ITHMAAR HOLDING B.S.C.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

Ithmaar Holding B.S.C.
Consolidated financial statements for the year ended 31 December 2021

Contents	**Page**

In the Name of Allah, the Beneficent, the Merciful

Report of the Sharia Supervisory Board on the activities of Ithmaar Holding B.S.C. and subsidiaries for the Financial Year from 1 January 2021 until 31 December 2021, corresponding to the Year from 17 Jumada Al-Ula 1442 H until 27 Jumada Al-Ula 1443 H.

Praise be to Allah, the Lord of the worlds, and peace and blessings be upon our Master, Mohammed, the leader of Prophets and Messengers, and upon his scion and companions, and upon those who follow his guidance until the Day of Judgment.

The Sharia Supervisory Board of Ithmaar Holding B.S.C. and its subsidiaries ("Ithmaar") performed the following during the financial year ended 31 December 2021:

1- Issued fatwas and Sharia resolutions related to Ithmaar's products and activities through Ithmaar's Sharia Coordination and Implementation Department and followed its execution through Internal Sharia Audit Department while also guiding different departments towards implementing Sharia-compliant transactions.

2- Studied different mechanisms of financing, investment and mudaraba accounts and prepared its documents with the concerned departments that develop and market products.

3- Examined the accounts, records and transactions and auditing some of their samples through Internal Sharia Audit Department as per established sharia auditing standards.

4- Reviewed the report of the External Shariah Auditor and took his observations into consideration.

5- Examined sources of income and expenditures through reviewing the consolidated statements of financial position, income statement and Ithmaar's overall banking activities.

We have reviewed the principles and contracts relating to transactions and products that has been executed by Ithmaar during the year ended 31 December 2021. We have also conducted the required inspections to provide our opinion on whether Ithmaar had complied with the provisions and principles of Islamic Sharia, as well as fatwas, resolutions and specific guidance that was issued by us, resolutions of the Centralized Sharia Council and the regulations and instructions issued by the Central Bank of Bahrain.

The management is responsible for ensuring that Ithmaar operates in accordance with the provisions and principles of Islamic Sharia. Our responsibility is to express an independent opinion based on our observations of Ithmaar's operations, and prepare a report to this effect .

In view of the above the Sharia Supervisory Board hereby resolves as follows:

With regard to Ithmaar's business in general:

a. Ithmaar's overall operations and activities were conducted in full compliance with the principles and provisions of Islamic Sharia and in accordance with the Sharia Supervisory Board - approved standard contracts.

b. Mudaraba profit and loss distribution reserve is in-compliance with the principles and provisions of Islamic Sharia.

c. Income generated from non-sharia compliant investments of the conventional assets transferred to Ithmaar when Shamil Bank merged with Ithmaar Bank in 2010, these have been identified, disclosed and published to the shareholders in Note (41) of the Consolidated Financial Statements, and the Sharia Supervisory Board directs Ithmaar towards continuous correction of the status of these investments.

Report of the Sharia Supervisory Board on the activities of Ithmaar Holding B.S.C. and subsidiaries for the Financial Year from 1 January 2021 until 31 December 2021, corresponding to the Year from 17 Jumada Al-Ula 1442 H until 27 Jumada Al-Ula 1443 H.

d. Zakat is calculated in accordance to Sharia Standard on Zakat issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Shareholders are responsible for payment of Zakat on their shares.

<u>Non-sharia compliant income:</u>

To ensure compliance with the Fatwas and previous Directions of the Sharia Supervisory Board relating to conventional assets transferred to Ithmaar in 2010, the Sharia Supervisory Board has reviewed the consolidated income statement of Ithmaar for the year ended 31 December 2021 and has satisfied itself that Ithmaar has appropriately disclosed the income and expenses arising from the conventional assets and liabilities in Note (41). Accordingly, the Sharia Supervisory Board guides the shareholders of Ithmaar to dispose of impermissible earnings which has been calculated, in the current year's financial statements, at 2.70 US cents per share.

We pray to Almighty Allah to grant success to Ithmaar Holding and whom are responsible and grant them success for everything He pleases. May peace and blessings be upon our Master, Mohammed, and upon his scion and companions.

This report has been issued on 27 Jumada Al-Akhirah 1443, 30 January 2022.

Member	Member	Deputy Chairman
His Eminence Shaikh	His Eminence Shaikh	His Eminence Shaikh
Osama Bahar	Mohsen Alasfoor	Nedham Yaqoobi

The Directors submit their report dealing with the activities of Ithmaar Holding B.S.C. ("Ithmaar") for the year ended 31 December 2021, together with the audited consolidated financial statements of Ithmaar and its subsidiaries (collectively the "Group") for the year then ended.

Principal activities

Ithmaar Holding B.S.C directly owns two major subsidiaries, Ithmaar Bank B.S.C (C) (Ithmaar Bank), an Islamic retail bank subsidiary which holds the core retail banking business, and IB Capital B.S.C (C), an Islamic investment subsidiary which holds investments and other non-core assets. The two subsidiaries are licensed and regulated by the Central Bank of Bahrain.

The principal activities of the Group are a wide range of financial services, including retail, commercial, asset management, private banking, takaful and real estate development.

Consolidated financial position and results

The consolidated financial position of the Group as at 31 December 2021, together with the consolidated results for the year then ended is set out in the accompanying consolidated financial statements.

The Group has reported a net profit of $60.3 million for the year ended 31 December 2021, as compared to a net loss of US$21.5 million for 2020. The net profit attributable to the equity holders of the Group is $38.6 million for 2021, as compared to a net loss of $41.7 million for 2020. Total assets at 31 December 2021 amounted to $9,032.8 million (31 December 2020: $8,383.7 million).

During January 2022, Ithmaar Holding agreed in-principle with Al Salam Bank B.S.C. (Al Salam) on the acquisition of the consumer banking business of Ithmaar Bank, and Ithmaar Holdings' ownership stake in both Bank of Bahrain and Kuwait B.S.C, and Solidarity Group Holding. This announcement followed the execution of a non-legally binding Memorandum of Understanding (MoU) between the two entities in October 2021. The transaction remains subject to the approval of Ithmaar Holding's shareholders and the signing of definitive agreements.

Directors

The following served as Directors of Ithmaar during the year ended 31 December 2021:

HRH Prince Amr Mohammed Al-Faisal (Chairman)
Tunku Yaacob Khyra
Governor Abdelhamid Mohamed Abou Moussa
Sheikh Zamil Abdullah Al-Zamil
Mr. Mohammed A. Rahman Bucheerei
Mr. Abdulellah Ebrahim Al-Qassimi
Dr. Amani Khaled Bouresli
Sheikh Mohamed Abdullah El Khereiji
Ms. Elham Ebrahim Hassan
Mr. Omar Abdi Ali

(Expressed in United States Dollars unless otherwise stated)

Directors' & Executive Management Remuneration

In accordance with the provisions of the Commercial Companies Law No. (21) of 2001 and its amendments, and pursuant to the provisions of Article No. (188) of the Commercial Companies Law and Article No. (125) of the Executive Regulations of Resolution No. (3) for the year 2022, the table below shows the remuneration of members of the Board of Directors and the Executive Management for the fiscal year ended 31 December 2021.

