BAHRAIN ISLAMIC BANK B.S.C.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

Commercial registration	:	9900 (registered with Central Bank of Bahrain as a retail Islamic bank)
Board of directors	:	Dr. Esam Abdulla Fakhro, *Chairman* Khalid Yousif Abdul Rahman, *Vice Chairman* Jean Christophe Durand, *Vice Chairman* Mohamed Abdulla Nooruddin Khalid Abdulaziz Al Jassim Marwan Khaled Tabbara Mohammed Abdulla Al Jalahma Yaser Abduljalil Al Sharifi Dana Abdulla Buheji Isa Hasan Maseeh
Office	:	Salam Tower, Diplomatic Area PO Box 5240 Manama, Kingdom of Bahrain Telephone 17515151, Telefax 17535808
Auditors	:	KPMG Fakhro

CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

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BisB 2020 Board of Directors' Report

In the name of Allah, the Most Beneficent. Prayers and Peace be upon the last Apostle and Messenger, His Comrades and Relatives.

On behalf of the Board of Directors, I am privileged to present the annual report and consolidated financial statements of Bahrain Islamic Bank for the year 2020.

The COVID-19 pandemic created unprecedented challenges in 2020. The Bank rose to these challenges, with our focus on simplifying customer matters and digital banking, which has proved to be essential in the pandemic context. Moreover, the Bank was able to demonstrate a resilient financial position. The Bank managed to capitalize on the low rate environment and improve its deposits composition further towards CASA accounts reducing its cost of funding by 17%.

The Bank also took immediate steps to begin benefiting from the acquisition of additional 49.75% shares in BisB by the National Bank of Bahrain ("NBB"). In particular, the Bank sold certain non-yielding assets to NBB and accelerated the write-off of impaired assets, which allowed the Bank's financing portfolio to become significantly healthier and resulted in a lower NPF of 7% as of 31 December 2020 compared to 16% as of 31 December 2019. This step will allow the Bank to demonstrate the true quality of its financial performance.

The Bank's risk management, governance and compliance policies and practices remain prudent and are constantly under review and enhancement, in order to keep up with regulations and equally important increased external risks.

The COVID-19 pandemic was a stark reminder that the success of the Bank is directly linked to the health, safety and economic vitality of the society. Accordingly, the Bank increased its focus on the Environmental, Social and Governance ("ESG") risks and opportunities, including specialized ESG and sustainability training for the Board.

On behalf of the shareholders, the Board of Directors convey their sincere gratitude and appreciation to His Majesty King Hamad bin Isa Al Khalifa – the King of Bahrain; to His Royal Highness Prince Salman bin Hamad Al Khalifa – the Crown Prince, Prime Minster for their wise leadership and continuous support for Islamic Banking sector.

The Directors also express their appreciation to all Government ministries and authorities – in particular to the Central Bank of Bahrain and the Ministry of Industry, Commerce & Tourism for their invaluable guidance, kind consideration and constant support, particularly in the context of this unprecedented year. Moreover, The Directors would like to take this opportunity to express their gratefulness for the guidance and counsel of the Bank's Shari'a Supervisory Board.

Ultimately, as with every year but even more so this year, we could not have demonstrated such resilience without the outstanding dedication of BisB's staff and management, the loyalty of our customers, and the reliability of our business partners. BisB is grateful and honored that these relationships grew in strength during such extraordinary circumstances. We look forward to the new possibilities these strengthened relationships can offer.

Dr. Esam Abdulla Fakhro
Chairman of the Board

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بنك البحرين الإسلامي BisB

11 Feb 2021

Sharia'a Supervisory Board report

For the year ended on 31/12/2020

In The Name of Allah, most Gracious,
Most Merciful Peace and Blessings Be Upon His Messenger.

To the shareholders of Bahrain Islamic Bank B.S.C.

Assalam Alaykum Wa Rahmatu Allah Wa Barakatoh.

The Sharia'a Board hereby present the following report on its activities in supervising the Bank's finances and investments from a Sharia perspective for the financial year ending on 31st December 2020, in fulfillment to the mandate conferred upon it by BisB's Articles of Association:

First: Supervision and Revision of the Bank's Business

In coordination with the Sharia Coordination and implementation, the Sharia Supervisory Board has monitored the implementation on the Bank's Finances and its applicable fees and the relevant policies and procedures, in addition to advising and providing fatwas in regards to the finance agreements up to 31st December 2020 to ensure the Bank's adherence to the provisions and principles of Islamic Sharia'a.
The Sharia'a Supervisory Board believes that ensuring the conformity of Bank's activities and investments with the provisions of Islamic Sharia'a is the sole responsibility of the Management while the Sharia'a Supervisory Board is only responsible for expressing an independent opinion and preparing a report to you.

Second: Sharia'a Audit of the Bank's Business

1) Sharia'a Internal Audit

We planned with the Sharia'a Internal Audit department to carry out monitoring functions by obtaining all the information and clarifications that were deemed necessary to confirm that the Bank did not violate the principles and provisions of Islamic Sharia'a and Fatwas and decisions of the Sharia'a Board.

Shaikh Dr. A.Latif Mahmood Al Mahmood
Chairman

Shaikh Mohammed Jaffar Al Juffairi
Vice Chairman

Shaikh Adnan Abdullah Al Qattan
Member

Shaikh Dr. Nedham M. Saleh Yacoubi
Member

Shaikh Dr. Essam Khalaf Al Onazi
Member

Our supervision constituted of inspection, documenting of policies followed by the Bank on the basis of examining each kind of operation either directly or indirectly by the internal Sharia'a Department in conformity with the Plan and methodology approved by the Sharia'a Board.

The Sharia'a Internal Audit department performed its mission of auditing the transactions executed by the Bank and submitted its periodic reports to the Sharia'a Supervisory Board, which confirmed the Bank's adherence in its dealings and investments with the Sharia'a Board's fatwas and decisions.

The 22 reports submitted by Internal Sharia Audit Department to the Sharia'a Supervisory Board included results of auditing the files, contracts, executed deals in fulfillment to the Sharia'a Board annual approved audit plan. The Sharia'a Board obtained the requested information and explanations from the departments it deemed necessary to confirm that the Bank did not violate the Sharia principles and Fatwas and decisions of the Sharia'a Board.

2) Independent External Shari'a Compliance Audit

The Sharia'a Supervisory Board reviewed the audit report provided by the Independent External Shari'a Auditor on the Bank's activities and the progress of work in the Sharia'a Departments, which demonstrated that the Bank's operations, transactions and services have been implemented based on appropriate procedures that confirms its compliance with the Islamic Shari'a rules, principles and provisions, and that they have went through the Bank's necessary administrative channels from Senior Management, Internal Audit and Shari'a Supervisory Board.

Third: Sharia Governance

The Sharia'a Supervisory Board reviewed the Bank's Management report on Sharia'a Compliance and Governance, which shows the proper functioning of the supervision procedures related to compliance structures and Sharia governance in the Bank, and the Management's assertion on the effectiveness of the mechanism and operation of supervision procedures.

The Sharia'a Supervisory Board affirms that it has fulfilled all the requirements of Sharia Governance issued by the Central Bank of Bahrain with the Sharia

Shaikh Dr. A.Latif Mahmood Al Mahmood Chairman	Shaikh Mohammed Jaffar Al Juffairi Vice Chairman	Shaikh Adnan Abdullah Al Qattan Member
Shaikh Dr. Nedham M. Saleh Yacoubi Member	Shaikh Dr. Essam Khalaf Al Onazi Member	

Coordination and Implementation Department and the Internal Sharia Audit Department.

Forth: Sharia Supervisory Board Operations

The Sharia Board and its Committees held (28) meetings during the year and issued (167) decisions and fatwas, and approved (57) contracts.

Fifth: Financial Statements and Zakat Calculation Methods

The Sharia Board has reviewed the financial Statements for the year ended on 31st December 2020, the income statement, the attached notes and the Zakat calculation methods.

Based on the above, the Sharia'a Supervisory Board decides that:

1. All the Financial Statements inspected by the Sharia'a Board conform to what has been approved by the Board, and to the standards issued by the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI).
2. Contracts, and transactions conducted by the Bank throughout were in accordance with the standard contracts pre-approved by the Sharia'a Supervisory Board.
3. The distribution of profit and allocation of losses on investment accounts was in line with the basis and principles approved by the Sharia'a Supervisory Board and in accordance to Islamic Sharia.
4. Any gains resulted from sources or means prohibited by the provisions and principles of Islamic Sharia'a, have been directed to the Charity and Donations Fund.
5. Zakah was calculated according to the provisions and principles of Islamic Sharia'a, by the net invested assets method. And the shareholders should pay their portion of Zakah on their shares as stated in the financial report.
6. The Bank was committed to the provisions and principles of Sharia'a as per Sharia'a standards issued by the (AAOIFI).

Shaikh Dr. A.Latif Mahmood Al Mahmood
Chairman

Shaikh Mohammed Jaffar Al Juffairi
Vice Chairman

Shaikh Adnan Abdullah Al Qattan
Member

Shaikh Dr. Nedham M. Saleh Yacoubi
Member

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Sixth: National Bank of Bahrain's Acquisition of the Majority of BisB's Shares

The Sharia'a Supervisory Board has not found any Sharia'a impediment to the National Bank of Bahrain's acquisition of BisB's shares; accordingly, the Sharia'a Supervisory Board established the Sharia'a terms and regulations and the administrative conditions to regulate the said acquisition and to safeguard the independence of both banks as two separate entities.

The Sharia'a Supervisory Board had some administrative observations on the implementation of the acquisition, which were communicated in writing to the Board of Directors of Bahrain Islamic bank and the Central Bank of Bahrain.

We pray that Allah may grant all of us further success and prosperity.

Wassalam Alaykum Wa Rahmatu Allah Wa Barakatoh

Shaikh Dr. A.Latif Mahmood Al Mahmood
Chairman

Shaikh Mohammed Jaffar Al Juffairi
Vice Chairman

Shaikh Adnan Abdullah Al Qattan
Member

Shaikh Dr. Nedham M. Saleh Yacoubi
Member

Shaikh Dr. Essam Khalaf Al Onazi
Member

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Bahrain Islamic Bank B.S.C.
PO Box 5240
Manama
Kingdom of Bahrain

Report on the audit of the consolidated financial statements

Opinion
We have audited the accompanying consolidated financial statements of Bahrain Islamic Bank B.S.C. (the "Bank"), and its subsidiaries (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statements of income, changes in equity, cash flows, sources and uses of good faith qard fund and sources and uses of Zakah and charity fund for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

In our opinion, the Group has also complied with the Islamic Shariah Principles and Rules as determined by the Group's Shariah Supervisory Board during the year ended 31 December 2020.

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

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters

Impairment allowance on financing assets, Ijarah muntahia bittamleek, and Ijarah rental receivables
(refer to accounting policy in note 3 z, use of estimates and judgments in note 3 bb and management of credit risk in note 28 e).

Description	How the matter was addressed in our audit
We focused on this area because: • of the significance of financing assets, Ijarah muntahia bittamleek and Ijarah rental receivables representing 65% of total assets;	Our audit procedures, amongst others, to address significant risks associated with impairment included: • Evaluating the appropriateness of the accounting policies adopted based on the requirements of FAS 30, our business understanding, and industry practice.

Description

- impairment of financing assets, Ijarah muntahia bittamleek and Ijarah rental receivables involves:
  - complex estimates and judgement over both timing and recognition of impairment including susceptibility to management bias;
  - use of statistical models and methodologies for determination of expected credit losses. The Group exercises significant judgments and makes a number of assumptions in developing its ECL models which is determined as a function of the assessment of the probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD") associated with the underlying financial assets; and
  - complex disclosure requirements regarding credit quality of the portfolio including explanation of key judgments and material inputs used in determination of expected credit losses.
- The need to measure ECLs on an unbiased forward-looking basis incorporating a range of economic conditions. Significant management judgment is applied in determining the economic scenarios used and the probability weightings applied to them; and
- Adjustments to the ECL model results are made by management to address known impairment model limitations or emerging trends or risks. The assumptions regarding the economic outlook are more uncertain due to COVID-19 which, combined with government response (e.g. deferral programs and government stimulus package), increases the level of judgement required by the Group in calculating the ECL.

How the matter was addressed in our audit

- Confirming our understanding of management's processes, systems and controls implemented, including controls over expected credit loss ("ECL") model development.

Controls testing

We performed process walkthroughs to identify the key systems, applications and controls used in the ECL processes. We tested the relevant General IT and application controls over key systems used in the ECL process incorporating consideration of the economic disruption caused by COVID-19. Key aspects of our control testing involved the following:

- Performing detailed credit risk assessment for a sample of performing and non-performing loans to test controls over credit rating and its monitoring process;
- Testing the design and operating effectiveness of the key controls over the completeness and accuracy of the key inputs and assumptions elements into the FAS 30 ECL models;
- Testing controls over the transfer of data between underlying source systems and the ECL models that the Group operates;
- Testing controls over the modelling process, including governance over model monitoring, validation and approval;
- Testing key controls relating to selection and implementation of material economic variables; and
- Testing controls over the governance and assessment of model outputs and authorisation and review of post model adjustments and management overlays including selection of economic scenarios and the probability weights applied to them.

Test of details

Key aspects of our testing involved:

- Sample testing over key inputs and assumptions impacting ECL calculations including economic forecasts and weights to confirm the accuracy of information used;
- Re-performing key aspects of the Group's significant increase in credit risk ("SICR") determinations and selecting samples of financial instruments to determine whether a SICR was appropriately identified;
- Re-performing key elements of the Group's model calculations and assessing performance results for accuracy; and
- Selecting a sample of post model adjustments and management overlays in order to assess the reasonableness of the adjustments by challenging key assumptions, testing the underlying calculation and tracing a sample back to source data.

Description	How the matter was addressed in our audit
	Use of specialists For the relevant portfolios examined, we have involved KPMG specialists to assist us in assessing IT system controls and challenging key management assumptions used in determining expected credit losses. Key aspects of their involvement include: • We involved our information technology specialists to test controls over the IT systems, recording of data in source systems and transfer of data between source systems and the impairment models; • We involved our credit risk specialists in: o evaluating the appropriateness of the Groups' ECL methodologies (including the staging criteria used); o on a test check basis, re-performing the calculation of certain components of the ECL model (including the staging criteria); o evaluating the appropriateness of the Group's methodology for determining the economic scenarios used and the probability weighing applied to them; and o evaluating the overall reasonableness of the management economic forecast by comparing it to external market data and our understanding of the underlying sector and macroeconomic trends including the impact of COVID-19. **Disclosures** Evaluating the adequacy of the Group's disclosure in relation to use of significant estimates and judgement and credit quality of financing assets, Ijarah muntahia bittamleek and Ijarah rental receivables by reference to the requirements of relevant accounting standards.

