,831	259,438	112,113	45,973	130,063	244	7,631	18,500	-	-	1,303,793
Long term financing	21,360	5,254	750	9,620	7,460	61,827	180,562	-	-	-	286,833
Other liabilities	421,195	126,327	94,139	119,357	33,929	175,900	14,436	21,014	-	198,825	1,205,122
Total liabilities	8,901,281	391,019	207,002	174,950	171,452	237,971	202,629	39,514	-	198,825	10,524,643
Equity of investment accountholders	5,343,801	1,704,038	878,758	1,434,923	3,195,381	851,720	1,663,761	527,025	-	-	15,599,407
Total liabilities and equity of investment accountholders	14,245,082	2,095,057	1,085,760	1,609,873	3,366,833	1,089,691	1,866,390	566,539	-	198,825	26,124,050
Net liquidity gap	(6,271,746)	(305,240)	595,903	521,226	2,115,189	2,882,025	(324,415)	173,949	69,173	2,602,063	2,058,127
Cumulative net liquidity gap	(6,271,746)	(6,576,986)	(5,981,083)	(5,459,857)	(3,344,668)	(462,643)	(787,058)	(613,109)	(543,936)	2,058,127	
Off-balance sheet equity of investment accountholders	223,416	88,282	71,933	447,211	103,163	68,083	117,877	7,691	47	-	1,127,703

28 RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

The maturity profile at 31 December 2020 was as follows:

	Up to 1 month US$ '000	*1 to 3 months US$ '000*	*3 to 6 months US$ '000*	*6 months to 1 year US$ '000*	*1 to 3 years US$ '000*	*3 to 5 years US$ '000*	*5 to 10 years US$ '000*	*10 to 20 years US$ '000*	*20 years and above US$ '000*	*Undated US$ '000*	*Total US$ '000*
Assets											
Cash and balances with banks	4,002,827	11,625	8,709	-	451,964	8,770	-	-	-	877,549	5,361,444
Receivables	1,739,016	1,458,536	1,467,365	1,743,098	2,514,567	2,282,171	650,300	83,788	7,152	-	11,945,993
Mudaraba and Musharaka financing	1,596,182	8,173	81,358	20,771	577,180	373,274	68,310	128,220	1,190	-	2,854,658
Investments	369,294	491,021	615,995	582,046	1,394,276	878,468	538,437	930	2,166	224,556	5,097,189
Ijarah Muntahia Bittamleek	35,586	39,018	79,764	116,590	313,724	288,946	440,493	405,320	28,186	-	1,747,627
Property and equipment	-	-	-	-	-	-	-	-	-	478,572	478,572
Other assets	125,737	30,988	101,532	52,423	196,464	39,907	8,841	1,686	-	206,938	764,516
Total assets	7,868,642	2,039,361	2,354,723	2,514,928	5,448,175	3,871,536	1,706,381	619,944	38,694	1,787,615	28,249,999
Liabilities											
Customer current and other accounts	6,204,996	278,473	224,936	171,399	211,197	159,661	257,682	-	-	-	7,508,344
Due to banks	884,190	391,828	105,265	109,799	136,950	-	-	-	-	-	1,628,032
Long term financing	21,165	15,260	7,081	1,726	10,161	17,977	245,994	-	-	-	319,364
Other liabilities	687,828	95,083	131,838	65,096	22,311	90,328	208	-	-	248,984	1,341,676
Total liabilities	7,798,179	780,644	469,120	348,020	380,619	267,966	503,884	-	-	248,984	10,797,416
Equity of investment accountholders	5,709,229	1,799,658	825,006	1,582,718	2,856,958	860,371	1,504,637	91,612	-	-	15,230,189
Total liabilities and equity of investment accountholders	13,507,408	2,580,302	1,294,126	1,930,738	3,237,577	1,128,337	2,008,521	91,612	-	248,984	26,027,605
Net liquidity gap	(5,638,766)	(540,941)	1,060,597	584,190	2,210,598	2,743,199	(302,140)	528,332	38,694	1,538,631	2,222,394
Cumulative net liquidity gap	(5,638,766)	(6,179,707)	(5,119,110)	(4,534,920)	(2,324,322)	418,877	116,737	645,069	683,763	2,222,394	
Off-balance sheet equity of investment accountholders	79,005	258,075	149,759	681,955	97,501	152,295	116,390	7,695	39,235	-	1,581,910

28 RISK MANAGEMENT (continued)

b) 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 individuals who own the counterparty, by collateral in form of mortgage of the objects financed or other types of tangible security.