Board of Directors' Remuneration Details:

Name	Remunerations of the chairman and BOD	Total allowance for attending Board and committee meetings	Salaries	Others	Total
Independent Directors					
1. Dr. Amani Khaled Bouresli	-	54,000	-	-	54,000
2. Ms. Elham Ebrahim Hassan	-	54,000	-	-	54,000
3. Mr. Abdulellah Ebrahim Al-Qassimi	-	60,000	-	-	60,000
4. Tunku Yaacob Khyra	-	36,000	-	-	36,000
5. Sheikh Zamil Abdullah Al-Zamil	-	36,000	-	-	36,000
Non-Executive Directors:					
1. HRH Prince Amr Mohammed Al-Faisal	-	30,000	-	-	30,000
2. Mr. Omar Abdi Ali	-	30,000	-	-	30,000
3. Sheikh Mohamed Abdullah El Khereiji	-	30,000	-	-	30,000
Executive Directors:					
1. Governor Abdelhamid Mohamed Abou Moussa	-	30,000	-	-	30,000
2. Mr. Mohammed A. Rahman Bucheerei	-	30,000	-	-	30,000
Total	**-**	**390,000**	**-**	**-**	**390,000**

Note:

1.The Bank does not have any variable remuneration payments, end of service benefits, or expense allowances paid to its directors. Further there is no remuneration proposed for the year.

2. Board remuneration represents payments made during the year 2021 based on the approval of the Annual General Meeting dated 28 March 2021.

Interests of Directors

The interests of the Directors in the shares of Ithmaar are disclosed below:

	Number of Shares	
Name	**31 December 2021**	**31 December 2020**
HRH Prince Amr Mohammed Al-Faisal	106,100	106,100
Tunku Yaacob Khyra	106,100	106,100
Governor Abdelhamid Mohamed Abou Moussa	106,100	106,100
Sheikh Zamil Abdullah Al-Zamil	205,000	205,000
Mr. Mohammed A. Rahman Bucheerei	105,600	105,600
Mr. Abdulellah Ebrahim Al-Qassimi	106,100	106,100
Dr. Amani Khaled Bouresli	-	-
Sheikh Mohamed Abdullah El Khereiji	-	-
Ms. Elham Ebrahim Hassan	-	-
Mr. Omar Abdi Ali	-	-

Dividend

No dividend has been proposed for 2021 (2020: Nil).

Auditors

The auditors, PricewaterhouseCoopers ME Limited, have expressed their willingness to be reappointed as auditors of Ithmaar for the year ending 31 December 2022.

By order of the Board of Directors

HRH Prince Amr Mohamed Al Faisal
Chairman

14 February 2022

Independent Auditor's Report to the Shareholders of Ithmaar Holding B.S.C.

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Ithmaar Holding Company B.S.C. ("Ithmaar") and its subsidiaries (the "Group") as at 31 December 2021, its consolidated financial performance, consolidated cash flows and consolidated statement of changes in restricted investment accounts, for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") as modified by the Central Bank of Bahrain ("CBB").

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2021;
- the consolidated income statement for the year then ended;
- the consolidated statement of changes in owners' equity for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in restricted investment accounts for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with the Auditing Standards for Islamic Financial Institutions issued by AAOIFI. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions (AAOIFI Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in the Kingdom of Bahrain. We have fulfilled our other ethical responsibilities in accordance with these requirements and the AAOIFI Code.

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Bahrain Financial Harbour, T: +973 17 118800, F: +973 17 540556, www.pwc.com/me, CR no. 47378

Report on the audit of the consolidated financial statements (continued)

Our audit approach

Overview

Key audit matters	• Impairment and credit losses on financing facilities, including impacts of COVID-19 pandemic • Planned disposal and application of IFRS 5 • Board of Directors' assessment of the preparation of the consolidated financial statements on a going concern basis

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Board of Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

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 year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

Report on the audit of the consolidated financial statements (continued)

Our audit approach (continued)

Key audit matters (continued)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the Key audit matter</th></tr>
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Impairment and credit losses on financing facilities, including impacts of COVID-19 pandemic

Impairment allowances represent the Board of Directors' best estimate of the credit losses arising including due to the COVID-19 pandemic downturn. As described in the summary of significant accounting policies to the Group's consolidated financial statements, the impairment losses have been determined in accordance with FAS 30.

We focused on this area because the Board of Directors makes complex and subjective judgements over amount and timing of recognition of impairment to capture the recent developments in the financing facilities including the impact of COVID-19 pandemic, such as:

- Update factors including GDP and oil prices.
- Determining criteria for significant increase in credit risk.
- Choosing appropriate models and assumptions for the measurement of Expected Credit Losses (ECL) including Probability of default (PD), Loss Given Default (LGD), and Exposure at Default (EAD).
- Adjustments to models based on weighting assigned to base case, upside and downside scenarios.
- Establishing groups of similar assets for the purpose of measuring the ECL.
- Determining disclosure requirements in accordance with FAS 30.

The Group's financing facilities that are subject to credit risk, included financing assets amounting to USD 4,008.5 million and off-balance sheet exposures amounting to USD 2,290.8 million as at 31 December 2021, which are material to the Group. Information on the credit risk including Group's credit risk management is provided in note 37 to the Group's consolidated financial statements.

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Our audit procedures included the following:

- We assessed and tested a sample of key controls around origination and approval of financing facilities and monitoring of credit exposure and impairment calculation;
- We evaluated the appropriateness of the Group's impairment provisioning policy in accordance with the requirements of FAS 30;
- We used our experts to independently assess the reasonableness of the ECL methodology developed and applied by the Board of Directors including model risk parameters (PD, LGD, and EAD), forward-looking information, associated weighting, and staging analysis particularly in the context of COVID-19 pandemic and its implications;
- We obtained an understanding and on a sample basis tested the completeness and accuracy of the data sets used for the ECL calculation.
- We tested a sample of financing facilities to determine the appropriateness and application of staging criteria;
- We obtained samples of the latest available credit reviews and checked that they include appropriate assessment and documentation of borrowers' ability to meet repayment obligations (principal, profit, and fees), in light with the ongoing COVID-19 pandemic.
- We independently assessed the appropriateness of provisioning assumptions on a sample of Stage 3 exposures. An independent view was formed on the levels of provisions recognised, based on the detailed loan and counterparty information available in the credit files; and
- We evaluated the adequacy of the consolidated financial statements disclosures to determine if they were in accordance with the requirements of FAS 30.

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Report on the audit of the consolidated financial statements (continued)

Our audit approach (continued)

Key audit matters (continued)

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Planned disposal and application of IFRS 5

On 27 January 2022, Ithmaar and Al Salam Bank B.S.C. have agreed to the acquisition of a group of assets by Al Salam Bank from Ithmaar. The group of assets included in the acquisition consists of the consumer banking business in Bahrain of Ithmaar wholly owned subsidiary, Ithmaar Bank B.S.C. (c) ("Ithmaar Bank"), the entire indirect underlying shareholdings of Ithmaar in Bank of Bahrain and Kuwait B.S.C. and Solidarity Group Holding (the "transaction"). The transaction remains subject to the requisite approvals and the signing of definitive agreements.

The Board of Directors determined that the criteria of IFRS 5 were not met and the related activities should not be presented as held-for-sale and discontinued operations as at 31 December 2021. As a result, this transaction has been considered by the Board of Directors as a non adjusting event in these consolidated financial statements.

We considered the accounting treatment in the consolidated financial statements of this event as a key audit matter because of:

● The size and complexity of the transaction; and
● The judgment involved in the assessment of IFRS 5 applicability.