Other information

The board of directors is responsible for the other information. The other information comprises the annual report but does not include the consolidated financial statements and our auditors' report thereon. Prior to the date of this auditors' report, we obtained the board of directors' report 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 and will 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the board of directors for the consolidated financial statements

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

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

KPMG

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)
Bahrain Islamic Bank B.S.C.

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

Auditors' responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ASIFIs 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 ASIFIs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the 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 board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Report on other regulatory requirements

As required by the Commercial Companies Law and Volume 2 of the Rule Book issued by the Central Bank of Bahrain (CBB), we report that:

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
b) the financial information contained in the board of directors' report is consistent with the consolidated financial statements;
c) except for non-compliance with the Licensing Requirements module – LR-2.5.2.A (maintaining minimum total shareholders' equity of BD 100 million) of Volume 2 of the Rule Book issued by CBB, we are not aware of any other violations during the year of the Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law No. 64 of 2006 (as amended), the CBB Rule Book (Volume 2, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and associated resolutions, the Bahrain Bourse rules and procedures or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and
d) satisfactory explanations and information have been provided to us by management in response to all our requests.

The engagement partner on the audit resulting in this independent auditors' report is Salman Manjlai.

KPMG

KPMG Fakhro
Partner Registration number 213
15 February 2021

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Note	2020 BD'000	2019 BD'000
ASSETS			
Cash and balances with banks and Central Bank	4	**50,362**	61,629
Placements with financial institutions	5	**44,442**	76,068
Financing assets	6	**571,513**	574,851
Investment securities	7	**276,608**	246,213
Ijarah Muntahia Bittamleek	9	**191,365**	179,857
Ijarah rental receivables	9	**20,677**	24,546
Investment in associates	8	**19,024**	18,750
Investment in real estate	11	**16,226**	18,756
Property and equipment	10	**14,047**	13,591
Other assets	12	**7,317**	9,299
TOTAL ASSETS		**1,211,581**	1,223,560
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
Liabilities			
Placements from financial institutions		**147,893**	126,964
Placements from non-financial institutions and individuals		**261,002**	213,420
Borrowings from financial institutions	13	**-**	29,566
Customers' current accounts		**188,742**	181,692
Other liabilities	14	**23,642**	21,516
Total Liabilities		**621,279**	573,158
Equity of Investment Accountholders			
Financial institutions		**33,986**	61,587
Non-financial institutions and individuals		**460,274**	467,892
Total Equity of Investment Accountholders	15	**494,260**	529,479
Owners' Equity			
Share capital	16	**106,406**	106,406
Treasury shares	16	**(892)**	(892)
Shares under employee share incentive scheme		**(257)**	(281)
Share premium		**206**	180
Reserves		**(9,421)**	15,510
Total Owners' Equity		**96,042**	120,923
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		**1,211,581**	1,223,560

The consolidated financial statements were approved by the Board of Directors on 15 February 2021 and signed on its behalf by:

Dr. Esam Abdulla Fakhro Chairman	Khalid Yousif Abdul Rahman Vice Chairman	Hassan Amin Jarrar Chief Executive Officer

Bahrain Islamic Bank B.S.C.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2020

	Note	***2020 BD'000***	*2019 BD'000*
INCOME			
Income from financing	19	**40,506**	45,464
Income from investment in Sukuk		**12,663**	11,932
Total income from jointly financed assets		**53,169**	57,396
Return on equity of investment accountholders		**(16,551)**	(35,686)
Group's share as Mudarib		**12,476**	23,001
Net return on equity of investment accountholders	15.5	**(4,075)**	(12,685)
Group's share of income from jointly financed assets (both as mudarib and investor)		**49,094**	44,711
Expense on placements from financial institutions		**(4,977)**	(2,957)
Expense on placements from non-financial institutions and individuals		**(9,533)**	(4,687)
Expense on borrowings from financial institutions		**(178)**	(2,386)
Fee and commission income, net		**4,379**	5,929
Income from investment securities	20	**925**	613
Income from investment in real estate, net	21	**(2,423)**	(274)
Share of results of associates, net	8	**(235)**	(133)
Other income, net	22	**1,948**	1,491
Total income		**39,000**	42,307
EXPENSES			
Staff costs		**12,257**	14,119
Depreciation	10	**1,381**	1,353
Other expenses	23	**9,763**	9,623
Total expenses		**23,401**	25,095
Profit before impairment allowances		**15,599**	17,212
Impairment allowance, net	24	**(28,162)**	(10,998)
(LOSS) / PROFIT FOR THE YEAR		**(12,563)**	6,214
BASIC AND DILUTED EARNINGS PER SHARE (fils)	26	**(11.94)**	5.91

Dr. Esam Abdulla Fakhro Chairman	Khalid Yousif Abdul Rahman Vice Chairman	Hassan Amin Jarrar Chief Executive Officer

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Note	**2020** **BD'000**	*2019* *BD'000*
OPERATING ACTIVITIES			
(Loss) / Profit for the year		**(12,563)**	6,214
Adjustments for non-cash items:			
Depreciation	10	**1,381**	1,353
Impairment allowance, net	24	**28,162**	10,998
Fair value movement in investment in real estate	21	**2,476**	484
Loss / (Gain) on sale of investment in real estate	21	**34**	(63)
Loss / (Gain) on foreign exchange revaluation		**95**	(5)
Gain on sale of investment securities	20	**(836)**	-
Share of results of associates, net	8	**235**	133
Operating profit before changes in operating assets and liabilities		**18,984**	19,114
Working capital adjustments:			
Mandatory reserve with Central Bank of Bahrain		**11,803**	(410)
Financing assets		**(22,531)**	(2,061)
Ijarah Muntahia Bittamleek		**(24,338)**	(18,780)
Other assets		**873**	1,565
Customers' current accounts		**7,050**	48,448
Other liabilities		**3,571**	(3,744)
Placements from financial institutions		**20,929**	75,960
Placements from non-financial institutions and individuals		**47,582**	217,376
Equity of investment accountholders		**(35,219)**	(329,310)
Net cash from operating activities		**28,704**	8,158
INVESTING ACTIVITIES			
Disposal of investment in real estate		**130**	2,308
Redemption of investment in associates		**3,155**	887
Purchase of investment securities		**(63,857)**	(36,059)
Purchase of property and equipment		**(1,837)**	(1,303)
Proceeds from disposal of investment securities		**32,322**	29,511
Net cash used in investing activities		**(30,087)**	(4,656)
FINANCING ACTIVITIES			
Purchase of treasury shares		**(149)**	(121)
Repayment of borrowings from financial institutions		**(29,287)**	(66,820)
Dividends paid		**(271)**	(7)
Net cash used in financing activities		**(29,707)**	(66,948)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(31,090)**	(63,446)
Cash and cash equivalents at 1 January		**99,670**	163,116
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**68,580**	99,670
Cash and cash equivalents comprise of:			
Cash on hand	4	**15,820**	16,221
Balances with CBB, excluding mandatory reserve deposits	4	**74**	465
Balances with banks and other financial institutions excluding restricted balances	4	**8,244**	6,916
Placements with financial institutions with original maturities less than 90 days	5	**44,442**	76,068
		68,580	99,670

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2020

					Reserves					
	Share capital BD'000	*Treasury shares BD'000*	*Shares under employee share incentive scheme BD'000*	*Share premium BD'000*	*Statutory reserve BD'000*	*Real estate fair value reserve BD'000*	*Investment securities fair value reserve BD'000*	*(Accumulated losses) / Retained earnings BD'000*	*Total reserves BD'000*	*Total owners' equity BD'000*
Balance at 1 January 2020	**106,406**	**(892)**	**(281)**	**180**	**4,736**	**2,049**	**718**	**8,007**	**15,510**	**120,923**
Loss for the year	-	-	-	-	-	-	-	**(12,563)**	**(12,563)**	**(12,563)**
Zakah approved	-	-	-	-	-	-	-	**(328)**	**(328)**	**(328)**
Donations approved	-	-	-	-	-	-	-	**(250)**	**(250)**	**(250)**
Government subsidy (note 2)	-	-	-	-	-	-	-	**1,814**	**1,814**	**1,814**
Modification loss (note 2)	-	-	-	-	-	-	-	**(14,711)**	**(14,711)**	**(14,711)**
Shares allocated to staff during the year	-	-	**173**	**26**	-	-	-	-	-	**199**
Purchase of treasury shares	-	**(149)**	-	-	-	-	-	-	-	**(149)**
Transfer to shares under employee share incentive scheme	-	**149**	**(149)**	-	-	-	-	-	-	-
Net movement in investment securities fair value reserve	-	-	-	-	-	-	**978**	-	**978**	**978**
Net movement in real estate fair value reserve	-	-	-	-	-	**129**	-	-	**129**	**129**
Balance at 31 December 2020	**106,406**	**(892)**	**(257)**	**206**	**4,736**	**2,178**	**1,696**	**(18,031)**	**(9,421)**	**96,042**
Balance at 1 January 2019	106,406	(892)	(391)	120	4,115	4,830	718	2,843	12,506	117,749
Profit for the year	-	-	-	-	-	-	-	6,214	6,214	6,214
Zakah approved	-	-	-	-	-	-	-	(179)	(179)	(179)
Donations approved	-	-	-	-	-	-	-	(250)	(250)	(250)
Shares allocated to staff during the year	-	-	231	60	-	-	-	-	-	291
Purchase of treasury shares	-	(121)	-	-	-	-	-	-	-	(121)
Transfer to shares under employee share incentive scheme	-	121	(121)	-	-	-	-	-	-	-
Net movement in real estate fair value reserve	-	-	-	-	-	(2,781)	-	-	(2,781)	(2,781)
Transfer to statutory reserve	-	-	-	-	621	-	-	(621)	-	-
Balance at 31 December 2019	106,406	(892)	(281)	180	4,736	2,049	718	8,007	15,510	120,923

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

CONSOLIDATED STATEMENT OF SOURCES AND USES OF GOOD FAITH QARD FUND

For the year ended 31 December 2020

	Qard Hasan receivables BD'000	*Funds available for Qard Hasan BD'000*	*Total BD'000*
Balance at 1 January 2020	**57**	**160**	**217**
Sources of Qard Fund			
Repayments	**(23)**	**23**	**-**
Total sources during the year	**(23)**	**23**	**-**
Uses of Qard fund			
Marriage	**12**	**(12)**	**-**
Others (Waqf)	**33**	**(33)**	**-**
Total uses during the year	**45**	**(45)**	**-**
Balance at 31 December 2020	**79**	**138**	**217**
Balance at 1 January 2019	71	57	128
Sources of Qard Fund			
Non-Islamic income	-	89	89
Repayments	(37)	37	-
Total sources during the year	(37)	126	89
Uses of Qard fund			
Marriage	14	(14)	-
Others (Waqf)	9	(9)	-
Total uses during the year	23	(23)	-
Balance at 31 December 2019	57	160	217

	***2020* BD'000**	*2019 BD'000*
Sources of Qard fund		
Contribution by the Bank	**125**	125
Donation	**3**	3
Non-Islamic income	**89**	89
	217	217

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

CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND

For the year ended 31 December 2020

	2020	*2019*
	BD'000	*BD'000*
Sources of zakah and charity funds		
Undistributed zakah and charity funds at the beginning of the year	**401**	314
Non-Islamic income / late payment fee	**255**	580
Contributions by the Bank for zakah	**328**	192
Contributions by the Bank for donations	**250**	250
Others	**10**	-
Total sources of zakah and charity funds during the year	**1,244**	1,336
Uses of zakah and charity funds		
Philanthropic societies	**264**	334
Aid to needy families	**350**	527
Others	**387**	74
Total uses of funds during the year	**1,001**	935
Undistributed zakah and charity funds at the end of the year	**243**	401

1 REPORTING ENTITY

Bahrain Islamic Bank B.S.C. (the "Bank") was incorporated in the Kingdom of Bahrain in 1979 by Amiri Decree No.2 of 1979 and registered with the Ministry of Industry, Commerce and Tourism ("MOICT") under Commercial Registration (CR) number 9900, to carry out banking and other financial trading activities in accordance with the teachings of Islam (Shari'a). The Bank operates under an Islamic retail banking license issued by the Central Bank of Bahrain ("CBB"). The Bank's Shari'a Supervisory Board is entrusted to ensure the Bank's adherence to Shari'a rules and principles in its transactions and activities. The Bank is listed on the Bahrain Bourse.

During 2019, one of the significant shareholders, National Bank of Bahrain (NBB) made a voluntary offer to acquire additional issued and paid up ordinary shares of the Bank. NBB is a licensed retail bank regulated by the Central Bank of Bahrain and listed on the Bahrain Bourse. The acquisition offer included a cash or share exchange option at the preference of each shareholder of the Bank. On 22 January 2020, this offer was closed and after settlement with the shareholders of the Bank, NBB's shareholding in the Bank increased from 29.06% as reported at 31 December 2019 to 78.81%. Hence, NBB is considered as Parent of the Bank for financial reporting purposes.

The Bank's registered office is at Building 722, Road 1708, Block 317, Manama, Kingdom of Bahrain.

The Bank has nine branches (2019: nine), all operating in the Kingdom of Bahrain.

The consolidated financial statements include the results of the Bank and its wholly owned subsidiaries (together the "Group"). The Bank holds 100% of the share capital of Abaad Real Estate W.L.L.

Abaad Real Estate W.L.L ("Abaad")
Abaad was incorporated in the Kingdom of Bahrain on 8 April 2003 with an authorised and fully paid-up share capital of BD 25 million. Abaad started operations in 2007. The main activity of Abaad is investment in real estate (in accordance with the Islamic Shari'a rules and principles).

The consolidated financial statements were authorised for issuance in accordance with a resolution of the Board of Directors issued on 15 February 2021.

a. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for "investments in real estate" and "equity type instruments carried at fair value through equity" that have been measured at fair value.

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Management believes that the underlying assumptions are appropriate and the Group's consolidated financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note (3 (bb)).

The consolidated financial statements have been presented in Bahraini Dinars ("BD"), which is also the functional currency of the Group's operations. All the values are rounded to the nearest BD thousand except when otherwise indicated.

1 REPORTING ENTITY (continued)

b. Statement of Compliance

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

(a) recognition of modification losses on financial assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional profits, in equity instead of the profit or loss as required by FAS issued by AAOIFI. Any other modification gain or loss on financial assets is recognised in accordance with the requirements of applicable FAS. Please refer to note (2) for further details; and

(b) recognition of financial assistance received from the government and/ or regulators in response to its COVID-19 support measures that meet the government grant requirement, in equity, instead of the profit or loss as required by the statement on "Accounting implications of the impact of COVID-19 pandemic" issued by AAOIFI to the extent of any modification loss recorded in equity as a result of (a) above, and the balance amount to be recognized in the profit or loss. Any other financial assistance is recognised in accordance with the requirements of FAS. Please refer to note (2) for further details.