Type of credit risk

Financing contracts mainly comprise Sales (Murabaha) receivables, Salam receivables, Istisna'a receivables, Mudaraba financing, Musharaka financing and Ijarah Muntahia Bittamleek.

Sales (Murabaha) receivables

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 instalments 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 all the facilities given to the client.

Salam receivables

Salam is a contract whereby the Group makes an immediate payment to a seller for the future delivery of a commodity. To protect itself from risk associated with the commodity the Group simultaneously enters into Parallel Salam contract whereby it sells the commodity for deferred delivery for immediate payment.

Istisna'a receivables

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.

Mudaraba financing

The Group enters into Mudaraba contracts by investing in funds managed primarily by other banks and financial institutions for a definite period of time.

Musharaka financing

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.

Maximum exposure to credit risk before collateral held or other credit enhancements

	Maximum exposure	
	2021	*2020*
	US$ '000	*US$ '000*
Balances with central banks	**4,572,189**	4,027,943
Balances with other banks	**646,835**	497,408
Receivables	**10,996,072**	11,945,993
Mudaraba and Musharaka financing	**3,623,315**	2,854,658
Investments	**4,472,649**	5,097,189
Other assets	**309,879**	426,712
Total	**24,620,939**	24,849,903
Commitments and contingencies	**4,179,769**	4,342,886
	28,800,708	29,192,789

28 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Credit quality by type of islamic financing contracts

The table below shows the credit quality by type of islamic financing contracts, based on the Group's credit rating system as of:

	31 December 2021			
Type of Islamic Financing Contracts	***Neither past due nor non performing US$ '000***	***Past due but performing US$ '000***	***Non performing islamic financing contracts US$ '000***	***Total US$ '000***
Receivables	**10,444,593**	**626,627**	**807,262**	**11,878,482**
Mudaraba and Musharaka financing	**3,597,795**	**1,702**	**58,147**	**3,657,644**
Other assets	**326,232**	**1,177**	**9,850**	**337,259**
	14,368,620	**629,506**	**875,259**	**15,873,385**

	31 December 2020			
Type of Islamic Financing Contracts	*Neither past due nor non performing US$ '000*	*Past due but performing US$ '000*	*Non performing islamic financing contracts US$ '000*	*Total US$ '000*
Receivables	11,109,733	656,666	934,829	12,701,228
Mudaraba and Musharaka financing	2,845,225	3,678	42,161	2,891,064
Other assets	444,301	1,123	6,339	451,763
	14,399,259	661,467	983,329	16,044,055

Ageing analysis of past due but performing Islamic financing contracts

The following table summarises the ageing of past due but performing islamic financing contracts as of:

	31 December 2021			
Type of Islamic Financing Contracts	***Less than 30 days US$ '000***	***31 to 60 days US$ '000***	***61 to 90 days US$ '000***	***Total US$ '000***
Receivables	**89,393**	**222,988**	**314,246**	**626,627**
Mudaraba and Musharaka financing	**1,307**	**211**	**184**	**1,702**
Other assets	**482**	**404**	**291**	**1,177**
	91,182	**223,603**	**314,721**	**629,506**

	31 December 2020			
Type of Islamic Financing Contracts	*Less than 30 days US$ '000*	*31 to 60 days US$ '000*	*61 to 90 days US$ '000*	*Total US$ '000*
Receivables	149,787	158,996	347,883	656,666
Mudaraba and Musharaka financing	2,570	421	687	3,678
Other assets	391	411	321	1,123
	152,748	159,828	348,891	661,467