Refer to note 43 to the consolidated financial statements.
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Our audit procedures included the following:

● We reviewed and challenged the Board of Directors assessment against the relevant criterias of IFRS 5;

● We read and reviewed the Board of Directors' minutes of meetings to evaluate and determine the appropriate treatment of the transaction in accordance with IFRS 5 requirements;

● We held meetings and performed inquiries with the entity's executive management to obtain an understanding of the disposal process as well as the potential particularities and contingencies of the transaction; and

● We assessed the appropriateness and completeness of the related disclosures in the consolidated financial statements.
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Report on the audit of the consolidated financial statements (continued)

Our audit approach (continued)

Key audit matters (continued)

Board of Directors' assessment of the preparation of the consolidated financial statements on a going concern basis The Group's consolidated equity improved by USD 23 million from USD 14.8 million as at 31 December 2020 to USD 37.8 million as at 31 December 2021. Furthermore, the Group is reliant, for its liquidity requirements, on deposits aggregating to USD 631.5 million as at 31 December 2021 from counterparties who are currently located in a country sanctioned under US measures. As a result, these deposits are currently frozen. In light of the above conditions, the Board of Directors has assessed the appropriateness of preparing the consolidated financial statements on a going concern basis. In assessing the appropriateness of the going concern basis, the Board of Directors has considered the impact of the transaction with Al Salam Bank on the Group's financial positions and the Group's consolidated financial and cash flow projections for a 12 month period from the date of issuance of the consolidated financial statements. We considered this to be a key audit matter as the assessment required the use of significant judgment. Refer to note 1.1 to the consolidated financial statements.	Our audit procedures included the following: ● We obtained and assessed the Board of Directors detailed consolidated financial and cash flow projections for a period of 12 months from the date of issuance of the consolidated financial statements; ● We tested the mathematical accuracy of the calculations included within consolidated financial and cash flow projections; ● We evaluated the appropriateness of the key assumptions used in the consolidated financial and cash flow projections including the impact on the liquidity of the Group arising from the partial withdrawal of the sanctioned deposits; ● We performed a sensitivity analysis over the Group's financial and cash flow projections for the going concern assessment period; and ● We assessed the appropriateness and completeness of the related disclosures in the consolidated financial statements.

Report on the audit of the consolidated financial statements (continued)

Other information

The Board of Directors is responsible for the other information. The other information comprises the Directors' report and the Report of the Sharia Supervisory Board (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report and the Annual Report which is 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 obtained prior to the date of this auditor's 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.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Board of Directors.

Responsibilities of the Board of Directors for the consolidated financial statements

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

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the FAS as modified by CBB and the Bahrain Commercial Companies Law number (21) of 2001, as amended (the Commercial Companies Law), CBB Rulebook (Volume 4 and applicable provisions of Volume 6) and for such internal control as the Board of Directors determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Report on the audit of the consolidated financial statements (continued)

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

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

As part of an audit in accordance with the Auditing Standards for Islamic Financial Institutions issued by AAOIFI, 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 auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the 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 to 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.

Independent Auditor's Report to the Shareholders of Ithmaar Holding B.S.C. (continued)

Report on the audit of the consolidated financial statements (continued)

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

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 year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory and Sharia requirements

As required by the Commercial Companies Law and the CBB Rulebook (Volume 4), we report the followings:

i. Ithmaar has maintained proper accounting records and the consolidated financial statements are in agreement therewith.

ii. The financial information contained in the Directors' report and the Report of the Sharia Supervisory Board is consistent with the consolidated financial statements.

iii. Except for the matter described below in connection with the non-compliance with Article 64(7) of Ithmaar's articles of association, nothing has come to our attention which causes us to believe that Ithmaar has, during the year, breached any of the applicable provisions of the Commercial Companies Law, CBB and the Financial Institutions Law, CBB Rulebook (Volume 4 and applicable provisions of Volume 6) and CBB directives, rules and procedures of the Bahrain Bourse or the items of its Memorandum and Articles of Association that would have a material adverse effect on its activities for the year ended 31 December 2021 or its financial position as at that date.

    - Ithmaar has lost its reserves and more than three quarters of its capital and the Chairman or Deputy Chairman of the Board of Directors did not summon an extraordinary general meeting of the Shareholders in order to resolve whether to dissolve Ithmaar, reduce the capital or take other suitable measures which is a non-compliance with Article 64(7) of its articles of association. Refer to note 1.1 for further details.

iv. Satisfactory explanations and information have been provided to us by the Board of Directors in response to all our requests.

Further, we report that Ithmaar has complied with the Islamic Sharia Principles and Rules as determined by the Sharia Supervisory Board of the Group during the period under audit.

The engagement partner on the audit resulting in this independent auditor's report is Elias Abi Nakhoul.

PricewaterhouseCoopers

PricewaterhouseCoopers M.E Limited
Partner's registration number: 196
Manama, Kingdom of Bahrain
14 February 2022

Ithmaar Holding B.S.C.

Consolidated statement of financial position

(Expressed in thousands of United States Dollars unless otherwise stated)

	Notes	At 31 December 2021 (Audited)	At 31 December 2020 (Audited)
ASSETS			
Cash and balances with banks and central banks	3	545,116	650,798
Commodity and other placements with banks, financial and other institutions	4	249,569	280,100
Murabaha and other financings	5	2,190,974	2,405,755
Musharaka financing	6	1,425,743	929,496
Sukuk and investment securities	7	2,524,742	2,157,179
Investment in associates	8	676,933	623,161
Assets acquired for leasing	9	391,820	385,534
Insurance and related receivables	10	103,474	101,107
Other assets	12	180,624	151,459
Investment in real estate	13	256,319	256,304
Development properties	14	233,235	272,018
Fixed assets	15	171,774	81,307
Intangible assets	16	82,466	89,447
Total assets		**9,032,789**	**8,383,665**
LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS, MINORITY INTERESTS AND OWNERS' EQUITY			
Customers' current accounts	17	1,903,979	1,753,006
Due to banks, financial and other institutions	18	1,367,702	1,114,914
Due to investors	19	1,114,187	1,364,020
Other liabilities	20	453,276	372,785
Insurance related reserves	11	129,734	123,167
Total liabilities		**4,968,878**	**4,727,892**
Equity of unrestricted investment accountholders	21	3,751,697	3,363,636
Minority interests	22	274,452	277,375
Total liabilities, equity of unrestricted investment accountholders and minority interests		**8,995,027**	**8,368,903**
Share capital	23	757,690	757,690
Treasury shares	23	(30,149)	(30,149)
Reserves		109,009	121,018
Accumulated losses		(798,788)	(833,797)
Total owners' equity		**37,762**	**14,762**
Total liabilities, equity of unrestricted investment accountholders, minority interests and owners' equity		**9,032,789**	**8,383,665**

These consolidated financial statements were approved by the Board of Directors on 14 February 2022 and signed on its behalf by:

HRH Prince Amr Mohammed Al-Faisal
Chairman

Elham Hassan
Director

Ahmed Abdul Rahim
CEO

The notes 1 to 43 on pages 23 to 84 form an integral part of the consolidated financial statements.