The above framework for basis of preparation of the consolidated financial statements is hereinafter referred to as 'Financial Accounting Standards as modified by CBB'.

The modification to accounting policies has been applied retrospectively and did not result in any change to the comparatives.

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

2 COVID-19 IMPACT

On 11 March 2020, the COVID-19 outbreak was declared, a pandemic by the World Health Organization (WHO) and has rapidly evolved globally. This has resulted in a global economic slowdown with uncertainties in the economic environment. Global equity and commodity markets, and in particular oil prices, have also experienced great volatility. The estimation uncertainty is associated with the extent and duration of the expected economic downturn and forecasts for key economic factors including GDP, employment, oil prices etc. This includes disruption to capital markets, deteriorating credit markets and liquidity concerns. Authorities have taken various measures to contain the spread including implementation of travel restrictions and quarantine measures. The pandemic as well as the resulting measures and policies have had some impact on the Group. The Group is actively monitoring the COVID-19 situation, and in response to this outbreak, has activated its business continuity plan and various other risk management practices to manage the potential business disruption on its operations and financial performance.

The management and the Board of Directors (BOD) have been closely monitoring the potential impact of the COVID-19 developments on the Group's operations and financial position; including possible loss of revenue, impact on asset valuations, impairment, review of onerous contracts and debt covenants, outsourcing arrangements etc. The Group has also put in place contingency measures, which include but are not limited to enhancing and testing of business continuity plans including its liquidity requirements.

In preparing the consolidated financial statements, judgements made by management in applying the Group's accounting policies and sources of estimation are subject to uncertainty regarding the potential impacts of the current economic volatility and these are considered to represent management's best assessment based on available or observable information.

As of 31 December 2020, the Bank is compliant with the required Capital Adequacy Ratio, Net Stable Funding Ratio (NSFR) and Liquidity Coverage Ratios (LCR). As of 31 December 2020, the Group's NSFR ratio was 126%.

2 COVID-19 IMPACT (continued)

Following are some of the significant concessionary measures which were announced by CBB:

• For assessment of SICR from stage 1 to stage 2 Increase in number of days from 30 to 74 days
• Payment holiday for 6 months to eligible customers;
• Concessionary repo to eligible banks at zero percent;
• Reduction of cash reserve ratio from 5% to 3%;
• Reduction of LCR and NSFR ratio from 100% to 80%;
• Aggregate of modification loss and incremental ECL provision for stage 1 and stage 2 from March to December 2020 to be added back to Tier 1 capital for the two years ending 31 December 2020 and 31 December 2021. And to deduct this amount proportionately from Tier 1 capital on an annual basis for three years ending 31 December 2022, 31 December 2023 and 31 December 2024.

During the second quarter, based on a regulatory directive issued by the CBB as concessionary measures to mitigate the impact of COVID-19, the one-off modification losses amounting to BD 14,711 thousand arising from the 6-month payment holidays provided to financing customers without charging additional profit was recognized directly in equity. The modification loss was calculated as the difference between the net present value of the modified cash flows calculated using the original effective profit rate and the current carrying value of the financial assets on the date of modification. The Group had provided payment holidays on financing exposures amounting to BD 554,875 thousand as part of its support to impacted customers.

In September 2020 and December 2020, the CBB issued another regulatory directive to extend the concessionary measures, i.e. holiday payments to customers till end of December 2020 and June 2021 respectively. However, customers will be charged profits during this holiday payment extension period, and hence the Group does not expect significant modification loss as a result of the extension.

Governments and central banks across the world have responded with monetary and fiscal interventions to stabilize economic conditions. The Government of Kingdom of Bahrain has announced various economic stimulus programmes ("Packages") to support businesses in these challenging times.

As per the regulatory directive, financial assistance amounting to BD 1,814 thousand (representing specified reimbursement of a portion of staff costs, waiver of fees, levies and utility charges) and zero cost funding received from the government and/or regulators, in response to its COVID-19 support measures, has been recognized directly in equity.

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting polices applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been consistently applied by the Group and are consistent with those used in the previous year except as described in Note 1 "Statement of Compliance" and those arising from the adoption of the following standards and amendments to Standards early adopted by the Group.

a. New standards, amendments, and interpretations

i) New standards, amendments, and interpretations issued but not yet effective

A. Early adoption of standards

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

FAS 31 Investment Agency (Al-Wakala Bi Al-Istithmar) is effective from annual financial periods beginning on 1 January 2021. The Group has early adopted FAS 31 as issued by AAOIFI effective 1 January 2020. The Group uses wakala structure to raise funds from interbank market and from customers, these were reported under placements from financial institutions and placements from non-financial institutions and individuals, respectively as of 31 December 2019.

After adopting FAS 31, all new funds raised using wakala structure, together called "wakala pool" are comingled with the Bank's pool of funds based on an underlying mudaraba agreement. This comingled pool of funds is invested in a common pool of assets in the manner which the Group deems appropriate without laying down restrictions as to where, how and what purpose the funds should be invested. Wakala pool is reported in equity of investment account holders and the profit paid on these contracts is reported in return on equity of investment account holders.

As per the transitional provisions of FAS 31, the entity may choose not to apply this standard on existing transactions executed before 1 January 2020 and have an original contractual maturity before 31 December 2020. However, the Bank has decided to apply the standard on all transactions outstanding as of the year end and the corresponding previous year end. The adoption of this standard has resulted in additional disclosures (refer to note 15).

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

a. New standards, amendments, and interpretations (continued)

i) New standards, amendments, and interpretations issued but not yet effective (continued)

A. Early adoption of standards (continued)

(ii) FAS 33 Investment in Sukuks, shares and similar instruments

FAS 33 Investment in Sukuks, shares and similar instruments is effective from annual financial periods beginning on 1 January 2021. The Group has early adopted FAS 33 as issued by AAOIFI effective 1 January 2020. The standard is applicable on a retrospective basis. However, the cumulative effect, if any, attributable to owners' equity, equity of investment account holders relating to previous periods, shall be adjusted with investments fair value pertaining to assets funded by the relevant class of stakeholders.

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

1) Changes in accounting policies

Categorization and classification

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

(a) equity-type instruments;
(b) debt-type instruments, including:
    (i) monetary debt-type instruments; and
    (ii) non-monetary debt-type instruments; and
(c) other investment instruments

Unless irrevocable initial recognition choices provided in para 10 of the standard are exercised, an institution shall classify investments as subsequently measured at either of (i) amortised cost (except for equity-type instruments), (ii) fair value through equity or (iii) fair value through income statement, on the basis of both:
I. the Bank's business model for managing the investments; and
II. the expected cash flow characteristics of the investment in line with the nature of the underlying Islamic finance contracts.

2) Changes to significant estimates and judgements

a) Investment classification

Assessment of the business model within which the investments are managed and assessment of whether the contractual terms of the investment represents either a debt-type instrument or other investment instrument having reasonably determinable effective yield.

b) Impairment on equity-type investments classified as fair value through equity

In the case of equity-type investments classified as fair value through equity and measured at fair value, a significant or prolonged decline in the fair value of an investment below its cost is considered in determining whether the investments are impaired. If such evidence exists for equity-type investments classified as fair value through equity, the cumulative loss previously recognized in the consolidated statement of changes in equity is removed from equity and recognized in the consolidated statement of income. Impairment losses recognized in the consolidated statement of income on equity-type investments are subsequently reversed through equity.

3) Classification and measurement of investment securities

The Bank has performed a detailed analysis of its business models for the investment securities as well performed an analysis of their cash flow characteristics. There is no change in the classification of investment securities.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

a. New standards, amendments, and interpretations (continued)

i) New standards, amendments, and interpretations issued but not yet effective (continued)

B. New standards not yet adopted

The following new standards and amendments to standards are effective for financial years beginning after 1 January 2021 with an option to early adopt. However, the Bank has not early adopted any of these standards.

(i) FAS 32 Ijarah

AAOIFI has issued FAS 32 "Ijarah" in 2020. This standard supersedes the existing FAS 8 "Ijarah and Ijarah Muntahia Bittamleek".

The objective of this standard is to set out principles for the classification, recognition, measurement, presentation and disclosure of Ijarah (Ijarah asset, including different forms of Ijarah Muntahia Bittamleek) transactions entered into by the Islamic financial institutions as a lessor and lessee. This new standard aims to address the issues faced by the Islamic finance industry in relation to accounting and financial reporting as well as to improve the existing treatments to be in line with the global practices. This standard shall be effective for the financial periods beginning on or after 1 January 2021 with early adoption permitted. The Group is currently evaluating the impact of adopting this standard.

(ii) FAS 38 Wa'ad, Khiyar and Tahawwut

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

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

Further, the standard prescribes accounting for constructive obligations and constructive rights arising from the stand-alone Wa'ad and Khiyar products.

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

b. Basis of consolidation

Subsidiaries are all entities (including special purpose entities) controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group to the date that control seizes.

The financial statements of the subsidiaries are prepared for the same reporting year as the Group, using consistent accounting policies.

All intra-group balances, income, expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

c. Cash and cash equivalents

For the purpose of the consolidated cash flows statement, "cash and cash equivalents" consist of cash on hand, balances with the Central Bank of Bahrain excluding mandatory reserve deposits, balances with banks and other financial institutions excluding restricted balances and placements with financial institutions with original maturities less than 90 days when acquired.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Placements with and borrowings from financial institutions

i) Placements with financial institutions

Placements with financial institutions comprise of commodity Murabaha receivables and Wakala receivables. Commodity Murabaha receivables are stated at amortised cost net of deferred profits and provision for impairment, if any. Wakala receivables are stated at amortised cost less provision for impairment, if any.

ii) Borrowings from financial institutions

Borrowings from financial institutions comprise of borrowings obtained through a murabaha contract recognized on the origination date and carried at amortized cost.

e. Financing assets

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

f. Murabaha financing

Murabaha financing consist mainly of deferred sales transactions which are stated net of deferred profits and provisions for impairment, if any.

Murabaha financing is a sale on deferred terms. The Group arranges a Murabaha transaction by buying a commodity (which represents the object of the Murabaha) and then resells this commodity to a Murabeh (beneficiary) after computing a margin of profit over cost. The sale price (cost plus profit margin) is repaid in instalments by the Murabeh over the agreed period.

g. Musharaka financing

Musharaka financing are stated at the fair value of consideration given less impairment, if any.

Musharaka financing are a form of capital partnership. Musharaka financing capital provided by the Group at inception in kind (if other than cash) is measured at the fair value of the assets. If the valuation of the assets results in a difference between fair value and book value, such difference is recognised as profit or loss to the Group.

h. Investment securities

Investment securities comprise of debt type instruments carried at amortised cost and equity type instruments carried at fair value through equity.

All investments securities, are initially recognised at fair value, being the value of the consideration given including transaction costs directly attributable to the acquisition.

i) Debt type instruments carried at amortised cost

These are investments which have fixed or determinable payments of profit and capital. Subsequent to initial recognition, these are measured at amortised cost using the effective profit rate method less impairment, if any. Any gain or loss on such instruments is recognised in the consolidated statement of income when the instruments are de-recognised or impaired.

ii) Equity type instruments carried at fair value through equity

Equity-type instruments are investments that do not exhibit features of debt-type instruments and include instruments that evidence residual interest in the assets of an entity after reducing all its liabilities. On initial recognition, equity-type instruments that are not designated to fair value through consolidated statement of income are classified as investments at fair value through equity.

Subsequent to acquisition, these are remeasured at fair value, with unrealised gains and losses recognised in a separate component of equity until the investment is derecognised or the investment is considered as impaired. Upon derecognition or impairment, the cumulative gain or loss previously recorded in equity is recognised in the consolidated statement of income for the year.

Impairment losses on equity type instruments carried at fair value through equity are not reversed through the consolidated statement of income and increases in their fair value after impairment are recognised directly in owners' equity.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Measurement principles

i) Fair value measurement
For investments traded in organised financial markets, fair value is determined by reference to quoted market bid prices at the close of business on the reporting date.

For investments 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 terms and risk characteristics.

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

j. Investment in associates
Associates are all entities in which the Group holds, between 20% and 50% of the voting rights and exercises significant influence, but not control or joint control, over the financial and operating policies of the entities. Investment in associates are accounted for using the equity method of accounting.

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

The Group determines at each reporting date whether there is any objective evidence that the investments in associates are impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the recoverable amount of the associates and the carrying value and recognises this amount in the consolidated statement of income.

Accounting policies of the associates are consistent with the policies adopted by the Group.

k. Ijarah Muntahia Bittamleek
Ijarah Muntahia Bittamleek are stated at cost less accumulated depreciation and any impairment in value. Under the terms of the lease, the legal title of the asset passes to the lessee at the end of the lease term, provided that all lease installments are settled. Depreciation is calculated on a straight line basis at rates that systematically reduce the cost of the leased assets over the period of the lease. The Group assesses at each reporting date whether there is objective evidence that the assets acquired for leasing are impaired. Impairment losses are measured as the difference between the carrying amount of the asset (including ijarah rental receivables) and the estimated recoverable amount. Impairment losses, if any, are recognised in the consolidated statement of income.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

l. 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 to fair value and changes in fair value (only gains) are recognised in a property fair value reserve in the consolidated statement of changes in owners' equity.

Losses arising from changes in the fair values of investment in real estate are firstly adjusted against the property fair value reserve to the extent of the available balance and then the remaining losses are recognised in the consolidated statement of income. If there are unrealised losses that have been recognised in the consolidated statement of income in 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.

m. Property and equipment

Property and equipment are recognised at cost. The cost of additions and major improvements are capitalised; maintenance and repairs are charged to the consolidated statement of income as incurred. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets as follows;

Buildings	25 to 35 years
Fixtures and fittings	5 years
Equipment	5 years
Furniture	5 years

n. Equity of investment accountholders

Equity of investment accountholders are funds held by the Group in unrestricted investment accounts, which it can invest at its own discretion. The investment account holder authorises the Group to invest the account holders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. The Group charges management fee (Mudarib fees) to the investment account holders. Of the total income from investment accounts, the income attributable to customers is allocated to investment accounts after setting aside provisions, reserves (profit equalisation reserve and investment risk reserve) and deducting the Group's share of income as a Mudarib. The allocation of income is determined by the management of the Group within the allowed profit sharing limits as per the terms and conditions of the investment accounts. Administrative expenses incurred in connection with the management of the funds are borne directly by the Group and are not charged separately to investment accounts. Only profits earned from the pool of assets funded by the equity of investment accountholders are allocated between the owners' equity and equity of investment accountholders.