28 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Credit risk mitigation
All the Group's subsidiaries, with exposures secured by real estate or other collateral carry out regular and periodic collateral verification and valuation. This collateral verification and valuation is conducted by an independent qualified assessor or Collateral Analyst at the subsidiary. The frequency of such collateral verification is determined as a part of the credit or investment policy and approval process. The Group's subsidiaries allow cars, ships, aircraft, satellites, railcars, and fleets as collateral for a credit and investment product but do not accept perishable assets or any other assets with depreciable life of less than five years. Subsidiaries do not accept any assets as collateral if the assets are susceptible for obsolescence in case they are moved (e.g. furniture). Subsidiaries also ensure that these assets are insured in order to be accepted as collateral.

Third party cheques are accepted as collateral by the Group's subsidiaries. The Group's subsidiaries accept commercial papers as qualifying collateral if they are issued by banks or corporations of good credit standing. Since the maturity tenure of the commercial papers are generally short in nature, they are not accepted as collateral for long–term facilities (i.e. the financing tenure should not exceed the commercial papers maturity tenure). The subsidiaries do not accept vehicles or equipment, if new, as qualifying collateral for more than 80% of its market value. No vehicles or equipment, if used, are accepted as qualifying collateral for more than 50% of its insured value.

Collaterals listed hereunder may attract capital relief from capital adequacy requirements as per the Central Bank of Bahrain's stipulations:

1) Hamish Jiddiyyah (Good faith deposit): Subsidiaries take this type of collateral in the transactions for which non-binding promises to perform is given by the customer. If a customer does not honor his promise to perform, the subsidiary has recourse to the deposit.

2) Third party guarantee: The subsidiary 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, of investment grade rating.

3) Urbon: This is the amount that should be taken from a purchaser or lessee when a contract is established and it is the first line of defense for the subsidiary if the purchaser or lessee breaches the contract.

4) Underlying assets of the lease contract: The underlying asset must be of monetary value and the subsidiary 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 of any kind of encumbrance.

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

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

6) Rated and unrated senior Sukuk issued by first class financial institutions or by GCC sovereigns.

28 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Credit quality

Credit Risk Management at the Group will be based upon the creation and maintenance of a Credit Rating System (CRS) for the non-retail business. All the Group's units are to incorporate into their respective credit policies the CRS as the framework for credit management taking into consideration the methodology requirements of their local central banks, in this respect. The methodology for obligor (issuer) rating will reflect the specifics of the Group's main business and the geographical diversity of its operations. Ratings of countries, governments and financial institutions are carried out in centralised fashion at the Bank in Bahrain whereas rating of corporates is done at the subsidiaries level, unless the exposure to the corporate involves cross-border risk, in which case, that rating will also be at the Bank as part of the credit limit approval.

The CRS at the Bank has also been designed to be comparable to the rating system of major international rating agencies (Moody's, Standard & Poor's, Fitch) in respect of their foreign currency rating of countries, governments and financial institutions.

Accordingly, 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.

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, governments and retail. 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 and other mitigants 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 subsidiaries internally to also rate facilities if they so wish).

28 RISK MANAGEMENT (continued)

c) Concentration risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

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

The distribution of assets, liabilities and equity of investment accountholders items by economic sectors was as follows:

	2021			*2020*		
	Assets US$ '000	***Liabilities US$ '000***	***IAH US$ '000***	*Assets US$ '000*	*Liabilities US$ '000*	*IAH US$ '000*
Manufacturing	**2,956,333**	**200,344**	**354,311**	4,529,603	166,488	403,783
Mining and quarrying	**101,177**	**3,151**	**26,840**	178,966	3,630	29,542
Agriculture	**132,246**	**36,953**	**13,065**	176,243	34,575	15,851
Construction and real estate	**2,562,346**	**22,380**	**19,304**	2,704,963	23,255	20,379
Financial	**5,073,272**	**1,607,138**	**1,901,811**	4,304,550	2,065,887	1,735,509
Trade	**2,006,368**	**280,891**	**229,889**	1,716,019	294,681	214,500
Personal and consumer finance	**3,428,089**	**6,091,288**	**10,217,345**	3,069,122	5,620,301	10,143,401
Government	**8,693,965**	**136,607**	**268,130**	8,634,720	74,731	161,054
Other Sectors	**3,228,381**	**2,145,891**	**2,568,712**	2,935,813	2,513,868	2,506,170
	28,182,177	**10,524,643**	**15,599,407**	28,249,999	10,797,416	15,230,189

d) Market risk

Market risk arises from fluctuations in profit rates, equity prices and foreign exchange rates. Under Market Risk Policies currently implemented by management of the Group, have set certain limits on the level of risk that may be accepted. This is monitored by local management at the subsidiary level.

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 on equity of investment accountholders. The profit distribution to equity of investment accountholders is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

However, the profit-sharing agreements will result in displaced commercial risk when the Group's results do not allow the Group to distribute profits in line with the market rates.

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.

The Group has total equity portfolio of US$ 106,486 thousand (2020: US$ 335,679 thousand) comprising of equity-type instruments at fair value through equity amounting to US$ 87,451 thousand (2020: US$ 107,971 thousand) and equity-type instruments at fair value through statement of income amounting to US$ 19,035 thousand (2020: US$ 227,708 thousand). Variation of 10% increase or decrease in the portfolio value will not have a significant impact on the Group's consolidated net income or owners' equity.

28 RISK MANAGEMENT (continued)

d) Market risk (continued)

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 US dollars:

	2021		
	Operational equivalent Long (Short) US$ '000	***Strategic equivalent Long (Short) US$ '000***	***Total equivalent Long (Short) US$ '000***
Currency			
Turkish Lira	**80,395**	**77,323**	**157,718**
Jordanian Dinar	**(37,935)**	**492,904**	**454,969**
Egyptian Pound	**(105,399)**	**287,765**	**182,366**
Sudanese Pound	**2,176**	**21,625**	**23,801**
Algerian Dinar	**13,155**	**104,291**	**117,446**
Lebanese Pound	**1,858**	**16,923**	**18,781**
Pound Sterling	**(6,845)**	**-**	**(6,845)**
Tunisian Dinar	**(4,196)**	**63,073**	**58,877**
Euro	**151,089**	**-**	**151,089**
South African Rand	**(437)**	**33,975**	**33,538**
Pakistani Rupees	**36,035**	**94,475**	**130,510**
Syrian Pound	**(12,150)**	**11,614**	**(536)**
Moroccan Dirham	**-**	**9,247**	**9,247**
Others	**14,608**	**-**	**14,608**

	2020		
	Operational equivalent Long (Short) US$ '000	*Strategic equivalent Long (Short) US$ '000*	*Total equivalent Long (Short) US$ '000*
Currency			
Turkish Lira	309,231	146,342	455,573
Jordanian Dinar	14,280	458,019	472,299
Egyptian Pound	(1,440)	236,477	235,037
Sudanese Pound	1,254	42,679	43,933
Algerian Dinar	5,387	103,600	108,987
Lebanese Pound	1,292	16,923	18,215
Pound Sterling	(3,859)	-	(3,859)
Tunisia Dinar	(16,853)	55,946	39,093
Euro	(22,812)	-	(22,812)
South African Rand	(717)	35,530	34,813
Pakistani Rupees	(25,462)	94,475	69,013
Syrian Pound	3,423	12,379	15,802
Moroccan Dirham	-	11,606	11,606
Others	70,736	-	70,736

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

Foreign currency risk sensitivity analysis

In order to measure its exposures to currency risk, the Group stress tests its exposures following the standard shocks adopted by Derivatives Policy Group in this respect which calculates the effect on assets and income of the Group as a result of appreciation and depreciation in foreign currencies in relation to the reporting currency of the Group. This is done using various percentages based upon the judgement of the management of the Group.