Ithmaar Holding B.S.C.
Consolidated income statement
(Expressed in thousands of United States Dollars unless otherwise stated)

	Notes	Year ended 31 December 2021 (Audited)	31 December 2020 (Audited)
INCOME			
Income from assets financed by unrestricted investment account holders		301,047	242,980
Less: return to unrestricted investment accounts and impairment provisions		(159,181)	(147,626)
Group's share of income from unrestricted investment accounts as a Mudarib		141,866	95,354
Income from murabaha and other financings	25	61,472	116,005
Share of profit from associates	8	36,453	30,978
Income from other investments	26	117,572	147,343
Other income	27	102,548	75,856
Total income		**459,911**	**465,536**
Less: profit paid to banks, financial and other institutions – net		(152,202)	(196,256)
Operating income		**307,709**	**269,280**
EXPENSES			
Administrative and general expenses	28	(208,764)	(202,615)
Depreciation and amortization	9,15,16	(35,914)	(32,616)
Total expenses		**(244,678)**	**(235,231)**
Net income before provision for impairment and overseas taxation		**63,031**	**34,049**
Reversal of/(provision for) impairment - net	29	27,408	(28,690)
Net income before overseas taxation		**90,439**	**5,359**
Overseas taxation	30	(30,115)	(26,838)
NET PROFIT/(LOSS) FOR THE YEAR		**60,324**	**(21,479)**
Attributable to:			
Equity holders of the Ithmaar		38,603	(41,719)
Minority interests	22	21,721	20,240
		60,324	**(21,479)**
Basic and diluted earnings/(losses) per share	24	**US Cts 1.33**	**US Cts (1.43)**

These consolidated financial statements were approved by the Board of Directors on 14 February 2022 and signed on its behalf by:

HRH Prince Amr Mohammed Al-Faisal
Chairman

Elham Hassan
Director

Ahmed Abdul Rahim
CEO

The notes 1 to 43 on pages 23 to 84 form an integral part of the consolidated financial statements.

Ithmaar Holding B.S.C.
Consolidated statement of changes in owners' equity for the year ended 31 December 2021
(Expressed in thousands of United States Dollars unless otherwise stated)

			Reserves									
	Share capital	Treasury shares	Share premium	Statutory reserve	General reserve	Investments fair value reserve	Hedging reserve	Investment in real estate fair value reserve	Foreign currency translation	Total reserves	Accumulated losses	Total owners' equity
At 1 January 2021 (Audited)	**757,690**	**(30,149)**	**149,085**	**38,485**	**50,727**	**(4,216)**	**(7,324)**	**4,491**	**(110,230)**	**121,018**	**(833,797)**	**14,762**
Net profit for the year	-	-	-	-	-	-	-	-	-	**-**	38,603	**38,603**
Increase in shareholding of subsidiary	-	-	-	-	-	-	-	-	-	**-**	266	**266**
Transfer to statutory reserve	-	-	-	3,860	-	-	-	-	-	**3,860**	(3,860)	**-**
Movement in fair value of sukuk and investment securities	-	-	-	-	-	(3,161)	-	-	-	**(3,161)**	-	**(3,161)**
Movement in hedging reserve (note 37)	-	-	-	-	-	-	3,743	-	-	**3,743**	-	**3,743**
Movement in fair value reserves of associates	-	-	-	-	-	4,712	-	-	-	**4,712**	-	**4,712**
Foreign currency translation adjustments	-	-	-	-	-	(217)	-	60	(21,006)	**(21,163)**	-	**(21,163)**
At 31 December 2021 (Audited)	**757,690**	**(30,149)**	**149,085**	**42,345**	**50,727**	**(2,882)**	**(3,581)**	**4,551**	**(131,236)**	**109,009**	**(798,788)**	**37,762**

The notes 1 to 43 on pages 23 to 84 form an integral part of the consolidated financial statements.

Ithmaar Holding B.S.C.
Consolidated statement of changes in owners' equity for the year ended 31 December 2020
(Expressed in thousands of United States Dollars unless otherwise stated)

	Share capital	Treasury shares	Reserves: Share premium	Reserves: Statutory reserve	Reserves: General reserve	Reserves: Investments fair value reserve	Reserves: Hedging reserve	Reserves: Investment in real estate fair value reserve	Reserves: Foreign currency translation	Reserves: Total reserves	Accumulated losses	Total owners' equity
At 1 January 2020 (Audited)	**757,690**	**(30,149)**	**149,085**	**38,485**	**50,727**	**(14,630)**	**(3,855)**	**4,178**	**(109,692)**	**114,298**	**(746,293)**	**95,546**
Adjustments resulting from adoption of FAS 33 (note 7)	**-**	**-**	**-**	**-**	**-**	10,660	-	**-**	**-**	**10,660**	**-**	**10,660**
At 1 January 2020 (Audited)	**757,690**	**(30,149)**	**149,085**	**38,485**	**50,727**	**(3,970)**	**(3,855)**	**4,178**	**(109,692)**	**124,958**	**(746,293)**	**106,206**
Net loss for the year	-	-	-	-	-	-	-	-	-	**-**	(41,719)	**(41,719)**
Modification loss net of Government assistance (note 2)	-	-	-	-	-	-	-	-	-	**-**	(51,443)	**(51,443)**
Increase in shareholding of subsidiary	-	-	-	-	-	-	-	-	-	**-**	5,658	**5,658**
Movement in fair value of sukuk and investment securities	-	-	-	-	-	(5,223)	-	-	-	**(5,223)**	-	**(5,223)**
Movement in hedging reserve (note 37)	-	-	-	-	-	-	(3,469)	-	-	**(3,469)**	-	**(3,469)**
Movement in fair value of investment in real estate	-	-	-	-	-	-	-	1,000	-	**1,000**	-	**1,000**
Movement in fair value reserves of associates	-	-	-	-	-	4,994	-	-	-	**4,994**	-	**4,994**
Foreign currency translation adjustments	-	-	-	-	-	(17)	-	(687)	(538)	**(1,242)**	-	**(1,242)**
At 31 December 2020 (Audited)	**757,690**	**(30,149)**	**149,085**	**38,485**	**50,727**	**(4,216)**	**(7,324)**	**4,491**	**(110,230)**	**121,018**	**(833,797)**	**14,762**

The notes 1 to 43 on pages 23 to 84 form an integral part of the consolidated financial statements.

Ithmaar Holding B.S.C.
Consolidated statement of cash flows
(Expressed in thousands of United States Dollars unless otherwise stated)

	Notes	Year ended 31 December 2021 (Audited)	Year ended 31 December 2020 (Audited)
OPERATING ACTIVITIES			
Net income before overseas taxation		90,439	5,359
Adjustments for:			
Depreciation and amortization	8,14,15	35,914	32,616
Share of profit from associates	7	(36,453)	(30,978)
(Reversal of)/provision for impairment - net	28	(27,408)	28,690
Income from other investments		(117,572)	(147,343)
Finance cost on net ijarah liability		7,617	-
(Gain)/loss on sale of fixed assets (note 27)		(1,578)	133
Operating loss before changes in operating assets and liabilities		(49,041)	(111,523)
Increase in balances with banks maturing after ninety days and including with central banks relating to minimum reserve requirement		30,867	407,060
Changes in operating assets and liabilities:			
Murabaha and other financings		226,949	(91,872)
Musharaka financing		(725,461)	(313,978)
Other assets		(17,153)	10,464
Customers' current accounts		283,818	270,646
Due to banks, financial and other institutions		310,398	(151,515)
Due to investors		(135,938)	(145,070)
Other liabilities		34,266	(9,011)
Increase in equity of unrestricted investment accountholders		496,364	572,992
Taxes paid		(42,316)	(15,162)
Net cash provided by operating activities		**412,753**	**423,031**
INVESTING ACTIVITIES			
Net (increase)/decrease:			
Assets acquired for leasing		(6,286)	7,263
Sukuk and investment securities		(456,851)	(515,549)
Investment in real estate		2,130	(915)
Purchase of fixed assets		(39,484)	(10,230)
Dividend received from associates		20,139	28,649
Net cash used in by investing activities		**(480,352)**	**(490,782)**
FINANCING ACTIVITIES			
Repayment of net Iajrah liability		(16,421)	-
Net cash used in financing activities		**(16,421)**	**-**
Foreign currency translation adjustments		(48,867)	(28,639)
Net decrease in cash and cash equivalents		**(132,887)**	**(96,390)**
Cash and cash equivalents at the beginning of the year		**754,107**	**850,497**
Cash and cash equivalents at the end of the year	4	**621,220**	**754,107**

Non-cash items:

1. Additions to the fixed assets in relation to the recognition of right of use of assets amounted to $91.5 million (note 2).
2. Recognition of lease liabilities amounted to $85.9 million recorded in other liabilities (note 2).
3. Classification of investment securities to investment in associates amounted to $5.9 million.