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

o. 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 for future losses for equity of investment accountholders.

p. Profit equalisation reserve

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

q. Zakah

Zakah is calculated on the Zakah base of the Group in accordance with FAS 9 issued by AAOIFI using the net invested funds method. Zakah is paid by the Group based on the consolidated figures of statutory reserve, general reserve and retained earning balances at the beginning of the year. The remaining Zakah is payable by individual shareholders. Payment of Zakah on equity of investment accountholders and other accounts is the responsibility of investment accountholders.

r. Provisions

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

s. Dividends

Dividends are recognised as liabilities in the year in which they are declared / approved by the shareholders.

t. Derecognition of financial assets and liabilities

i) Financial assets

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

- the right to receive cash flows from the asset has expired;
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the asset; or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement.

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

ii) Financial liabilities

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

u. Treasury shares

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

v. Earnings prohibited by Shari'a

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

w. Offsetting

Financial assets and financial liabilities are only offset and the net amount is reported in the consolidated statement of financial position, when there is a legal or religious enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

x. Income recognition

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

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

iii) Sukuk
Income from Sukuk is recognised using effective profit rate over the term of the instrument.

iv) Placements with financial institutions
Income on placements with financial institutions is recognised proportionately over the period of the contract based on the principal amounts outstanding and the profit agreed with clients.

v) Ijarah Muntahia Bittamleek
Income from Ijarah Muntahia Bittamleek is recognised proportionately over the lease term.

vi) Dividend income
Dividend income is recognised when the right to receive payment is established.

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

y. Foreign currencies
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into Bahraini Dinars at the rate of exchange ruling at the consolidated statement of financial position date. All differences are taken to the consolidated statement of income.

Translation gains or losses on non-monetary items carried at fair value are included in owners' equity as part of the fair value adjustment.

z. Impairment of exposures subject to credit risk

The Group recognizes expected credit losses (ECLs) on the following:

- Bank balances and placements with banks;
- Financing assets;
- Ijarah Muntahia Bittamleek & ijarah rental receivables;
- Investment in Sukuk - debt type securities at amortised cost;
- Financial guarantee contracts issued; and
- Commitments to finance.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

z. Impairment of exposures subject to credit risk (continued)

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

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

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

The Group assumes that the credit risk on an exposure subject to credit risk has increased significantly if it is more than 30 days past due.

The Group considers an exposure subject to credit risk to be in default when:

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

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

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

Stage 1: 12-months ECL

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

Stage 2: Lifetime ECL - not credit impaired

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

Stage 3: Lifetime ECL - credit impaired

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

z. Impairment of exposures subject to credit risk (continued)

i) Measurement of ECL

ECL is a probability-weighted estimate of credit losses. It is measured as follows:

- Exposures subject to credit risk that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- Exposures subject to credit risk that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn commitments to finance: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

ii) Restructured exposures

If the terms of an exposures subject to credit risk are renegotiated or modified or an existing exposures subject to credit risk is replaced with a new one due to financial difficulties of the borrower, the exposures subject to credit risk should be derecognized and ECL is calculated using the cash shortfalls from the existing exposures subject to credit risk that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing exposures subject to credit risk.

iii) Credit-impaired exposures

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

Evidence that an exposure subject to credit risk is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default;
- the restructuring of a financing facility by the Group on terms that the Group would not consider
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

iv) Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as a deduction from gross carrying amount of exposures subject to credit risk.

v) Write-off

Exposures subject to credit risk are written off either partially or in their entirety. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to other income.

Financing asset exposures are either fully or partially written off when there is no expectation for further recovery. Indicators that there is no reasonable expectation of recovery include (i) borrower is insolvent or (ii) all possible recovery options have been exhausted.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

aa. Equity investments classified at Fair Value Through Equity (FVTE)

For equity-type investments classified as fair value through equity and measured at fair value, a significant or prolonged decline in the fair value of an investment below its cost is considered in determining whether the investments are impaired. If such evidence exists for equity-type investments classified as fair value through equity, the cumulative loss previously recognized in the consolidated statement of changes in equity is removed from equity and recognized in the consolidated statement of income. Impairment losses recognized in the consolidated statement of income on equity-type investments are subsequently reversed through equity.

bb. Use of estimates and judgements in preparation of the consolidated financial statements

In the process of applying the Group's accounting policies, management has made estimates and judgements in determining the amounts recognised in the consolidated financial statements. The process of making the required estimates and assumptions involved further challenges due to the prevailing uncertainties arising from COVID-19 and required use of management judgements. The most significant use of judgements and estimates are as follows:

i) Impairment of exposures subject to credit risk

- Establishing the criteria for determining whether credit risk on exposures subject to credit risk has increased significantly since initial recognition, determining methodology for incorporating forward looking information into measurement of ECL, and selection and approval of models used to measure ECL is set out in note (3 (z)) and note (28).
- Impairment on ijarah rental receivables: key assumptions used in estimating recoverable cash flows is set out in note (3 (z)).
- Determining inputs into ECL measurement model including incorporation of forward looking information is set out in note (3 (z)) and note (28).

ii) 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.

iii) Impairment of equity investments

The Group determines that equity investments carried at fair value through equity are impaired when there is a significant or prolonged decline in the fair value of the investment below its cost. This determination of what is significant or prolonged requires judgment.

In case of equity investments, the Group considers a decline of more than 30% in the fair value below cost to be significant and considers a decline below cost which persists for more than 9 months as prolonged.

cc. Trade date accounting

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

dd. Customers' current accounts

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

ee. Employees' benefits

i) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus as profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

ii) Post-employment benefits

Pension and other benefits for Bahraini employees are covered by the Social Insurance Organisation Scheme, which is a "defined contribution scheme" in nature, and to which employees and employers contribute monthly on a fixed percentage of salaries basis. Contributions by the Group are recognised as an expense in the consolidated statement of income when they are due.

Expatriate employees on fixed contracts are entitled to leaving indemnities payable under Bahraini labour law, based on the length of service and final remuneration. Provision for this unfunded commitment has been made by calculating the notional liability had all employees left at the reporting date.

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

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

iii) Share based employee incentive scheme

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

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

ff. Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised from the date of its issue. The liability arising from a financial guarantee contract is recognised at the present value of any expected payment, when a payment under the guarantee has become probable.

gg. Repossessed assets

In certain circumstances, property is repossessed following the foreclosure of financing facilities that are in default. Repossessed properties are measured at the lower of carrying amount or fair value less costs to sell and reported within 'other assets'.

hh. Statutory reserve

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

ii. URIA protection scheme

Investment accounts held within the Group's Bahrain operations are covered by the regulation protecting URIA issued by the Central Bank of Bahrain in accordance with Resolution No (34) of 2010. The scheme applies to all eligible accounts held with Bahrain offices of the Bank subject to specific exclusions, maximum total amount entitled and other regulations governing the establishment of a URIA Protection Scheme and a URIA Protection Board.

4 CASH AND BALANCES WITH BANKS AND CENTRAL BANK

	2020	2019
	BD'000	*BD'000*
Cash on hand	**15,820**	16,221
Balances with CBB, excluding mandatory reserve deposits	**74**	465
Balances with banks and other financial institutions	**10,756**	9,428
	26,650	26,114
Mandatory reserve with CBB	**23,712**	35,515
	50,362	61,629

The mandatory reserve with CBB is not available for use in the day-to-day operations.

Balances with banks and other financial institutions include an amount of BD 2,512 thousand (2019: BD 2,512 thousand) which is not available for use in the day-to-day operations.

5 PLACEMENTS WITH FINANCIAL INSTITUTIONS

	2020	2019
	BD'000	*BD'000*
Commodity Murabaha	**16,219**	51,147
Deferred profits	**(1)**	(5)
	16,218	51,142
Wakala	**28,225**	24,929
	44,443	76,071
Impairment allowance	**(1)**	(3)
	44,442	76,068

6 FINANCING ASSETS

	2020 BD'000	2019 BD'000
Murabaha (note 6.1)	**482,274**	481,429
Musharaka (note 6.2)	**89,239**	93,422
	571,513	574,851

6.1 Murabaha

	2020 BD'000	2019 BD'000
Tasheel	**284,822**	243,190
Tawarooq	**179,547**	196,291
Altamweel Almaren	**68,490**	86,701
Letters of credit refinance	**17,008**	23,925
Motor vehicles Murabaha	**3,678**	5,904
Credit cards	**17,151**	20,191
Others	**30**	36
	570,726	576,238
Qard fund	**79**	57
Gross receivables	**570,805**	576,295
Deferred profits	**(66,492)**	(68,288)
Impairment allowance	**(22,039)**	(26,578)
	482,274	481,429

Non-performing Murabaha financing outstanding as of 31 December 2020 amounted to BD 43,302 thousand (2019: BD 91,180 thousand).

The Group considers the promise made in the Murabaha to the purchase orderer as obligatory.

The composition of the Murabaha financing portfolio net of deferred profit and before provision for impairment by sector is as follows:

	2020 BD'000	2019 BD'000
Commercial	**94,680**	133,671
Financial institutions	**11,679**	22,895
Others including retail	**397,954**	351,441
	504,313	508,007

The Group exposures of Murabaha financing portfolio is concentrated in the Middle East.

6.2 Musharaka

	2020 BD'000	2019 BD'000
Musharaka in real estate	**93,239**	96,314
Provision for impairment	**(4,000)**	(2,892)
	89,239	93,422

Non-performing Musharaka financing outstanding as of 31 December 2020 amounted to BD 9,308 thousand (2019: BD 6,530 thousand).

6 FINANCING ASSETS (continued)

6.3 The movement on impairment allowances is as follows:

2020	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
At 1 January 2020	**1,615**	**1,557**	**26,298**	**29,470**
Net movement between stages	**434**	**(164)**	**(270)**	**-**
Net charge for the year	**578**	**3,659**	**11,376**	**15,613**
Write-off	**-**	**-**	**(19,044)**	**(19,044)**
At 31 December 2020	**2,627**	**5,052**	**18,360**	**26,039**

2019	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
At 1 January 2019	2,157	3,146	24,536	29,839
Net movement between stages	205	(286)	81	-
Net charge for the year	(747)	(1,303)	9,465	7,415
Write-off	-	-	(7,784)	(7,784)
At 31 December 2019	1,615	1,557	26,298	29,470

7 INVESTMENT SECURITIES

	2020 BD'000	*2019 BD'000*
a. Debt type instruments*		
Quoted Sukuk - carried at amortised cost		
Gross balance at beginning of the year	**190,473**	160,727
Acquisitions	**60,059**	35,999
Disposals and redemptions	**(21,343)**	(6,253)
Gross balance at the end of the year	**229,189**	190,473
Impairment allowance	**(236)**	(7)
Net balance at the end of the year	**228,953**	190,466
Unquoted Sukuk - carried at amortised cost		
Gross balance at beginning of the year	**35,534**	58,725
Acquisitions	**3,798**	60
Disposals and redemptions	**(3,822)**	(23,258)
Foreign currency translation changes	**(15)**	7
Gross balance at the end of the year	**35,495**	35,534
Impairment allowance	**(12,564)**	(12,187)
Net balance at the end of the year	**22,931**	23,347
b. Equity type instruments		
Unquoted shares	**24,288**	28,178
Unquoted managed funds	**436**	4,222
Total net investment securities	**276,608**	246,213

* As of 31 December 2020, debt type instruments includes Sukuk of BD Nil thousand (2019: BD 38,800 thousand) pledged against borrowings from financial institutions of BD Nil thousand (2019: BD 29,566 thousand) (note 13).

7 INVESTMENT SECURITIES (continued)

The movement of impairment allowances on debt type instruments (Sukuk) is as follows:

2020	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
At 1 January 2020	**20**	**-**	**12,174**	**12,194**
Net charge for the year	**231**	**-**	**390**	**621**
Foreign exchange movement	**-**	**-**	**(15)**	**(15)**
At 31 December 2020	**251**	**-**	**12,549**	**12,800**

2019	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
At 1 January 2019	52	-	12,167	12,219
Net charge for the year	(32)	-	-	(32)
Foreign exchange movement	-	-	7	7
At 31 December 2019	20	-	12,174	12,194

During the year impairment of BD 2,024 thousand (2019: BD 419 thousand) was provided on equity type instruments.

8 INVESTMENT IN ASSOCIATES

	2020	*2019*
	BD'000	*BD'000*
At 1 January	**18,750**	21,643
Additions	**5,449**	-
Share of results of associates, net	**(235)**	(133)
Redemption / disposal of investment in associates	**(2,845)**	(887)
Foreign currency translation changes	**(95)**	4
Impairment allowance	**(2,000)**	(1,877)
At 31 December	**19,024**	18,750

Additions include settlement of financing assets amounting to BD 5,449 thousand during the year.

Summarised financial information of associates that have been equity accounted for in these consolidated financial statements, not adjusted for percentage of ownership held by the Group:

	2020	*2019*
	BD'000	*BD'000*
Total assets	**160,063**	163,932
Total liabilities	**47,781**	46,183
Total revenues	**3,432**	3,186
Total net loss	**(2,517)**	(2,555)

Investment in associates comprise of:

Name of associate	**Ownership %**	**Country of incorporation**	**Nature of business**
Liquidity Management Centre B.S.C. (c)	25.00%	Bahrain	Liquidity Management Centre B.S.C. (c) was incorporated in 2002 as a bank, licensed and regulated by the Central Bank of Bahrain to facilitate the creation of an Islamic inter-bank market that allow Islamic financial services institutions to effectively manage their assets and liabilities.
Arabian C Real Estate Company	19.00%	Kuwait	Arabian C Real Estate Company is a Kuwaiti Shareholding Company incorporated in accordance with the Kuwaiti Commercial Companies law. The company's activity focuses on real estate development and the overall management of a variety of strategic investments in the real estate and infrastructure sectors in GCC/MENA region The Group has disposed off its shares in this associate during the year ended 31 December 2020.
LS Real Estate Company W.L.L.	37.00%	Bahrain	LS Real Estate Company W.L.L. was incorporated in the Kingdom of Bahrain in 2019. The company focuses on real estate activities including the development and overall management of owned or leased properties.
Al Dur Energy Investment Company	29.41%	Bahrain	Al Dur Energy Investment Company is an exempt company with limited liability incorporated in the Cayman Islands on 10 June 2009 and operates under registration number 227032. The company operates in the Kingdom of Bahrain with the sole purpose of holding a 15% indirect interest in a power and water plant project company, Al Dur Power and Water Company B.S.C.(c), in the Kingdom of Bahrain.