28 RISK MANAGEMENT (continued)

d) Market risk (continued)

Foreign currency risk sensitivity analysis (continued)

Following is the sensitivity analysis that calculates the effect of a reasonable possible movement of the currency exchange rate against the US Dollar with all other variables held constant on the consolidated statement of income and the consolidated statement of owners' equity.

At 31 December 2021

Currency	***Particular***	***Exposures in US$ '000***	***Maximum expected decrease %***	***Change in net income and owners' equity US$ '000***	***Maximum expected increase %***	***Change in net income and owners' equity US$ '000***
Algerian Dinar	Net income	**21,747**	**-15%**	**(2,837)**	**5%**	**1,145**
	Total owners' equity	**192,392**	**-15%**	**(25,095)**	**5%**	**10,126**
Egyptian Pound	Net income	**59,704**	**-20%**	**(9,951)**	**5%**	**3,142**
	Total owners' equity	**396,734**	**-20%**	**(66,122)**	**5%**	**20,881**
Turkish Lira	Net income	**3,232**	**-20%**	**(539)**	**5%**	**170**
	Total owners' equity	**203,386**	**-20%**	**(33,898)**	**5%**	**10,705**
Sudanese Pound	Net income	**6,808**	**-100%**	**(3,404)**	**5%**	**358**
	Total owners' equity	**28,554**	**-100%**	**(14,277)**	**5%**	**1,503**
S.African Rand	Net income	**2,419**	**-15%**	**(316)**	**5%**	**127**
	Total owners' equity	**52,666**	**-15%**	**(6,869)**	**5%**	**2,772**
Syrian Pound	Net income	**19,608**	**-100%**	**(9,804)**	**5%**	**1,032**
	Total owners' equity	**40,047**	**-100%**	**(20,024)**	**5%**	**2,108**
Pakistani Rupees	Net income	**6,131**	**-10%**	**(557)**	**5%**	**323**
	Total owners' equity	**69,779**	**-10%**	**(6,344)**	**5%**	**3,673**
Tunisian Dinar	Net income	**12,657**	**-10%**	**(1,151)**	**5%**	**666**
	Total owners' equity	**80,451**	**-10%**	**(7,314)**	**5%**	**4,234**
Moroccan Dirham	Net loss	**(4,039)**	**-20%**	**673**	**5%**	**(213)**
	Total owners' equity	**18,872**	**-20%**	**(3,145)**	**5%**	**993**

At 31 December 2020

Currency	*Particular*	*Exposures in US$ '000*	*Maximum expected decrease %*	*Change in net income and owners' equity US$ '000*	*Maximum expected increase %*	*Change in net income and owners' equity US$ '000*
Algerian Dinar	Net income	15,197	-15%	(1,982)	5%	800
	Total owners' equity	191,150	-15%	(24,933)	5%	10,061
Egyptian Pound	Net income	74,062	-20%	(12,344)	5%	3,898
	Total owners' equity	326,924	-20%	(54,487)	5%	17,207
Turkish Lira	Net income	36,990	-20%	(6,165)	5%	1,947
	Total owners' equity	384,930	-20%	(64,155)	5%	20,259
Sudanese Pound	Net income	26,630	-100%	(13,315)	5%	1,402
	Total owners' equity	56,354	-100%	(28,177)	5%	2,966
S.African Rand	Net income	2,334	-15%	(304)	5%	123
	Total owners' equity	55,075	-15%	(7,184)	5%	2,899
Syrian Pound	Net income	22,753	-100%	(11,377)	5%	1,198
	Total owners' equity	53,824	-100%	(26,912)	5%	2,833
Pakistani Rupees	Net loss	3,783	-10%	(344)	5%	199
	Total owners' equity	73,614	-10%	(6,692)	5%	3,874
Tunisian Dinar	Net income	7,758	-10%	(705)	5%	408
	Total owners' equity	71,360	-10%	(6,487)	5%	3,756
Moroccan Dirham	Net loss	(4,616)	-20%	769	5%	(243)
	Total owners' equity	23,686	-20%	(3,948)	5%	1,247

28 RISK MANAGEMENT (continued)

e) Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

Operational Risk Management Framework

The Group guidelines have the following sections: (1) Operational Risk Appetite, (2) Operational Risk Management – Structure and Rules, (3) Risk and Control Assessment, (4) Internal Audit, (5) Operational Risk and Basel II and (6) Operational Risk Capital Requirement.