The notes 1 to 43 on pages 23 to 84 form an integral part of the consolidated financial statements.

Ithmaar Holding B.S.C.

Consolidated statement of changes in restricted investment accounts for the year ended 31 December 2021

(Expressed in thousands of United States Dollars unless otherwise stated)

	At 1 January 2021	Fair value movements	At 31 December 2021
Shamil Bosphorus Modaraba*	6,250	-	6,250
European Real Estate Placements*	12,748	(35)	12,713
US Real Estate Placements*	25,236	-	25,236
TOTAL	**44,234**	**(35)**	**44,199**

* Income/(loss) will be recognised and distributed at the time of disposal of the underlying investments

The notes 1 to 43 on pages 23 to 84 form an integral part of the consolidated financial statements.

Ithmaar Holding B.S.C.

Consolidated statement of changes in restricted investment accounts for the year ended 31 December 2020

(Expressed in thousands of United States Dollars unless otherwise stated)

	At 1 January 2020	Fair value movements	At 31 December 2020
Shamil Bosphorus Modaraba*	6,250	-	6,250
European Real Estate Placements*	14,146	(1,398)	12,748
US Real Estate Placements*	25,236	-	25,236
TOTAL	**45,632**	**(1,398)**	**44,234**

* Income/(loss) will be recognised and distributed at the time of disposal of the underlying investments

The notes 1 to 43 on pages 23 to 84 form an integral part of the consolidated financial statements.

1 INCORPORATION AND ACTIVITIES

Ithmaar Holding B.S.C. (formerly Ithmaar Bank B.S.C.) ("Ithmaar") was incorporated in the Kingdom of Bahrain on 13 August 1984 and was licensed as an investment bank regulated by the Central Bank of Bahrain (the "CBB").

During 2016, shareholders approved the reorganisation of Ithmaar Bank B.S.C at its Extraordinary General Meeting (EGM) held on 28 March 2016 to restructure Ithmaar Bank B.S.C into a holding company and two subsidiaries to segregate core and non-core assets. Effective 2 January 2017, the Bank has been converted in to Ithmaar Holding B.S.C., holding 100% of Ithmaar Bank B.S.C. (c) [retail license] and IB Capital B.S.C. (c) [investment license].

Dar Al-Maal Al-Islami Trust ("DMIT"), a Trust incorporated in the commonwealth of Bahamas is the ultimate parent company of Ithmaar.

The principal activities of Ithmaar and its subsidiaries (collectively the "Group") are a wide range of financial services, including retail, commercial, investment banking, private banking, takaful and real estate development.

Ithmaar's activities are regulated by the CBB and are subject to the supervision of Sharia Supervisory Board.

Ithmaar's shares are listed on the Bahrain Bourse and Dubai Financial Market. During an Ordinary General Meeting on 29 August 2019, the shareholders approved to voluntarily delist from Boursa Kuwait. On 13 September 2020, the Capital Market Authority, in Kuwait, rejected Ithmaar's application for voluntary delist and instead forcedly delisted Ithmaar's shares as per their regulations.

The Group's activities also include acting as a Mudarib (manager, on a trustee basis), of funds deposited for investment in accordance with Islamic laws and principles particularly with regard to the prohibition of receiving or paying interest. These funds are included in the consolidated financial statements as equity of unrestricted investment accountholders and restricted investment accounts. In respect of equity of unrestricted investment accountholders, the investment account holder authorises the Group to invest the accountholders' 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. In respect of restricted investment accounts, the investment accountholders impose certain restrictions as to where, how and for what purpose the funds are to be invested. Further, the Group may be restricted from commingling its own funds with the funds of restricted investment accounts.

The Group carries out its business activities through Ithmaar's head office in Bahrain and its following principal subsidiary companies:

	% owned			
	2021	**2020**	**Country of Incorporation**	**Principal business activity**
<u>Direct subsidiaries</u>				
Ithmaar Bank B.S.C. (C)	100	100	Kingdom of Bahrain	Banking
IB Capital B.S.C. (C)	100	100	Kingdom of Bahrain	Asset management
Faisal Private Bureau (Switzerland) S.A.	100	100	Switzerland	Wealth and asset management
Shamil Financial (Luxembourg) S.A.	100	100	Luxembourg	Investment holding
<u>Principal indirect subsidiaries</u>				
Faysal Bank Limited	67	67	Pakistan	Banking
Solidarity Group Holding B.S.C. (C)	56	56	Kingdom of Bahrain	Takaful
Ithmaar Development Company Limited	100	100	Cayman Islands	Real estate
Health Island WLL	50	50	Kingdom of Bahrain	Real estate
Dilmunia Development Fund I L.P.	92	90	Cayman Islands	Real estate
City View Real Estate Development Co. B.S.C. (C)	51	51	Kingdom of Bahrain	Real estate

During the year, the Group acquired additional 200 units of Dilmunia Development Fund I L.P. as part of settlement of certain financings. The acquisition resulted in increase of shareholding from 90% to 92% without change in control.

Islamic Investment Company of the Gulf (Bahamas) Limited (IICG), a company incorporated in the Commonwealth of Bahamas and owned 100% by DMIT, is an affiliate of Ithmaar.

1 INCORPORATION AND ACTIVITIES (continued)

1.1 As of 31 December 2021, the total consolidated equity of the Group stood at $37.8 million as compared to $14.8 million as at 31 December 2020. The current equity is still above the minimum threshold required for Category 1 investment firm license. The Board of Directors of Ithmaar is working on various initiatives to strengthen the Group's consolidated equity and solvency.

The Group has lost its reserves and more than three quarters of its capital and the Chairman or Deputy Chairman of the Board of Directors did not summon an Extraordinary General Meeting (EGM) of the Shareholders in order to decide whether to continue with the operations of Ithmaar, reduce the capital or take other suitable measures, which is a non-compliance with Article 64(7) of its articles of association. The Group has obtained CBB and Bahrain Bourse approval to hold the EGM, as required, by the date of publication of its 31 March 2023 results.

The Group's management assessed its liquidity and equity projections of the entity subsequent to the transaction with Al Salam (refer to note 44) for the coming twelve months from the date of the consolidated financial statements. The management assessment includes various stress scenarios as follows:

• Assuming the lifting of sanctioned deposits and partial repayments.
• Stressing the expected outflows of the liabilities.
• Stressing the expected inflows from financings.
• Increased availability of liquid assets in the form of interbank liquidity support facility.

The Board of Directors has reviewed the above projections and believes that the Group will be able to continue its business without any significant curtailment of operations and meet its obligations for a period of at least one year from the date of issue of these consolidated financial statements. Accordingly,consolidated financial statements are prepared on a going concern basis.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with applicable rules and regulations issued by the Central Bank of Bahrain ("CBB") including the recently issued CBB circulars on regulatory concessionary measures in response to COVID-19. These rules and regulations require the adoption of all Financial Accounting Standards issued by the Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI) (FAS), except for:

a) recognition of modification losses on all financing assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional profits, in equity instead of the profit or loss account as required by FAS issued by AAOIFI. Any other modification gain or loss on financial assets are recognised in accordance with the requirements of applicable FAS. Please refer to note 37 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 meets the government grant requirement, in equity, instead of the profit or loss account as required by the statement on "Accounting implications of the impact of COVID-19 pandemic" issued by AAOIFI. This will only be to the extent of any modification loss recorded in equity as a result of (a) above, and the balance amount to be recognized in the income statement. Any other financial assistance is recognised in accordance with the requirements of FAS. Please refer to note 37 for further details.