9 IJARAH MUNTAHIA BITTAMLEEK

	2020			*2019*		
	Properties BD'000	***Aviation related assets BD'000***	***Total BD'000***	*Properties BD'000*	*Aviation related assets BD'000*	*Total BD'000*
Cost:						
At 1 January	**241,971**	**7,540**	**249,511**	217,412	7,540	224,952
Additions	**75,251**	**-**	**75,251**	64,202	-	64,202
Settlements / adjustments	**(82,801)**	**-**	**(82,801)**	(39,643)	-	(39,643)
At 31 December	**234,421**	**7,540**	**241,961**	241,971	7,540	249,511
Accumulated depreciation:						
At 1 January	**66,767**	**2,887**	**69,654**	57,222	2,000	59,222
Charge for the year	**12,550**	**840**	**13,390**	24,787	887	25,674
Settlements / adjustments	**(32,286)**	**(162)**	**(32,448)**	(15,242)	-	(15,242)
At 31 December	**47,031**	**3,565**	**50,596**	66,767	2,887	69,654
Net Book Value	**187,390**	**3,975**	**191,365**	175,204	4,653	179,857

Ijarah Muntahia Bittamleek of BD 191,365 and Ijarah rental receivables of BD 20,677 thousand (2019: BD 179,857 thousand and BD 24,546 thousand) is net of impairment allowance of BD 2,343 thousand (2019: BD 14,791 thousand) refer note (28 (e)). During the year, an impairment charge of BD 6,716 thousand (2019: BD 1,248 thousand) was provided on Ijarah rental receivable (refer note 24).

10 PROPERTY AND EQUIPMENT

	2020						
	Lands BD'000	***Buildings BD'000***	***Fixture and fitting BD'000***	***Equipment BD'000***	***Furniture BD'000***	***Work in progress BD'000***	***Total BD'000***
Cost:							
At 1 January	**5,521**	**7,651**	**4,190**	**13,253**	**900**	**516**	**32,031**
Additions / Transfers	**-**	**-**	**11**	**1,231**	**-**	**595**	**1,837**
Disposals	**-**	**-**	**-**	**(738)**	**-**	**-**	**(738)**
At 31 December	**5,521**	**7,651**	**4,201**	**13,746**	**900**	**1,111**	**33,130**
Depreciation:							
At 1 January	**-**	**2,737**	**3,760**	**11,068**	**875**	**-**	**18,440**
Charge for the year	**-**	**254**	**159**	**956**	**12**	**-**	**1,381**
Relating to disposed assets	**-**	**-**	**-**	**(738)**	**-**	**-**	**(738)**
At 31 December	**-**	**2,991**	**3,919**	**11,286**	**887**	**-**	**19,083**
Net Book Value	**5,521**	**4,660**	**282**	**2,460**	**13**	**1,111**	**14,047**

	2019						
	Lands BD'000	*Buildings BD'000*	*Fixture and fitting BD'000*	*Equipment BD'000*	*Furniture BD'000*	*Work in progress BD'000*	*Total BD'000*
Cost:							
At 1 January	5,521	7,651	4,164	12,312	894	186	30,728
Additions / Transfers	-	-	26	941	6	330	1,303
At 31 December	5,521	7,651	4,190	13,253	900	516	32,031
Depreciation:							
At 1 January	-	2,483	3,547	10,210	847	-	17,087
Charge for the year	-	254	213	858	28	-	1,353
At 31 December	-	2,737	3,760	11,068	875	-	18,440
Net Book Value	5,521	4,914	430	2,185	25	516	13,591

11 INVESTMENT IN REAL ESTATE

	2020	*2019*
	BD'000	*BD'000*
Land	**16,226**	18,675
Buildings	-	81
	16,226	18,756

	2020	*2019*
	BD'000	*BD'000*
Movement in investment in real estate:		
At 1 January	**18,756**	24,284
Disposal	**(182)**	(2,263)
Fair value changes	**(2,348)**	(3,265)
At 31 December	**16,226**	18,756

Investment in real estate comprises of properties located in the Kingdom of Bahrain and the United Arab Emirates.

Investment in real estate is stated at fair value, which has been determined based on valuations performed by independent third party property valuators who have the qualification and experience of valuing similar properties in the same location. Fair value of investments in real estate is classified as category 2 of fair value hierarchy.

12 OTHER ASSETS

	2020	*2019*
	BD'000	*BD'000*
Repossessed assets*	**3,992**	5,103
Receivables**	**632**	1,453
Staff advances	**1,550**	1,697
Prepaid expenses	**485**	486
Other	**658**	560
	7,317	9,299

*Repossessed assets are net of impairment allowance of BD 1,697 thousand (2019: BD 585 thousand).

**Impairment on receivables includes Stage 3 BD Nil thousand (2019: Stage 3 BD 333 thousand). During the year impairment charge of BD Nil thousand was provided (2019:BD 202 thousand) representing release / charge of BD Nil thousand (2019: release of BD 5 thousand (stage 1), and charge of BD 207 thousand (stage 3)).

13 BORROWINGS FROM FINANCIAL INSTITUTIONS

Represents term murabaha facilities of BD Nil thousand (2019: BD 29,566 thousand maturing within 1 month from year end) secured by pledge over Sukuk of BD Nil thousand (2019: BD 38,800 thousand). The average rate of borrowings is 2.53% (2019: 3.49%) (note 7).

14 OTHER LIABILITIES

	2020 BD'000	2019 BD'000
Managers' cheques	**8,761**	4,382
Payable to vendors	**3,647**	6,846
Accrued expenses	**3,886**	3,792
Dividends payable*	**28**	921
Zakah and charity fund	**243**	401
Other	**7,077**	5,174
	23,642	21,516

* In accordance with the resolution No. 3 of 2020 dated 29 April 2020, the Group has transferred unclaimed dividends up to the year 2019 amounting to BD 270 thousand along with the liability to settle the unclaimed dividends. The funds were transferred to the Unclaimed Cash Dividends Fund with Bahrain Clear BSC (c).

15 EQUITY OF INVESTMENT ACCOUNTHOLDERS

The Group comingles the Investment Account Holders' (IAH) funds with the owners' equity. In line with its policy, the Group utilizes the funds from IAH to finance assets.

15.1 Equity of investment accountholders balances

Type of Equity of Investment Accountholders	2020 BD'000	2019 BD'000
Placements and borrowings from financial institutions – Wakala	**33,986**	61,587
Placements from non-financial institutions and individuals – Wakala	**53,259**	40,190
Mudharaba	**407,015**	427,702
	494,260	529,479
Mudharaba-based customer investment accounts		
Balances on demand	**333,661**	295,096
Contractual basis	**73,354**	132,606
	407,015	427,702

15.2 Assets in which IAH funds were invested

Assets in which IAH funds were invested as at 31 December are as follows:

Asset	2020 BD'000	2019 BD'000
Cash and balances with banks and Central Bank	**23,786**	28,922
Placements with financial institutions	**26,022**	-
Financing assets, net	**245,317**	289,755
Ijarah Muntahia Bittamleek and ijarah rental receivables, net	**91,016**	103,029
Investment securities, net	**108,119**	107,773
	494,260	529,479

The Bank proportionately allocates non-performing assets (past due greater than 90 days) to the IAH pool of assets. The ECL charge is also allocated to the IAH pool, in proportion of the non-performing assets financed by IAH to the total non-performing assets. Amounts recovered from these non-performing assets shall be subject to allocation between IAH and owners' equity. During the year, the Bank allocated BD 17,677 thousand of ECL (2019: ECL of BD 23,089 thousand) to the IAH.

During the year, the Bank did not charge any administration expenses to investment accounts.

15 EQUITY OF INVESTMENT ACCOUNTHOLDERS (continued)

15.3 Profit distribution by account type

The following is the average percentage of profit allocation between the owner's accounts applied during the year for each type of IAH account as agreed contractually with the customers:

	2020			2019		
Account type	**Utilization**	**Mudarib Share**	**Profit to IAH**	Utilization	Mudarib Share	Profit to IAH
Tejoori	**90%**	**97.29%**	**2.71%**	90%	97.88%	2.12%
Savings	**90%**	**97.28%**	**2.72%**	90%	97.87%	2.13%
Vevo	**90%**	**97.20%**	**2.80%**	90%	97.89%	2.11%
IQRA	**100%**	**64.65%**	**35.35%**	100%	77.46%	22.54%
Time deposits	**100%**	**40.95%**	**59.05%**	100%	50.18%	49.82%

During the year, the Group did not increase its percentage of profits as mudarib. Further, the Group did not receive any incentive from profits of investment account holders.

The Group does not share profits with IAH resulting from investing current accounts and other funds received on the basis other than mudaraba contract.

Funds from IAH are invested in assets on a priority basis.

15.4 Equity of Investment Accountholders Reserves

	2020	*Movement*	*2019*
	BD'000	*BD'000*	*BD'000*
Profit equalisation reserve	**1,310**	65	1,245
Investment risk reserve	**-**	-	-

15.5 Return on equity of investment accountholders

	2020	*2019*
	BD'000	*BD'000*
Gross return to equity of investment accountholders	**16,616**	34,509
Group's share as a Mudarib	**(12,476)**	(23,001)
Allocation to profit equalization reserve	**(65)**	-
Utilisation of investment risk reserve	**-**	1,177
Net return on equity of investment accountholders	**4,075**	12,685

16 OWNERS' EQUITY

		2020 **BD'000**	2019 BD'000
a.	Share capital		
i.	*Authorised*		
	2,000,000,000 shares (2019: 2,000,000,000 shares) of BD 0.100 each	**200,000**	200,000
ii.	*Issued and fully paid up*		
	1,064,058,587 shares (2019: 1,064,058,587 shares) of BD 0.100 each	**106,406**	106,406

b. Treasury Shares	**2020**		2019
	Number of Shares	***BD'000***	*BD'000*
At 31 December	**5,855,358**	**892**	892

	2020 **BD'000**
Cost of treasury shares, excluding shares under employee share incentive scheme	**892**
Market value of treasury shares	**521**

The treasury shares as a percentage of total shares in issue is 0.55%

Owners' equity instruments which are reacquired are deducted from equity. No gain or loss is recognised in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

c. Reserves

i) Statutory reserve
During the year the Bank has appropriated BD Nil thousand (2019: BD 621 thousand) to the statutory reserve representing 10% of the profit for the year of BD Nil thousand (2019: BD 6,214 thousand). The reserve is not distributable except in such circumstances as stipulated in the Commercial Companies Law and following the approval of CBB.

ii) General reserve
The general reserve is established in accordance with the articles of association of the Bank and is distributable following a resolution of shareholders at a general meeting and the approval of CBB. The Group may transfer any amount to the general reserve, as approved by the shareholders at a general meeting, out of the profit for the year after appropriating the statutory reserve.

iii) Real estate fair value reserve
This represents cumulative unrealised revaluation gains on investment in real estate. This reserve is transferred to the consolidated statement of income upon sale of the investment in real estate.

iv) Investment fair value reserve
This represents the net unrealised gains or losses on equity investments.

16 OWNERS' EQUITY (continued)

d. 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:

		2020		2019	
Names	*Nationality*	*Number of shares*	*% holding*	*Number of shares*	*% holding*
National Bank of Bahrain	Bahraini	**838,630,728**	**78.81%**	309,206,266	29.06%
Social Insurance Organisation	Bahraini	**-**	**0.00%**	154,604,585	14.53%
Social Insurance Organisation - Military Pension Fund	Bahraini	**-**	**0.00%**	154,604,587	14.53%
Islamic Development Bank	Saudi	**135,736**	**0.01%**	153,423,081	14.42%
General Council of Kuwaiti Awqaf	Kuwaiti	**76,366,321**	**7.18%**	76,366,321	7.18%

ii. The Group 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:

	2020			2019		
	Number of shares	*Number of shareholders*	*% of total outstanding shares*	*Number of shares*	*Number of shareholders*	*% of total outstanding shares*
Less than 1%	**86,303,690**	**2,745**	**6.84%**	123,447,266	3,226	11.60%
1% and less than 5%	**62,757,848**	**3**	**7.17%**	92,406,481	5	8.68%
5% and less than 10%	**76,366,321**	**1**	**7.18%**	76,366,321	1	7.18%
10% and more	**838,630,728**	**1**	**78.81%**	771,838,519	4	72.54%
	1,064,058,587	**2,750**	**100.00%**	1,064,058,587	3,236	100.00%

Details of Directors' interests in the Group's shares as at the end of the year were:

Categories:

	2020		2019	
	Number of shares	*Number of directors*	*Number of shares*	*Number of directors*
Less than 1%	**352,500**	**1**	493,443	2

The following is the number of shares, and percentage of shareholding of Directors, Shari'a supervisory members and senior management (Assistant General Managers and above who are part of the management committee):

	2020		2019	
	Number of shares	*Percentage of Shareholding*	*Number of shares*	*Percentage of Shareholding*
Directors	**352,500**	**0.033%**	493,443	0.046%
Shari'a supervisory members	**187,663**	**0.018%**	187,663	0.018%
Senior management	**191,760**	**0.018%**	1,125,153	0.106%
	731,923	**0.069%**	1,806,259	0.170%

e. Proposed appropriations

The Board of Directors propose the appropriation for zakah of BD 122 thousand in 2020 (2019: BD 328 thousand), charitable donations of BD 250 thousand in 2020 (2019: BD 250 thousand) and dividends amounting to BD Nil thousand (2019: BD Nil thousand) which are subject to regulatory and shareholders' approval in the ensuing Annual General Meeting.

17 COMMITMENTS AND CONTINGENT LIABILITIES

Credit related commitments

These include commitments to enter into financing contracts which are designed to meet the requirements of the Group's customers.

Letters of credit and guarantees commit the Group to make payments on behalf of customers.

The Group has the following credit related commitments and contingent liabilities on behalf of customers:

	2020	*2019*
	BD'000	*BD'000*
Letters of credit and acceptances	**4,792**	7,448
Guarantees	**44,431**	63,324
Credit cards	**37,041**	34,638
Altamweel Almaren	**28,447**	23,113
Operating lease commitments *	**217**	268
Commitments to finance	**31,826**	39,202
	146,754	167,993

* The Group has entered into commercial leases for certain branches. The remaining average period of these leases ranges between 1 month and 3 years with renewal terms included in the contracts. Renewals are at the option of the Bank. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	2020	*2019*
	BD'000	*BD'000*
Within one year	**159**	171
After one year but not more than five years	**58**	97
	217	268

18 CAPITAL ADEQUACY

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue Sukuk etc. No changes were made in the objectives, policies and processes from the previous years.

The Group's capital structure primarily consists of its paid-up capital, including share premium and reserves. From a regulatory perspective, a significant amount of the Group's capital is classified as Tier 1 as defined by the CBB, i.e. most of the capital is of a permanent nature.

The Group's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of financing facilities growth expectations for each business group, expected growth in off-balance sheet facilities, and future sources and uses of funds. As at 31 December 2020, the Group's total shareholders' equity has fallen below BD 100 million, which is the minimum requirement stipulated under LR-2.5.2A of the CBB's Rule Book. The Group is in discussions with its Parent to review the available options to bring the total shareholders'equity above the regulatory threshold.