The Group's Operational Risk Appetite is defined as the level of risk which the Group chooses to accept in its identified risk categories. Operational risk appetite is expressed in terms of both impact (direct loss) and the probability of occurrence.

The Operational Risk framework is subject to periodic internal audit.

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

Infrastructure risks

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

In order to hedge the subsidiaries from the infrastructure risk as outlined above, every subsidiary must take all the necessary measures indicated in the Business Continuity Plan and/or Disaster Recovery Plan (BCP and DRP) to cater for these risks.

Information technology risks

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

Staff risk

The main risks that arises from staff risks are risks due to larceny, fraud, corruption, crime, etc. In order to prevent these risks from occurring, the Group has established Group Human Resources Policies and Code of Conduct which entails constructive ways in dealing with mistakes and frauds. The Group has also established approval control steps in business processes as well as creating separate internal control processes. Further, the Group has established measures of organizational structure in terms of segregation of duties as well as diverse training measures to reduce human errors and frauds, etc.

Business risk

This risk may take on the following forms:

1. Processes without clear definitions, for example, when insufficient time was spent on documenting or updating the already documented processes.
2. Outdated process descriptions in cases where "reality" already strongly differs from the guidelines laid down in the past.
3. The extreme case of a completely missing documentation. To hedge this risk, the Group adopts sound documentation policies of business processes as it is a basic requirement for a well functioning process organization. The process description are up to date and clear; furthermore, it is accessible to all employees.

Capital Adequacy Ratio (CAR)

The Group capital adequacy ratio as of 31 December 2021 is 15.45% (2020: 15.97%) and the minimum requirement as per Central Bank of Bahrain is 12.5%.

28 RISK MANAGEMENT (continued)

f) Corporate governance

Board of Directors

The Board of Directors is responsible for approving the Group's overall business strategy, monitoring its operations and taking critical business decisions. In line with international leading practices, the Board has instituted corporate governance measures to ensure that the interests of the shareholders are protected, including the appointment to the Board of four independent non-executive directors as defined in the Rule Book of the CBB.

The Bank is administered by a Board of Directors consisting of not less than five and not more than fifteen members. However, subject to the provisions of the law, the shareholders at an Ordinary General Meeting may determine that the number of directors shall exceed fifteen in certain circumstances. Members of the Board of Directors hold office for a three-year renewable term, although the term of office may be extended at the request of the Board for a period not exceeding six months by resolution of the MOICT.

There are currently thirteen Directors on the Board, who have varied backgrounds and experience and who individually and collectively exercise independent and objective judgment. Other than the President and Chief Executive, all Directors are non-executive. The posts of Chairman and President and Chief Executive are held by different Directors and each has separate, clearly defined responsibilities.

The Board of Directors meets regularly (usually four times a year) and has a formal schedule of matters reserved to it, considering key aspects of the Group's affairs referred to it for decision. The Board reviews the Group's strategy and financial plans, all proposed material changes to the Group's policies, structure and organisation, reports provided to it on the operations of the Group (with emphasis on organisational development, risk management and information technology development) and the performance of executive management. The Board and its committees are supplied with full and timely information to enable them to discharge their responsibilities. All Directors have access to the advice and services of the secretary, who is responsible for ensuring that the Board procedures and applicable rules and regulations are observed.