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

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

The Group has certain assets, liabilities and related income and expenses which are not Sharia compliant as these existed before Ithmaar converted to an Islamic retail bank in April 2010. These are currently presented in accordance with FAS as modified by the CBB standards in the consolidated financial statements for the year ended 31 December 2021 as appropriate.

The Sharia Supervisory Board has approved the Sharia Compliance Plan ("Plan") for assets and liabilities which are not Sharia Compliant. The Sharia Supervisory Board is monitoring the implementation of this Plan. The income and expenses attributable to non-Sharia compliant assets and liabilities is disclosed under note 41.

The consolidated financial statements comprise the financial information of the Group for the year ended 31 December 2021.

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

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

A. New standards, amendments, and interpretations issued and effective for annual periods beginning on or after 1 January 2021

1. FAS 32 Ijarah

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

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

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

a) Change in accounting policy

Identifying an Ijarah

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

Measurement

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

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

i) Right-of-use (usufruct) asset

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

- The prime cost of the right-of-use asset;
- Initial direct costs incurred by the lessee; and
- Dismantling or decommissioning costs.

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

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

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

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

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

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

1. FAS 32 Ijarah (continued)

• Extension periods if it is reasonably certain that the Group will exercise that option; and/ or
• Termination options if it is reasonably certain that the Group will not exercise that option.

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

ii) Net ijarah liability

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

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

• Fixed Ijarah rentals less any incentives receivable;
• Variable Ijarah rentals including supplementary rentals; and
• Payment of additional rentals, if any, for terminating the Ijarah (if the Ijarah term reflects the lessee exercising the termination option).

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

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

• Increasing the net carrying amount to reflect return on the Ijarah liability (amortisation of deferred Ijarah cost);
• Reducing the carrying amount of the gross Ijarah liability to reflect the Ijarah rentals paid; and
• Re-measuring the carrying amount in the event of reassessment or modifications to Ijarah contract, or to reflect revised Ijarah rentals.

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

• Amortisation of deferred Ijarah cost; and
• Variable Ijarah rentals (not already included in the measurement of Ijarah liability) as and when the triggering events/ conditions occur.

Ijarah contract modifications

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

• Change in the Ijarah term: re-calculation and adjustment of the right-of-use asset, the Ijarah liability, and the deferred Ijarah cost; or

• Change in future Ijarah rentals only: re-calculation of the Ijarah liability and the deferred Ijarah cost only, without impacting the right-of- use asset.

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

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

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

1. FAS 32 Ijarah (continued)

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

Expenses relating to underlying asset

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

Recognition exemptions and simplified accounting for the lessee

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

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

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

b) Impact of on adoption of FAS 32

The management of the Group has decided to apply FAS 32 using the modified retrospective approach (i.e. the impact of all the Ijarah contracts outstanding as at 31 December 2020 are reflected in the balances as of 1 January 2021) and therefore comparative information has not been restated. The impact of adoption of FAS 32 as at 1 January 2021 has resulted in an increase in right-of-use asset and an increase in net Ijarah liability by $91.5 million. The lease contracts comprise of Head office, ATM sites and branches.

	Total assets	**otal liabilities**
As at 31 December 2020	8,383,665	4,727,892
Impact on adoption:		
Right-of-use assets	91,539	-
Net Ijarah liability	-	85,901
Opening balance under FAS 32 on date of initial application - 1 January 2021	**8,475,204**	**4,813,793**

	Right-of-use assets	**Net Ijarah liability**
As at 1 January 2021	91,539	85,901
Depreciation during the period	(14,971)	
Finance cost	-	7,617
Net ijarah rentals	-	(16,421)
Exchange differences and other movements	8,042	7,998
As at 31 December 2021	**84,610**	**85,095**

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

B. New standards, amendments, and interpretations issued but not yet effective

(i) 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 does not expect any significant impact on adoption of this standard

(ii) FAS 39 Financial Reporting for Zakah

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

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

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

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

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

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

(iii) FAS 1 General Presentation and Disclosures in the Financial Statements

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

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

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

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies

(a) Basis of consolidation

Subsidiaries

Subsidiaries are companies in which the Group holds 50% or more of equity shares and as such exercises significant control over such companies. Control is also presumed to exist if the Group has power to govern the financial and operating policies of a company with the objective of obtaining benefits from its operations. Subsidiaries, including Special Purpose entities that are controlled by the Group, are consolidated from the date on which the Group obtains control and continue to be so consolidated until the date such control ceases.

For business combinations involving entities under common control, the directors of the Group are responsible for determining a suitable accounting policy for such business combinations. The directors have elected to use the uniting of interests method to account for business combinations involving entities under common control and to account for such business combinations prospectively, under the predecessor basis of accounting. Under the uniting of interests method, there is no requirement to fair value the assets and liabilities of the acquired entities and hence no goodwill arises on consolidation. The difference between the cost of the acquisition and the Group's share of the issued and paid up share capital of the acquired entity is recognised as share premium in equity.

Associates

Associates are companies in which the Group has significant influence, but not control over the management of affairs, and which are neither subsidiaries nor joint ventures. The Group's investments in associates are accounted for under the equity method of accounting. Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. The consolidated income statement reflects the Group's share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in owners' equity.

In case of associates where audited financial statements are not available, the Group's share of profit or loss is arrived at by using the latest available management accounts.

Investment in associates which meet the criteria for held for sale are classified as assets-held-for-sale.

Intra-Group balances and minority interests

The consolidated financial statements include the assets, liabilities and results of operations of the Group, its subsidiary companies after adjustment for minority interests and equity of unrestricted investment accountholders managed by the Group for both subsidiaries and associates. All significant intra-group balances and transactions are eliminated.

The financial statements of the subsidiaries are prepared on the same reporting periods as the Group, using consistent accounting policies (for group reporting purposes).

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(b) Foreign currency transactions and balances

Functional and presentation currency

Items included in the consolidated financial statement of the Group's entities are measured using the currency of the primary economic environment in which the entity operates, which is Bahraini Dinars (the functional currency) and presented in US Dollars (the presentation currency).

For group companies, items included in the consolidated financial statements of the Group's entities are measured using the currency of the primary economic environment in which the entity operates, which is Bahraini Dinars (the functional currency) and presented in US Dollars (the presentation currency). Considering that the Bahraini Dinar is pegged to United States Dollars, the changes in presentation currency does not have any impact on the consolidated statement of financial position, consolidated income statement, consolidated statement of changes in owners' equity, consolidated statement of cash flow and consolidated statement of changes in restricted investment accounts.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement. Translation differences on non-monetary items carried at their fair value, such as certain investments carried at fair value through equity are included in investments fair value reserve.

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

1. Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

2. Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

3. All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. Translation losses arising in the case of severe devaluation or depreciation (other than temporary) of the currency of the net investment in a foreign operation when the latter is translated at the spot exchange rate at the date of consolidated statement of financial position, are recognised in the first place as a charge against any credit balance on the separate component of the shareholders' equity and any remaining amount is recognised as a loss in the consolidated income statement. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill, and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(c) Accounting estimates and judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

1. Classification of investments

In the process of applying the Group's accounting policies, management decides upon acquisition of an investment, whether it should be classified as investments carried at fair value through income statement, held at amortised cost or investments carried at fair value through equity. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification.