18 CAPITAL ADEQUACY (continued)

The Central Bank of Bahrain issued the final regulation to give effect to the Basel III framework which came into effect on 1 January 2015. The Basel III framework significantly revises the definition of regulatory capital. The framework emphasises on common equity as the predominant component of tier 1 capital by adding a minimum Common Equity Tier 1 (CET 1) capital ratio. The Basel III rules also require institutions to hold capital buffers. For the purpose of calculating CET 1 capital, the regulatory adjustments (deductions) including amounts above the aggregate limit for significant investments in financial institutions, mortgage servicing rights, and deferred tax assets from temporary differences, will be deducted from CET1 over a phased manner to be fully deducted by 1 January 2019. The Bank's current capital position is sufficient to meet the new regulatory capital requirements. The Group has applied CBB concessionary measures relating to adjustment of modification loss and incremental ECL provisions for the purpose of computation of capital adequacy ratio for the year ended 31 December 2020 (refer to note 2).

The classification of the Group's capital in accordance with the regulatory requirements is as follows:

	2020	*2019*
	BD'000	*BD'000*
CET 1 Capital before regulatory adjustments	**111,019**	118,874
Less: regulatory adjustments	**-**	-
CET 1 Capital after regulatory adjustments	**111,019**	118,874
T 2 Capital adjustments	**10,165**	8,294
Regulatory Capital	**121,184**	127,168

To assess its capital adequacy requirements in accordance with the CBB requirements, the Group adopts the Standardised Approach for its Credit Risk, Basic Indicator Approach for its Operational Risk and Standardised Approach for its Market Risk. The capital requirements for these risks are as follows:

	2020	*2019*
	BD'000	*BD'000*
Risk weighted exposure:		
Total Credit Risk Weighted Assets	**638,995**	741,068
Total Market Risk Weighted Assets	**536**	1,263
Total Operational Risk Weighted Assets	**120,448**	114,095
Total Regulatory Risk Weighted Assets	**759,979**	856,426
Investment risk reserve (30% only)	**-**	-
Profit equalization reserve (30% only)	**393**	374
Total Adjusted Risk Weighted Exposures	**759,586**	856,052
Capital Adequacy Ratio	**15.95%**	14.86%
Tier 1 Capital Adequacy Ratio	**14.62%**	13.89%
Minimum requirement	**12.5%**	12.5%

19 INCOME FROM FINANCING

	2020 ***BD'000***	*2019* *BD'000*
Income from Murabaha financing	**24,688**	27,135
Income from Ijarah Muntahia Bittamleek	**10,319**	10,770
Income from Musharaka financing	**4,845**	5,312
Income from placements with financial institutions	**654**	2,247
	40,506	45,464

20 INCOME FROM INVESTMENT SECURITIES

	2020 ***BD'000***	*2019* *BD'000*
Gain on sale of investment in unquoted shares - at fair value through equity	**836**	-
Dividend income	**89**	613
	925	613

21 INCOME FROM INVESTMENT IN REAL ESTATE

	2020 ***BD'000***	*2019* *BD'000*
(Loss) / gain on sale	**(34)**	63
Rental income	**87**	147
Impairment charge	**(2,476)**	(484)
	(2,423)	(274)

22 OTHER INCOME

	2020 ***BD'000***	*2019* *BD'000*
Recoveries from previously written off financing	**891**	651
Foreign exchange gain	**636**	138
Others	**421**	702
	1,948	1,491

23 OTHER EXPENSES

	2020 ***BD'000***	*2019* *BD'000*
Marketing and advertisement expenses	**1,157**	1,369
Professional services	**1,477**	2,175
Information technology related expenses	**1,269**	1,138
Card Centre expenses	**1,169**	1,142
Premises and equipment expenses	**817**	857
Communication expenses	**801**	573
Board remuneration	**260**	79
Board of directors sitting fees	**161**	221
Shari'a committee fees & expenses	**78**	66
Others	**2,574**	2,003
	9,763	9,623

24 IMPAIRMENT ALLOWANCE, NET

	2020	*2019*
	BD'000	*BD'000*
Financing assets (note 6.3)	**15,613**	7,415
Ijarah rental receivables (note 9)	**6,716**	1,248
Investments in Sukuk (note 7)	**621**	(32)
Investments at fair value through equity (note 7)	**2,024**	419
Investment in associates (note 8)	**2,000**	1,877
Placements with financial institutions	**(2)**	(2)
Other assets	**1,111**	202
Commitments	**79**	(129)
	28,162	10,998

25 ZAKAH

The total Zakah payable as of 31 December 2020 amounted to BD 1,523 thousand (2019: BD 2,207 thousand) of which the Bank has BD 122 thousand Zakah payable (2019: BD 328 thousand) based on the statutory reserve, general reserve and retained earning as at 1 January 2021. The Zakah balance amounting to BD 1,401 thousand or 1.3 fils per share (2019: BD 1,878 thousand or 1.8 fils per share) is due and payable by the shareholders.

26 EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the net profit or loss for the year by the weighted average number of shares during the year as follows:

	2020	*2019*
(Loss) / Profit for the year in BD'000	**(12,563)**	6,214
Weighted average number of shares	**1,052,592**	1,052,254
Basic and diluted earnings per share (fils)	**(11.94)**	5.91

Basic and diluted earnings per share are the same since the Group has not issued any instruments that would have a dilutive effect.

27 RELATED PARTY TRANSACTIONS

Related parties comprise of major shareholders, directors of the Bank, senior management, close members of their families, entities owned or controlled by them and companies affiliated by virtue of common ownership or directors with that of the Bank. The transactions with these parties were made on commercial terms.

During the year, the Group sold certain assets with a carrying value of BD 43,871 thousand to Parent for a consideration of BD 43,871 thousand. The assets sold comprise, financing assets of BD 36,159 thousand, investment in equity and funds of BD 5,000 thousand and investment in associate of BD 2,712 thousand. This transaction was done at agreed commercial terms. The Bank will continue to service these assets on behalf of the Parent until these assets have been realized.

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

	2020				
	Shareholders BD'000	*Associates and joint ventures BD'000*	*Directors and related entities BD'000*	*Senior management BD'000*	*Total BD'000*
Assets					
Financing assets	-	-	905	681	1,586
Ijarah Muntahia Bittamleek and Ijarah rental receivables			689	146	835
Investment in associates	-	19,024	-	-	19,024
Other assets	-	-	-	500	500
Liabilities and Equity of investment accountholders					
Customers' current accounts	-	2,748	697	407	3,852
Other liabilities	801	-	320	-	1,121
Equity of investment accountholders	-	-	635	2,289	2,924
Placements from non-financial institutions and individuals	-	-	1,054	999	2,054

	2020				
	Shareholders BD'000	*Associates and joint ventures BD'000*	*Directors and related entities BD'000*	*Senior management BD'000*	*Total BD'000*
Income					
Income from financing	-	-	115	30	145
Share of results of associates, net	-	(235)	-	-	(235)
Return on equity of investment accountholders	-	-	-	(82)	(82)
Expense on placements from non-financial institutions and individuals	-	-	(29)	(43)	(72)
Expenses					
Other expenses	-	-	(499)	-	(499)
Staff costs	-	-	-	(1,773)	(1,773)

27 RELATED PARTY TRANSACTIONS (continued)

	2019				
	Shareholders	*Associates and joint ventures*	*Directors and related entities*	*Senior management*	*Total*
	BD'000	*BD'000*	*BD'000*	*BD'000*	*BD'000*
Assets					
Financing assets	-	-	1,261	546	1,807
Investment in associates	-	18,750	-	-	18,750
Other assets	-	-	-	266	266
Liabilities and Equity of investment accountholders					
Placements from non-financial institutions and individuals	44,930	-	50	-	44,980
Customers' current accounts	-	1,857	390	109	2,356
Other liabilities	-	-	297	-	297
Equity of investment accountholders	-	-	959	1,159	2,118

	2019				
	Shareholders	*Associates and joint ventures*	*Directors and related entities*	*Senior management*	*Total*
	BD'000	*BD'000*	*BD'000*	*BD'000*	*BD'000*
Income					
Income from financing	-	-	103	32	135
Income from investment in real estate	-	-	-	(72)	(72)
Share of results of associates, net	-	(133)	-	-	(133)
Return on equity of investment accountholders	(1,113)	-	(1)	(51)	(1,165)
Expense on placements from non-financial institutions and individuals	(470)	-	-	-	(470)
Expenses					
Other expenses	-	-	(366)	-	(366)
Staff costs	-	-	-	(1,552)	(1,552)

Compensation of the key management personnel is as follows:

	2020	*2019*
	BD'000	*BD'000*
Short term employee benefits	**1,406**	1,244
Other long term benefits	**367**	308
	1,773	1,552

Key management personnel includes staff at the grade of assistant general manager or above and part of management committee.

28 RISK MANAGEMENT

a. Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The risks and the processes to mitigate these risks have not significantly changed from the previous year.

The Bank is primarily exposed to credit risk, liquidity risk, market risk (including profit rate risk, equity price risk, and foreign exchange risks), operational risk, reputational risk, and Sharia'a-compliance risk.

b. Risk management objectives

The risk management philosophy of the Group is to identify, monitor, and manage the various dimensions of risk with the objective of protecting asset values and income streams such that the interest of the Group's shareholders (and others to whom the Group owes a liability) are safeguarded, while maximising the returns intended to optimise the Group's shareholder return while maintaining it's risk exposure within self-imposed parameters.

The Bank's risk appetite is embodied through its risk strategy; BisB reviews and aligns its risk appetite in line with its evolving business plan, and changing economic and market scenarios, in addition to evolving regulatory requirements. The Bank also assesses its tolerance for specific risk categories and its strategy to manage these risks. To monitor and report exposures to these identified risks, the Bank adopted a comprehensive enterprise-wide Risk Management Framework that encompasses the risk limit, monitoring, and reporting structures.

c. Structure and Organization of the Risk Management Function

Risk management structure includes all levels of authorities, organizational structure, people and systems required for the effective functioning of risk management processes in the Group. The responsibilities associated with each level of the risk management structure and authorities include the following:

The Board retains ultimate responsibility and authority for all risk matters, including:

i. Establishing overall policies and procedures; and
ii. Delegating authority to the Board Risk & Compliance Committee, the Executive Committee, the Credit and Investment Committee, the Chief Executive Officer and further delegation to the management to approve and review.

The Board Risk & Compliance Committee is responsible for overseeing the Bank's risk management governance, specificially in relation to identifying, measuring, monitoring, and reporting the risks critical to the Bank's operations.

The Board Executive Committee comprises of four designated members of the Board of Directors. The Board Executive Committee has delegated authority by the Board to manage the ongoing credit activities of the Group. Decisions are taken by the Board Executive Committee either at periodic meetings or if the need arises, by circulation.

Credit and Investment Committee (CIC): The CIC oversees the Credit & Investment Policy of the bank, identifies possible risk assumed by the bank for different transactions. The CIC has the authority to make final decision on approval or rejection of proposed transactions within its delegated authority as well as to monitor the performance and quailty of the bank's credit and investment portfolio. The purpose of CIC is to assist managment in fulfilling its oversight responsibiliites relating to the credit & investment objectives, policies, controls, procedures and related activities, including but not limited to the review of the bank's investment and credit exposures, and credit, investment, per party, concentration and group limits.

The Credit & Risk Management (C&RM) division – headed by the Chief Risk Officer - has day-to-day responsibility for managing the risks involved across all areas of the Bank. C&RM provides independent identification, measurement, monitoring and control of all risk parameters, while liaising with the business divisions that ultimately own the risks. C&RM comprises a number of specialist units, including Risk Management, Credit Review & Analysis, and Credit Administration.

d. Risk Measurement and Reporting Systems

Based on the risk appetite, the Group has put in place various limits. These limits have been approved by the Board. Any limit breach is reported by the Credit & Risk Management Department (C&RM) to the relevant management/Board-level committee. The limits are reviewed and revised periodically, as required by the relevant policy and regulatory requirements.

28 RISK MANAGEMENT (continued)

e. Credit Risk

Credit risk is considered to be the most significant and pervasive risk for the Group. The Group takes on exposure to credit risk, which is the risk that the counter-party to a financial transaction will fail to discharge an obligation causing the Group to incur a financial loss. Credit risk arises principally from financing (credit facilities provided to customers), investment in Sukuk and from cash and deposits held with other banks. Further, there is credit risk in certain off-balance sheet financial instruments, including guarantees relating to purchase and sale of foreign currencies, letters of credit, acceptances and commitments to extend credit.

Credit risk monitoring and control is performed by the Credit and Risk Management Department which sets parameters and thresholds for the Group's financing activities.

i) ECL – Significant increase in credit risk (SICR)

To determine whether credit risk has significantly increased since initial recognition, the Group will compare the risk of default at the assessment date with the risk of default at initial recognition. This assessment is to be carried out at each assessment date.

For the Corporate portfolio, the Group's assessment for significant increase in credit risk (SICR) is done at a counterparty level by assigning and reviewing the movement in internal rating.

For the Retail portfolio, the Group's assessment for SICR is done at a facility level using days past due as the primary criteria.

ii) Generating the term structure of Probability of Default (PD)

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

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

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. The macro economic factors used in this analysis are shortlisted from the list given below:
(i) Gross domestic product, constant prices;
(ii) Total investments;
(iii) Gross national savings;
(iv) Inflation, average consumer prices;
(v) Volume of imports of goods and services;
(vi) Volume of exports of goods and services (including oil);
(vii) General government revenue;
(viii) General government total expenditure;
(ix) General government net lending / borrowing; and
(x) General government net debt.

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

For Corporate portfolio, through the yearly review of the corporate portfolio, the Group observes yearly performances to compute a count based PD over the one year horizon for the past 5 years. These PDs are grouped as per internal risk ratings (i.e. from 1 to 7). An average default rate of the 5 yearly observed default provides the through the cycle PDs.

In relation to the retail portfolio, the portfolio is segmented by product, as demonstrated below:
(i) Auto finance;
(ii) Mortgage finance;
(iii) Tasheel Finance and Others; and
(iv) Credit cards.

PDs for each segment are measured using Observed Default Estimation and thus PD is calculated based on Days Past Due (DPD) bucket level for each segment separately. Under this analysis, the delinquency status of accounts is tracked at an interval of one year with a moving month cycle. A minimum of 5 year DPD data is considered.

28 RISK MANAGEMENT (continued)

e. Credit Risk (Continued)

iii) Determining whether credit risk has increased significantly

In determining whether credit risk has increased significantly since initial recognition, the Group uses its internal credit risk grading system, external risk ratings, delinquency status of accounts, restructuring, expert credit judgement and, where possible, relevant historical experience.

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

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. For the year ended 31 December 2020, the Group has adopted 74 days as a backstop in line with the CBB concessionary measures (Refer note 2). Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

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

The Group classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below:-

Stage 1 (12 months ECL): for exposures subject to credit risk where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Group recognises an allowance based on the 12-month ECL. All accounts at origination would be classified as Stage 1. Only exceptions are Purchased or Originated Credit Impaired (POCI) assets.