The Board of Directors has overall responsibility for the Group's system of internal control and its effectiveness. There are established and ongoing procedures in place for identifying, evaluating and managing significant risks faced by the Group, which are regularly reviewed by the Board. The Group's system of internal control provides for a documented and auditable trail of accountability and applies across its operations, is designed to ensure effective and efficient operation and compliance with all applicable laws and regulations, and seeks to manage risk with a view to avoiding material errors, losses and fraud.

29 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the value representing the estimate of the amount of cash or cash equivalent that would be received for an asset sold or the amount of cash or cash equivalent paid for a liability extinguished or transferred in an orderly transaction between a willing buyer and a willing seller at the measurement date.

Quoted equity type instruments are investments which are fair valued using quoted prices in active markets for identical instruments and unquoted equity type instruments are investments that are fair valued using directly or indirectly observable inputs.

The Group's investments in sukuk held at amortised cost have fair values amounting to US$ 4,310 million (2020: US$ 4,671 million).

Also included under investments are unquoted equity-type instruments at fair value through equity amounting to US$ 34,950 thousand (2020: US$ 57,197 thousand) which are carried at net asset value or cost due to lack of other reliable methods for arriving at a reliable fair value for these investments.

The fair values of other on-balance sheet financial instruments are not significantly different from the carrying values included in the consolidated financial statements.

30 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 2019. The minimum NSFR ratio as per CBB is 100%. The Group's consolidated NSFR ratio as of 31 December 2021 is 251%.

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

	Unweighted Values (i.e. before applying relevant factors)				
Item	*No specified maturity US$ '000*	*Less than 6 months US$ '000*	*More than 6 months and less than one year US$ '000*	*Over one year US$ '000*	*Total weighted value US$ '000*
Available Stable Funding (ASF):					
Capital:					
Regulatory capital	1,879,017	-	-	252,172	2,131,189
Other capital instruments	-	-	-	-	-
Retail deposits and deposits from small business customers:					
Stable deposits	-	3,038,386	181,261	77,332	3,135,997
Less: stable deposits	-	6,480,400	1,780,852	843,324	8,278,451
Wholesale funding:					
Operational deposits	-	128,179	9,240	-	68,710
Other wholesale funding	-	3,898,887	360,800	338,164	1,933,428
Other liabilities:					
NSFR Shari'a-compliant hedging contract liabilities	-	-	-	-	-
All other liabilities not included in the above categories	-	470,122	32,734	78,058	78,058
Total ASF	1,879,017	14,015,974	2,364,887	1,589,050	15,625,833
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	4,390,764	2,668,718	-	-	42,524
Deposits held at other financial institutions for operational purposes	-	62,151	-	-	31,075
Performing financing and Sukuk/securities:					
Performing financing to financial institutions secured by Level 1 HQLA	-	24,624	1,747	50,271	53,607
Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	779,834	50,604	249,988	392,265

30 NSFR REQUIREMENTS AND CALCULATION METHODOLOGY (continued)

Item	*Unweighted Values (i.e. before applying relevant factors)* No specified maturity US$ '000	Less than 6 months US$ '000	More than 6 months and less than one year US$ '000	Over one year US$ '000	Total weighted value US$ '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:					
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	2,954,494	2,073,771	-	2,514,132
Performing residential mortgages, of which:					
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	1,751,249	1,138,312
Securities/Sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	52,992	6,137	47,455	69,901
Other assets:					
Physical traded commodities, including gold	5	-	-	-	4
Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs	-	-	-	-	-
NSFR Shari'a-compliant hedging assets	-	-	-	-	-
NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	-	-	-	-
All other assets not included in the above categories	1,661,018	37,614	7,564	106,854	1,785,571
OBS items	3,735,779	-	-	-	186,789
Total RSF	9,787,566	6,580,427	2,139,823	2,205,817	6,214,180
NSFR (%)	19%	213%	111%	72%	251%

31 EARNINGS PROHIITED BY SHARI'A

Earnings realised during the year from transactions that were not permitted by Shari’a amounted to US$ 19 million (2020: US$ 10 million). This amount has been taken to charity.

32 COMPARATIVE FIGURES

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

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

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

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

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