2. Special purpose entities

The Group sponsors the formation of special purpose entities (SPEs) primarily for the purpose of allowing clients to hold investments. The Group does not consolidate SPEs where it does not exercise control. In determining whether the Group exercises control over an SPE, judgements are made about the objectives of the SPEs activities, its exposure to the risks and rewards, as well as about the Group's ability to obtain benefit from the SPE's operations by having power to govern its financial and operational policies.

3 Impairment of goodwill and intangible assets

Goodwill other intangibles assets acquired through business combinations have been allocated to the cash-generating units of the acquired entities for impairment testing purposes. The Group tests whether goodwill or intangible assets have suffered any impairment in accordance with the impairment accounting policy.

The recoverable amount of the cash-generating units are generally determined based on higher of Value-in-Use (VIU) and Fair Value Less Cost to Disposal (FVLCTD).

VIU calculations are determined using cash flow projections from financial budgets approved by the Group's senior management covering a three year period. The discount rate applied to cash flow projections represent the cost of capital adjusted for an appropriate risk premium for these cash-generating units.

For FVLCTD calculations, the Comparable Companies Multiple (CCM) method is used, whereby the price to book value (P/B) multiple of the comparable listed banks operating in the region is considered. The key assumptions used in estimating the recoverable amounts of cash-generating units are assessed to ensure reasonableness of the FVLCTD.

The above methods require the use of estimates, which are subject to judgement. Changes in the underlying assumptions may impact the reported numbers.

The management uses the higher of VIU or FVLCTD method in assessing the recoverable amount of the goodwill and other intangible assets. As a result, the management uses judgement in the percentage of the control premium and marketability discount used in the calculation of the effective P/B multiple for the FVLCTD method.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(c) Accounting estimates and judgements (continued)

4 Impairment on financing assets and investments

Each financing and investment exposure is evaluated individually for impairment. In assessing impairment, the Group exercises judgment in the estimation of the amount and timing of future cash flows as well as an assessment of whether credit risk on the financial contracts has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of expected credit losses ("ECL") in accordance with impairment policy.

The staging and ECL of related party exposures is consdered separately from the other financing assets. The ECL is assessed using the cash shortfall method since the underlying collateral can be taken over without having to apply any haircut. Furthter, the increase in credit risk is also assessed separately for related parties, given their commitment to honour the amounts due to the Group.

The economic uncertainties caused by COVID-19 have required the Group to update the inputs and assumptions used for the determination of ECL as at 31 December 2021. ECL were estimated based on a range of forecast economic conditions available as at latest available date.

The judgements and associated assumptions have been made within the context of the impact of COVID-19 and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. In relation to COVID-19, judgements and assumptions include the extent and duration of the pandemic, the impacts of actions of governments and other authorities, and the responses of businesses and consumers in different industries, along with the associated impact on the global economy. Accordingly, the Group's ECL estimates are inherently subjective and, as a result, actual results may differ from these estimates.

5 Liquidity mismatch

The Group constantly monitors the liquidity mismatch arising in the normal course of the business. Periodic stress tests are carried out on liquidity position to assess the ability of the Group to meet its liquidity mismatch particularly in view of the impact of Covid. The stress testing also incorporates judgement based behavioural approach for various sources of funding and estimated inflows from disposal of assets.

6. Significant increase in credit risk (SICR)

A SICR occurs when there has been a significant increase in the risk of a default occurring over the expected life of a financial instrument. In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a financing facility, which would result in the financial asset moving from 'stage 1' to 'stage 2. The Group continues to assess borrowers for other indicators of unlikeliness to pay, taking into consideration the underlying cause of any financial difficulty and whether it is likely to be temporary as a result of COVID-19 or longer term.

During 2020 and 2021, in accordance with CBB instructions the Group has granted payment holidays to its eligible customers by deferring up to six months instalments at a time. These deferrals are considered as short-term liquidity to address borrower cash flow issues. The relief offered to customers may indicate a SICR. However, the Group believes that the extension of these payment reliefs does not automatically trigger a SICR and a stage migration for the purposes of calculating ECL, as these are being made available to assist borrowers affected by the COVID-19 outbreak to resume regular payments. The Group uses judgement to individually differentiate between a borrowers' short-term liquidity constraints taking into account of customers who requested for further deferment and a change in its lifetime credit risk.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(c) Accounting estimates and judgements (continued)

7. Forward Looking Information

Judgement is involved in determining which forward looking information variables are relevant for particular financing portfolios and for determining the sensitivity of the parameters to movements in these forward-looking variables. The Group derives a forward looking economic scenario which reflects the Group's view of the most likely future macro-economic conditions.

Any changes made to ECL to estimate the overall impact of COVID-19 is subject to high levels of uncertainty as limited forward-looking information is currently available on which to base those changes. The Group has previously performed historical analysis and identified key economic variables impacting credit risk and ECL for each portfolio. These economic variables and their associated impact on PD, EAD and LGD vary by financial instrument.

Many of the macroeconoic variables which were used in the ECL model are updated or published by external agencies or government agencies.

The Group has reviewed its portfolio which is expected to be most impacted due to COVID-19 to determine if any provisions are necessary. The Group continues to individually assess significant exposures to adequately safeguard against any adverse movements due to COVID-19.

8 Impairment and recoverable amount of investment in associates

The Group uses estimates in its assessment of the impairment provision and recoverable amount of its investment in associates, which are subject to judgement. The key assumption used in such assessment was the existence and percentage of the significant influence premium. The premium is applied since the Group holds more than twenty percent voting rights in the associates, has board representation and participates in all significant financial and operating decisions.

9 Non-current assets classified as held-for-sale

The Group assesses its assets at each reporting date in accordance with the criteria specified by IFRS 5 “Non-Current Assets Held for Sale and Discontinued Operations” and FAS 26 “Investment in Real Estate”. In determining whether the sale is highly probable, the Group exercises judgement in context of current market appetite including price offered and availability of identified willing buyer.

As stated in note 43, the assets subject to the transaction with Al Salam were not classified as held for sale in the consolidated financial statement for the year ended 31 December 2021, based on the Group’s assessment of the criteria specified by IFRS 5 “Non-Current Assets Held for Sale and Discontinued Operations”. The Group’s assessment was mainly based on the fact that assets subject to transaction were not available for immediate sale in present condition and the transaction is subject to certain conditions such as identification of assets at business transfer date, the finalization of tentative and definitive agreements, indication of premium and price as of 31 December 2021. Further, the transaction remains subject to shareholders' and regulatory approvals. The Group will reassess such classification at each reporting period based on the development and progress of the transaction.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(d) Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash on hand, non-restricted balance with central banks and other banks, and short term liquid investments on demand or with an original maturity of three months or less.

(e) Murabaha and other financings

Murabaha financing is stated at cost less allowance for doubtful receivables.

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

Other financings represent conventional loans and advances, which are non-derivative financial assets with fixed or determinable payments. These are initially recorded at fair value and are subsequently carried at amortised cost using the effective yield method.

The Group receives collateral in the form of cash or other securities including bank guarantees, mortgage over property or shares and securities for Murabaha and other financings where deemed necessary. The Group's policy is to obtain collateral where appropriate. To ensure that the market value of the underlying collateral remains sufficient, collateral is valued periodically.

Provision are made in accordance with FAS 30 as per note 2.

(f) Musharaka financing

Musharaka financing is stated at cost less provision for impairment.

Provision are made in accordance with FAS 30 as per note 2.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(g) Investments

1. Investments carried at amortised cost

An Investment instruments shall be measured at amortised cost if both the following conditions are met:

a. the investment is held within a business model whose objective is to hold such investments in order to collect expected cashflows till maturity of the instrument; and

b. the investment represents either a debt type instrument or other investment instrument having reasonably determinable effective yield.