Stage 2 (lifetime ECL not credit impaired): for exposures subject to credit risk where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the Group recognises an allowance for the lifetime ECL for all exposures categorized in this stage based on the actual / expected maturity profile including restructuring or rescheduling of exposures.

Stage 3 (lifetime ECL credit impaired): for credit-impaired exposures subject to credit risk, the Group recognises the lifetime ECL. Default identification process i.e. DPD of 90 or more is used as stage 3.

iv) Definition of 'Default'

The Group's definition of default is aligned with regulatory guidelines and internal credit risk management practices. Defaulted assets will fall under the Stage 3. In general, a counterparty is considered in default and hence relevant exposure or a group of exposures is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the exposure or group of exposures that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment; rather the combined effect of several events may have caused the impairment losses expected as a result of future events, no matter how likely, are not recognised. Objective evidence that an exposure or group of exposures is impaired includes observable data that comes to the attention of the holder of the exposure.

In general, counterparties with facilities exceeding 90 days past dues are considered in default.

v) Incorporation of forward looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an exposure has increased significantly since its initial recognition and its measurement of ECL. The Group annually source macro-economic forecast data for eleven variables from the International Monetary Fund (IMF) database for Bahrain.

Macro-economic variables are checked for correlation with the probability of default for the past five years and only those variables for which the movement can be explained are used. Management judgement is exercised when assessing the macroeconomic variables.

28 RISK MANAGEMENT (continued)

e. Credit Risk (Continued)

(vi) Measurement of ECL

The Group measures an ECL at an individual instrument level taking into account the projected cash flows, PD, LGD, Credit Conversion Factor (CCF) and discount rate. For portfolios wherein instrument level information is not available, the Group carries out ECL estimation on a collective basis.

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

(i) Probability of Default (PD);
(ii) Loss Given Default (LGD); and
(iii) Exposure At Default (EAD).

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

Corporate PD estimates are calculated based on statistical rating models, and assessed using rating tools tailored to various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD.

Retail PD estimates are measured using Observed Default Estimation at the segment level and thus PD will be calculated at DPD bucket level for each segment separately. Under this analysis, the delinquency status of accounts will be tracked at an interval of one year with a moving month cycle.

Debt type instruments portfolio, nostro and interbank placements portfolio is assessed for SICR using external ratings. The Group obtains PD estimates from Moody's / Standard & Poor's (S&P) / Fitch or any other external ratings.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

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

The period of exposure limits the period over which possible defaults are considered and thus affects the determination of PDs and measurement of ECLs (especially for Stage 2 accounts with lifetime ECL).

Subject to using a maximum of a 12-month PD for exposures subject to credit risk for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a financing commitment or guarantee.

vii) Modified exposures subject to credit risk

The contractual terms of exposures subject to credit risk may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer.

When the terms of an exposure are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:
- Its remaining lifetime PD at the reporting date based on the modified terms; with
- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

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

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

28 RISK MANAGEMENT (continued)

e. Credit Risk (Continued)

vii) Modified exposures subject to credit risk (Continued)

For exposures modified as part of the Group's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect profit and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired / in default. A customer needs to demonstrate consistently good payment behaviour over a period of time (12 months) before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL. For the year ended 31 December the Bank has adopted 3 months instead of 12 months of consistent payment behaviour in line with the CBB concessionary measures (refer note 2).

viii) Credit Risk Mitigation

Credit risk mitigation refers to the use of a number of techniques, such as obtaining collateral and guarantees to mitigate the credit risks that the Group is exposed to. Credit risk mitigants reduce the credit risk by allowing the Group to protect against counterparty non-performance of credit contracts through collaterals, netting agreements and guarantees.

Generally, the Group extends credit facilities only where supported by adequate tangible collateral security and/or audited financial statements. Facilities may be considered without adequate tangible collateral security when audited financial statements reveal satisfactory financial position/repayment ability and the facilities are properly structured and supported by assignments, guarantees, etc. as appropriate.

Personal guarantees of the partners/promoters/directors of the borrowing entity may be obtained in support of credit facilities. In all cases, a statement of net worth of the guarantor is compiled by the Account Officer, so that adequate information is available at a future date in case the guarantees need to be enforced.

Collateral coverage by type of credit exposure:

2020	**Properties BD'000**	**Others BD'000**	**Total BD'000**
Financing assets	**413,347**	**85,832**	**499,179**
Ijarah Muntahia Bittamleek & ijarah rental receivables	**284,800**	**5,956**	**290,756**
	698,147	**91,788**	**789,935**

2019	Properties BD'000	Others BD'000	Total BD'000
Financing assets	533,564	28,011	561,575
Ijarah Muntahia Bittamleek & ijarah rental receivables	273,044	27,690	300,734
	806,608	55,701	862,309

The fair value of collateral that the Group holds relating to non performing facilities at 31 December 2020 amounts to BD 88,130 thousand (31 December 2019: BD 148,855 thousand). The collateral consists of cash, securities and properties. The utilisation of the above collaterals will be on a customer by customer basis and will be limited to the customer's total exposure.

28 RISK MANAGEMENT (continued)

e. Credit Risk (Continued)

ix) Gross maximum exposure to credit risk

The market value of tangible collateral security is properly evaluated by the Group approved surveyors (for properties) or based on publicly available quotations. Only the amount of such security equivalent to the exposure is taken into account while considering credit facilities.

The table below shows the gross maximum exposure to credit risk for the components of the consolidated statement of financial position, including credit related commitments. The figures represent gross exposure of any collateral held or other credit enhancements.

	2020	*2019*
	BD'000	*BD'000*
Balances with banks and Central Bank	**34,542**	45,408
Placements with financial institutions	**44,442**	76,068
Financing assets	**571,513**	574,851
Ijarah Muntahia Bittamleek and ijarah rental receivables	**212,042**	204,403
Debt type investment instruments	**251,884**	213,813
	1,114,423	1,114,543
Letters of credit, guarantees and acceptances	**49,223**	70,772

x) Risk concentrations of the maximum exposure to credit risk

Concentrations of credit risk 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 of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The Group seeks to manage its credit risk exposure through diversification of financing activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses.

The distribution of the Group's assets, liabilities, equity of investment accountholders, commitments and contingent liabilities by geographic region and industry sector is as follows:

	Assets		Liabilities and equity of investment accountholders		Commitments and contingent liabilities	
	31 December 2020	*31 December 2019*	***31 December 2020***	*31 December 2019*	***31 December 2020***	*31 December 2019*
	BD'000	*BD'000*	***BD'000***	*BD'000*	***BD'000***	*BD'000*
Geographical region						
Middle East	**1,205,164**	1,209,632	**1,113,563**	1,099,707	**146,754**	167,993
North America	**6,237**	4,591	**1,541**	2,128	**-**	-
Europe	**165**	9,315	**425**	165	**-**	-
Other	**15**	22	**10**	637	**-**	-
	1,211,581	1,223,560	**1,115,539**	1,102,637	**146,754**	167,993
Industry sector						
Trading and Manufacturing	**82,868**	126,011	**48,080**	27,384	**19,432**	27,363
Aviation	**-**	-	**170**	143	**-**	-
Real Estate	**335,885**	154,318	**107,931**	70,571	**27,603**	37,470
Banks and Financial Institutions	**89,829**	128,343	**96,313**	154,377	**2,028**	2,060
Personal / Consumer Finance	**342,078**	456,862	**637,704**	548,970	**37,847**	35,004
Governmental Organizations	**302,219**	299,387	**102,780**	143,835	**46,963**	51,930
Others	**58,702**	58,639	**122,561**	157,357	**12,881**	14,166
	1,211,581	1,223,560	**1,115,539**	1,102,637	**146,754**	167,993

28 RISK MANAGEMENT (Continued)

e) Credit Risk (continued)

xi) Credit quality of exposures subject to credit risk

(i) The following table sets out information about the credit quality of exposures subject to credit risk, unless specifically indicated:

	31 December 2020			
	Stage 1	*Stage 2*	*Stage 3**	*Total*
Financing assets (Funded exposure)				
Low risks	413,273	7,874	-	421,147
Acceptable risks	76,689	41,556	-	118,245
Watch list	1,520	4,030	-	5,550
Non performing	-	-	52,610	52,610
Gross exposure	**491,482**	**53,460**	**52,610**	**597,552**
Less: ECL	(2,627)	(5,052)	(18,360)	(26,039)
Financing assets carrying amount	**488,855**	**48,408**	**34,250**	**571,513**
Ijarah Muntahia Bittamleek & Ijara rental receivables				
Low risks	190,548	663	-	191,211
Acceptable risks	4,382	13,455	-	17,837
Watch list	1,084	596	-	1,680
Non performing	-	-	3,657	3,657
Gross exposure	**196,014**	**14,714**	**3,657**	**214,385**
Less: ECL	(467)	(601)	(1,275)	(2,343)
Ijarah muntahia bittamleek & Ijara rental receivables carrying amount	**195,547**	**14,113**	**2,382**	**212,042**
Investment in Sukuk				
Low risks	246,826	-	-	246,826
Acceptable risks	5,309	-	-	5,309
Watch list	-	-	-	-
Non performing	-	-	12,549	12,549
Gross exposure	**252,135**	**-**	**12,549**	**264,684**
Less: ECL	(251)	-	(12,549)	(12,800)
Investment in Sukuk carrying amount	**251,884**	**-**	**-**	**251,884**
Placements with financial institutions				
Low risks	44,443	-	-	44,443
Acceptable risks	-	-	-	-
Watch list	-	-	-	-
Non performing	-	-	-	-
Gross exposure	**44,443**	**-**	**-**	**44,443**
Less: ECL	(1)	-	-	(1)
Placements with financial institutions carrying amount	**44,442**	**-**	**-**	**44,442**

28 RISK MANAGEMENT (Continued)

e) Credit Risk (continued)

xi) Credit quality of exposures subject to credit risk (continued)

	31 December 2020			
	Stage 1	*Stage 2*	*Stage 3**	*Total*
Balances with Banks				
Low risks	10,830	-	-	10,830
Acceptable risks	-	-	-	-
Watch list	-	-	-	-
Non performing	-	-	-	-
Gross exposure	**10,830**	**-**	**-**	**10,830**
Less: ECL	-	-	-	-
Balances with Banks carrying amount	**10,830**	**-**	**-**	**10,830**
Total funded exposures subject to credit risk carrying amount	**991,558**	**62,521**	**36,632**	**1,090,711**
Commitments				
Gross exposure	**35,910**	**1,236**	**88**	**37,234**
Less: ECL	(67)	(69)	-	(136)
Commitments carrying amount	**35,843**	**1,167**	**88**	**37,098**

*This includes BD 39,599 thousand of gross on-balance sheet exposures in the cooling off period.

(ii) The following table shows the movement in ECL in various stages:

	31 December 2020			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
At 1 January 2020	**1,902**	**4,344**	**50,602**	**56,848**
Transfer to Stage 1	**873**	**(443)**	**(430)**	**-**
Transfer to Stage 2	**(143)**	**731**	**(588)**	**-**
Transfer to Stage 3	**(171)**	**(2,801)**	**2,972**	**-**
Net movement between stages	**559**	**(2,513)**	**1,954**	**-**
Charge for the year (net)	**952**	**3,891**	**18,184**	**23,027**
Write-off	**-**	**-**	**(38,541)**	**(38,541)**
Foreign exchange movement	**-**	**-**	**(15)**	**(15)**
At 31 December 2020	**3,413**	**5,722**	**32,184**	**41,319**

28 RISK MANAGEMENT (Continued)

e) Credit Risk (continued)

xi) Credit quality of exposures subject to credit risk

(iii) The following table sets out information about the credit quality of exposures subject to credit risk, unless specifically indicated:

	31 December 2019			
	Stage 1	*Stage 2*	*Stage 3**	*Total*
Financing assets (Funded exposure)				
Low risks	394,602	6,010	-	400,612
Acceptable risks	78,756	23,295	-	102,051
Watch list	235	3,713	-	3,948
Non performing	-	-	97,710	97,710
Gross exposure	473,593	33,018	97,710	604,321
Less: ECL	(1,615)	(1,557)	(26,298)	(29,470)
Financing assets carrying amount	471,978	31,461	71,412	574,851
Ijarah Muntahia Bittamleek & Ijara rental receivables				
Low risks	162,208	2,023	-	164,231
Acceptable risks	5,791	9,426	-	15,217
Watch list	-	9,384	-	9,384
Non performing	-	-	30,362	30,362
Gross exposure	167,999	20,833	30,362	219,194
Less: ECL	(208)	(2,786)	(11,797)	(14,791)
Ijarah muntahia bittamleek & Ijara rental receivables carrying amount	167,791	18,047	18,565	204,403
Investment in Sukuk				
Low risks	204,351	-	-	204,351
Acceptable risks	9,093	-	-	9,093
Watch list	-	-	-	-
Non performing	-	-	12,563	12,563
Gross exposure	213,444	-	12,563	226,007
Less: ECL	(20)	-	(12,174)	(12,194)
Investment in Sukuk carrying amount	213,424	-	389	213,813
Placements with financial institutions				
Low risks	76,071	-	-	76,071
Acceptable risks	-	-	-	-
Watch list	-	-	-	-
Non performing	-	-	-	-
Gross exposure	76,071	-	-	76,071
Less: ECL	(3)	-	-	(3)
Placements with financial institutions carrying amount	76,068	-	-	76,068

28 RISK MANAGEMENT (Continued)

e) Credit Risk (continued)

xi) Credit quality of exposures subject to credit risk (continued)

	31 December 2019			
	Stage 1	*Stage 2*	*Stage 3**	*Total*
Balances with Banks				
Low risks	9,893	-	-	9,893
Acceptable risks	-	-	-	-
Watch list	-	-	-	-
Non performing	-	-	-	-
Gross exposure	9,893	-	-	9,893
Less: ECL	-	-	-	-
Balances with Banks carrying amount	9,893	-	-	9,893
Other Receivables				
Low risks	-	-	-	-
Acceptable risks	-	-	-	-
Watch list	-	-	-	-
Non performing	-	-	1,666	1,666
Gross exposure	-	-	1,666	1,666
Less: ECL	-	-	(333)	(333)
Other Receivables carrying amount	-	-	1,333	1,333
Total funded exposures subject to credit risk carrying amount	939,154	49,508	91,699	1,080,361
Commitments				
Gross exposure	45,882	194	1,228	47,304
Less: ECL	(56)	(1)	-	(57)
Commitments carrying amount	45,826	193	1,228	47,247

*This includes BD 35,265 thousand of gross on-balance sheet exposures in the cooling off period.

(iv) The following table shows the movement in ECL in various stages:

	31 December 2019			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
At 1 January 2019	2,789	5,596	47,639	56,024
Transfer to Stage 1	503	(268)	(235)	-
Transfer to Stage 2	(277)	1,314	(1,037)	-
Transfer to Stage 3	(119)	(1,315)	1,434	-
Net movement between stages	107	(269)	162	-
Charge for the year (net)	(994)	(983)	10,679	8,702
Write-off	-	-	(7,885)	(7,885)
Foreign exchange movement	-	-	7	7
At 31 December 2019	1,902	4,344	50,602	56,848

28 RISK MANAGEMENT (continued)

f. Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its obligations when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to cease immediately. To guard against this risk, the Group has a large customer base and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, commodity Murabaha, Wakala receivables, credit lines and high-quality sukuk.

i) Maturity profile of Group's assets and liabilities

The table below summarises the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period from the consolidated statement of 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 equity of investment accountholders.

The maturity profile of assets, liabilities and equity of investment accountholders at 31 December 2020 was as follows:

	Up to 1 month	*1 to 3 months*	*3 to 6 months*	*6 months to 1 year*	*1 to 3 years*	*Over 3 years*	*No fixed maturity*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*
ASSETS								
Cash and balances with the banks and Central Bank	26,650	-	-	-	-	-	23,712	50,362
Placements with financial institutions	44,442	-	-	-	-	-	-	44,442
Financing assets	28,466	49,800	37,748	63,108	158,678	233,713	-	571,513
Ijarah Muntahia Bittamleek and ijarah rental receivables	1,637	2,329	3,376	6,159	28,980	169,561	-	212,042
Investment securities	9,538	-	3,783	20,135	867	217,561	24,724	276,608
Investment in associates	-	-	-	-	-	-	19,024	19,024
Investment in real estate	-	-	-	-	-	-	16,226	16,226
Property and equipment	-	-	-	-	-	-	14,047	14,047
Other assets	55	665	773	89	479	1,264	3,992	7,317
Total assets	110,788	52,794	45,680	89,491	189,004	622,099	101,725	1,211,581
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS								
Placements from financial institutions	49,221	49,356	17,395	22,091	9,830	-	-	147,893
Placements from non-financial institutions and individuals	66,662	60,855	75,220	58,265	-	-	-	261,002
Borrowings from financial institutions	-	-	-	-	-	-	-	-
Customers' current accounts	188,742	-	-	-	-	-	-	188,742
Other liabilities	23,642	-	-	-	-	-	-	23,642
Equity of investment accountholders	360,415	26,396	32,983	28,887	44,263	1,316	-	494,260
Total liabilities and equity of investment accountholders	688,682	136,607	125,598	109,243	54,093	1,316	-	1,115,539
Liquidity gap	(577,894)	(83,813)	(79,918)	(19,752)	134,911	620,783	101,725	96,042
Cumulative liquidity gap	(577,894)	(661,707)	(741,625)	(761,377)	(626,466)	(5,683)	96,042	-

28 RISK MANAGEMENT (continued)

f. Liquidity risk (continued)

The maturity profile of assets, liabilities and equity of investment accountholders at 31 December 2019 was as follows:

	Up to 1 month	*1 to 3 months*	*3 to 6 months*	*6 months to 1 year*	*1 to 3 years*	*Over 3 years*	*No fixed maturity*	*Total*
ASSETS	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*
Cash and balances with the banks and Central Bank	26,114	-	-	-	-	-	35,515	61,629
Placements with financial institutions	76,068	-	-	-	-	-	-	76,068
Financing assets	32,808	20,362	31,917	42,826	183,732	263,206	-	574,851
Ijarah Muntahia Bittamleek and ijarah rental receivables	10,102	1,681	2,242	5,219	23,478	161,681	-	204,403
Investments securities	-	-	11,647	13,377	29,961	158,828	32,400	246,213
Investment in associates	-	-	-	-	-	-	18,750	18,750
Investment in real estate	-	-	-	-	-	-	18,756	18,756
Property and equipment	-	-	-	-	-	-	13,591	13,591
Other assets	102	748	692	173	539	514	6,531	9,299
Total assets	145,194	22,791	46,498	61,595	237,710	584,229	125,543	1,223,560
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS								
Placements from financial institutions	43,107	35,054	18,125	21,528	9,150	-	-	126,964
Placements from non-financial institutions and individuals	33,758	70,612	61,486	45,504	2,060	-	-	213,420
Borrowings from financial institutions	29,566	-	-	-	-	-	-	29,566
Customers' current accounts	36,338	-	-	-	-	145,354	-	181,692
Other liabilities	21,516	-	-	-	-	-	-	21,516
Equity of investment accountholders	160,195	53,490	29,524	24,706	24,969	236,595	-	529,479
Total liabilities and equity of investment accountholders	324,480	159,156	109,135	91,738	36,179	381,949	-	1,102,637
Liquidity gap	(179,286)	(136,365)	(62,637)	(30,143)	201,531	202,280	125,543	120,923
Cumulative liquidity gap	(179,286)	(315,651)	(378,288)	(408,431)	(206,900)	(4,620)	120,923	-

28 RISK MANAGEMENT (continued)

f. Liquidity risk (continued)

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

LCR has been developed to promote short-term resilience of a bank's liquidity risk profile. The LCR requirements aim to ensure that a bank has an adequate stock of unencumbered high quality liquidity assets (HQLA) that consists of assets that can be converted into cash immediately to meet its liquidity needs for a 30 calendar day stressed liquidity period. The stock of unencumbered HQLA should enable the Bank to survive until day 30 of the stress scenario, by which time appropriate corrective actions would have been taken by management to find the necessary solutions to the liquidity crisis.

LCR is computed as a ratio of Stock of HQLA over the Net cash outflows over the next 30 calendar days. Effective from 30 June 2019, the Bank is required to maintain LCR greater than 100%.

NSFR is to promote the resilience of banks' liquidity risk profiles and to incentivise a more resilient banking sector over a longer time horizon. The NSFR will require banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. A sustainable funding structure is intended to reduce the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress. The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on-balance sheet and off-balance sheet items and promotes funding stability. For the year ended 31 December 2020 CBB has announced various concessionary measures to improve liquidity. One of these measures is reducing the required ratio of LCR & NSFR from 100% to 80% (refer note 2).

NSFR as a percentage is calculated as "Available stable funding" divided by "Required stable funding". Effective from 31 December 2019, the Bank is required to maintain NSFR ratio greater than 80%. As of 31 December 2020 the Group had NSFR ratio of 126%.

g. Market Risk

The Group has accepted the definition of market risk as defined by CBB as "the risk of losses in on and off balance sheet positions arising from movements in market prices".

i) Profit rate risk

Profit rate risk is the sensitivity of financial products to changes in the profit rates. Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. 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 inline with the market rates.

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

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

28 RISK MANAGEMENT (continued)

g. Market Risk (continued)

ii) Equity price risk

Equity price risk is the sensitivity of financial products to the changes in equity prices. Equity risk arises from holding open positions in equities or equity based instruments, thereby creating exposure to a change in the market price of the equity. In addition to Group performance expectations, equity prices are also susceptible to general economic data and sector performance expectations.

As at the consolidated statement of financial position date, the Group has unquoted (equities and Sukuk) of BD 48 million (31 December 2019: BD 56 million). The impact of changes in the value of these unquoted equities and Sukuk and the related impact on equity will only be reflected when the financial instrument is sold or deemed to be impaired.

iii) Foreign exchange risk

Foreign exchange risk is the sensitivity of financial products to changes in spot foreign exchange rates. The value of the Group's portfolio which is denominated in a number of currencies may be exposed to these risks when converted back to the Group's base currency.

The Group had the following significant net exposures denominated in foreign currencies as of 31 December:

	Equivalent long (short) ***2020*** ***BD '000***	*Equivalent long (short)* *2019* *BD '000*
Currency		
Pound Sterling	**131**	98
Euro	**56**	140
Kuwaiti Dinars	**326**	(1,257)

As the Bahraini Dinar is pegged to the US Dollar, positions in US Dollars are not considered to represent significant foreign exchange risk.

Moreover, as the Group does not have significant exposures in other currencies, movement of the currency exchange rates against the Bahraini Dinar with other variables held constant will have an immaterial impact on the consolidated statement of income and owners' equity.

iv) Commodity risk

Commodity risk is defined as inherent risk in financial products arising from their sensitivity to changes in commodity prices. Since prices in commodity markets are determined by fundamental factors (i.e. supply and demand of the underlying commodity) these markets may be strongly correlated within a particular sector and less correlated across sectors.

h. Operational Risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

29 SEGMENTAL INFORMATION

For management purposes, the Group is organized into three major business segments;

Corporate	Principally handling equity of corporate investment accountholders', corporate current accounts, and providing Islamic financing facilities to corporate customers.
Retail	Principally handling equity of individual retail customers' investment accountholders', retail current accounts, and providing Islamic financing facilities to individual customers.
Investment	Principally handling equity of banks' and financial institutions' investment accountholders, providing money market, trading and treasury services as well as the management of the Group's investment activities. Investment activities involve handling debt and equity investments in local and international markets and investment in real estate.

These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at estimated market rates on an arm's length basis. Transfer charges are based on a pool rate which approximates the cost of funds.

Segment information is disclosed as follows:

	31 December 2020			
	Corporate BD'000	***Retail BD'000***	***Investment BD'000***	***Total BD'000***
Total income	**7,133**	**20,811**	**11,056**	**39,000**
Total expenses	**(5,078)**	**(15,946)**	**(2,377)**	**(23,401)**
Provision for impairment	**(18,526)**	**(3,882)**	**(5,754)**	**(28,162)**
Profit / (Loss) for the year	**(16,471)**	**983**	**2,925**	**(12,563)**
Other information				
Segment assets	**264,426**	**573,484**	**373,671**	**1,211,581**
Segment liabilities and equity	**419,075**	**634,873**	**157,633**	**1,211,581**

	31 December 2019			
	Corporate BD'000	*Retail BD'000*	*Investment BD'000*	*Total BD'000*
Total income	10,297	21,265	10,745	42,307
Total expenses	(5,929)	(17,205)	(1,961)	(25,095)
Provision for impairment	(7,356)	(1,179)	(2,463)	(10,998)
Profit for the year	(2,988)	2,881	6,321	6,214
Other information				
Segment assets	334,932	510,689	377,939	1,223,560
Segment liabilities and equity	417,266	564,368	241,926	1,223,560

The Group operates solely in the Kingdom of Bahrain and, as such, no geographical segment information is presented.

30 FINANCIAL INSTRUMENTS

Fair value hierarchy

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

Fair values of quoted securities/Sukuk are derived from quoted market prices in active markets, if available. For unquoted securities/Sukuk, fair value is estimated using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

In case of financing assets the average profit rate of the portfolio is in line with current market rates for similar facilities and hence after consideration of adjustment for prepayment risk and impairment charges it is expected that the current value would not be materially different from fair value of these assets. Unquoted shares and unquoted managed funds of BD 24,724 thousand (31 December 2019: BD 32,400 thousand) are treated as Level 3 investments. During the year fair value movement of BD 2,024 thousand (31 December 2019: BD 419 thousand) was charged to income statement and BD 978 thousand (31 December 2019: BD Nil thousand) was charged to the fair value reserve. The estimated fair value of the Bank's other financial instruments are not significantly different from their carrying values due to their short-term nature.

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

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

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

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

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy at 31 December:

2020	***Level 1 BD'000***	***Level 2 BD'000***	***Level 3 BD'000***	***Total BD'000***
Unquoted shares	-	-	**24,288**	**24,288**
Unquoted managed funds	-	-	**436**	**436**
Total	-	-	**24,724**	**24,724**

2019	*Level 1 BD'000*	*Level 2 BD'000*	*Level 3 BD'000*	*Total BD'000*
Unquoted shares	-	-	28,178	28,178
Unquoted managed funds	-	-	4,222	4,222
Total	-	-	32,400	32,400

Transfers between Level 1, Level 2 and Level 3

During the year ended 31 December 2020 there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurement.

31 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a Qard fund account where the Group uses these funds for various charitable purposes. The movements in these funds is shown in the consolidated statement of sources and uses of good faith Qard fund. The non-Islamic income includes the penalties charged on late repayments for Islamic facilities.

32 SHARI'A SUPERVISORY BOARD

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

33 SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through Zakah and charity fund's expenditures and donations to good faith Qard fund for marriage, refurbishment, medical treatments, etc.

34 COMPARATIVE FIGURES

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

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

The Central Bank of Bahrain (CBB) announced various measures to combat the effects of COVID-19 to ease liquidity conditions in the economy as well as to assist banks in complying with regulatory requirements. These measure include the following:
• Payment holiday for 6 months to eligible customers;
• Concessionary repo to eligible banks at zero percent;
• Reduction of cash reserve ratio from 5% to 3%;
• Reduction of liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) ratio from 100% to 80%;
• Aggregate of modification loss and incremental expected credit losses (ECL) provision for stage 1 and stage 2 from March to December 2020 to be added back to Tier 1 capital for the two years ending 31 December 2020 and 31 December 2021. And to deduct this amount proportionately from Tier 1 capital on an annual basis for three years ending 31 December 2022, 31 December 2023 and 31 December 2024.

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

• The CBB mandated 6-month payment holidays requires impacted banks to recognize a one-off modification loss directly in equity. The modification loss has been calculated as the difference between the net present value of the modified cash flows calculated using the original effective profit rate and the current carrying value of the financial assets on the date of modification.

• The Government of Kingdom of Bahrain has announced various economic stimulus programmes ("Packages") to support businesses in these challenging times. The Group received regulatory directive financial assistance representing specified reimbursement of a portion of staff costs, waiver of fees, levies and utility charges and zero cost funding received from the government and/or regulators, in response to its COVID-19 support measures. This has been recognized directly in the Group's equity.

• The mandated 6 months payments holiday included the requirement to suspend minimum payments and service fees and outstanding credit card balances, this resulted in a significant decline in the Group's fees income.

• The Group continues to meet the regulatory requirement of CAR, LCR and NSFR.

• The strain caused by COVID-19 on the local economy resulted in a slow-down in the booking of new financing assets by the Group. During the year, financing assets bookings were 18% lower than the same period of the previous year.

• Decreased consumer spending caused by the economic slow-down resulted in an increase in balances on demand held by the Group, whereas, time deposit balances decreased compared to the same period of the previous year. These effects partly alleviated the liquidity stress faced by the Group due to the mandated 6 months payment holiday.

• The stressed economic situation resulted in the Group recognizing incremental ECL on its exposures.

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

	Net impact on the Group's consolidated income statement	Net impact on the Group's consolidated financial position	Net impact on the Group's consolidated owners' equity
	BD'000	*BD'000*	*BD'000*
Average reduction of cash reserve	-	14,798	-
Concessionary repo at 0%		40,741	-
Modification loss	-	-	(14,711)
Government grants	-	-	1,814
Stressed liquidity	(412)	-	-
Credit card income	(841)	-	-
ECL attributable to COVID-19	(4,258)	(4,258)	-
	(5,512)	**51,281**	**(12,897)**

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