These investments are measured using effective profit method at initial recognition minus capital/redemption payments and minus any reduction for impairment.

2. Investments carried at fair value through equity

An Investment will be measured at Fair Value through equity if both the following conditions are met:

a. the investment is held within a business model whose objective is achieved by noth collecting the expected cashflows and selling the investments; and

b. the investment represents a non monetary debt type instrument or other investment instrument having reasonably determinable effective yield.

Any other investment instruments not classified as per amortised cost or fair value through equity, are classified as fair value through income statement (FVIS).

On initial recognition, the Group makes an irrevocable election to designate certain equity instruments that are not designated at fair value through income statement to be classified as investments at fair value through equity.

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVIS. Factors considered by theGroup in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

3. Investments carried at fair value through income statement

An investment is classified as investment carried at fair value through income statement if acquired or originated principally for the purpose of generating a profit from short term fluctuations in price or dealer's margin. These investments are recognised on the acquisition date at fair value. At the end of each reporting period, investments are re-measured at their fair value and the difference between carrying value and fair value is recognised in the consolidated income statement. All other gains/ losses arising from these investments are recognized in the consolidated income statement.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(g) Investments (continued)

4. Investment in real estate

All properties held for earning periodical income or for capital appreciation purposes or both are classified as investment in real estate (held-for-use).

Investment in real estate is initially recognised at cost and subsequently re-measured at fair value in accordance with the fair value model with the resulting unrealised gains being recognised in the consolidated statement of changes in owner's equity under investment in real estate fair value reserves. Any unrealised losses resulting from re-measurement at fair value of investment in real estate carried at fair value are adjusted in equity against the investment in real estate fair value reserve, taking into consideration the split between the portion related to owners' equity and equity of investment accountholders, to the extent of the available credit balance of this reserve. In case such losses exceed the available balance, the unrealised losses are recognised in the consolidated income statement. In case there are unrealised losses relating to investment in real estate that have been recognised in the consolidated income statement in a previous financial period, the unrealised gains relating to the current financial period are recognised to the extent of crediting back such previous losses in the consolidated income statement.

The realised profits or losses resulting from the sale of any investment in real estate are measured as the difference between the book value (or carrying amount) and the net cash or cash equivalent proceeds from the sale for each investment separately. The resulting profit or loss together with the available balance on the investment in real estate fair value reserve account is recognised in the consolidated income statement for the current financial period.

All properties where decision is made to sell and the sale is expected to occur within 12 months of reporting date (subject to availability of identified willing buyer) are classified as Investment in real estate Held-for-sale.

Investment in real estate Held-for-sale is measured at fair value in accordance with the fair value model.

5. Development properties

Development properties represent land held by the Group for development and sale in the ordinary course of business, and include expenditure incurred in acquiring the properties and other costs incurred in bringing them to their existing condition.

Development properties are carried at lower of cost or estimated net realisable value. Estimated net realisable value is determined using the estimated selling price in the ordinary course of business, less estimated development expenditure.

6. Investment in mudaraba

Mudaraba investments are recorded at cost.

Share of the Group's profit or loss from the Mudaraba are recognized in the consolidated income statement upon distribution or deduction from Mudaraba capital (in case of losses).

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(g) Investments (continued)

7. Fair value

The fair value of quoted investments in active market is based on current bid price. If there is no active market for such financial assets, the Group establishes fair values using valuation techniques. These include the use of recent arm's length transactions and other valuation techniques used by other participants. The Group also refers to valuations carried out by investment managers in determining fair value of certain unquoted financial assets.

In certain rare circumstances where the Group is unable to determine reliable measure of fair value of equity instrument on a continuing basis, the instrument is measured at cost.

(h) Assets acquired for leasing (Ijarah)

Assets acquired for leasing are stated at cost and are depreciated according to the Group's depreciation policy for fixed assets or lease term, whichever is lower.

Provision are made in accordance with FAS 30 as per note 2

(i) Takaful and retakaful contracts

- Takaful contracts

As an Islamic insurance provider, the Group issues contracts that are based on cooperative activity by risk sharing. The Group classifies all its contracts individually as takaful contracts.

Takaful contracts are those contracts where the takaful operator accepts significant takaful risk from the participant by agreeing to compensate the participant if a specified uncertain future event adversely affects the participant. Such contracts may also transfer financial risk. As a general guideline, the Group defines significant takaful risk as the possibility of having to pay benefits on the occurrence of a takaful event. Takaful risk is risk other than financial risk that is transferred from the holder of a contract to the issuer. Financial risk is the risk of a possible future change in one or more of a security price, index of prices or rates or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Takaful risk is significant if, and only if, a takaful event could cause the Group to pay significant additional benefits. Once a contract is classified as a takaful contract it remains classified as a takaful contract until all rights and obligations are extinguished or expired.

- Retakaful contracts

Retakaful contracts are contracts entered into by the Group with retakaful operators for the purpose of limiting its net loss potential through the diversification of its risks, under which the Group is compensated for losses on takaful contracts issued.

Assets, liabilities, income and expense arising under ceded retakaful contracts are presented separately from the assets, liabilities, income and expense from the related takaful contracts because the retakaful arrangements do not relieve the Group from its direct obligations to its participants.

The benefits to which the Group is entitled under its retakaful contracts held are recognised as retakaful assets. These assets consist of balances due from retakaful operators on settlement of claims and other receivables such as profit commissions and retakaful operator's share of outstanding claims that are dependent on the expected claims and benefits arising under the takaful contracts covered under retakaful contracts. Amounts recoverable from or due to retakaful operators are recognised consistently with the amounts associated with the underlying takaful contracts and in accordance with the terms of each retakaful contract. Retakaful liabilities are primarily contributions payable for retakaful contracts and are recognised as an expense when due.

The participants' takaful funds comprises of general takaful and family takaful fund which represent the accumulated undistributed surplus or deficit in respect of contracts in force at the reporting date. It also includes fair value reserves of investments at fair value through equity.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(i) Takaful and retakaful contracts (continued)

- Gross contributions

Gross contributions comprise the total contributions receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy incepts. Contributions include any adjustments arising in the accounting period for contributions receivable in respect of business written in prior accounting periods. Contributions collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience and are included in contributions written. The unexpired portion of such contributions is included under "Unearned contributions" in the statement of financial position. The earned proportion of contributions is recognised as revenue in the participants' statement of revenues and expenses.

- Retakaful contributions

Retakaful contributions are amounts paid to retakaful operators in accordance with the retakaful contracts of the Group. In respect of proportional and non-proportional retakaful contracts, the amounts are recognised in the participants' statement of revenues and expenses as per the terms of these contracts.

- Unearned contributions

Unearned contributions represent contributions under takaful contracts which are to be earned in the following or subsequent financial periods, for the unexpired period of takaful content as at the reporting date.

- Gross claims

Gross claims are recognised in the participants' statement of revenues and expenses when the claim amount payable to participants and third parties is determined as per the terms of the takaful contracts. Gross claims include all claims occurring during the year, whether reported or not, related claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

- Claims recovered

Claims recovered include amounts recovered from retakaful operators and other insurance companies in respect of the gross claims paid by the Group, in accordance with the retakaful contracts held by the Group and also includes salvage and other claims recoveries. Claims recovered from retakaful and other parties are recognised when the related gross claims settled are recognised according to the terms of the relevant contracts.

- Outstanding claims

Outstanding claims are based on the estimated ultimate cost of all claims incurred but not settled at the statement of financial position date, whether reported or not, together with the related claims handling costs and reduction for salvage and other recoveries. Provisions for outstanding claims reported is based on estimates of the loss, which will eventually be payable on each unpaid claim, established by management based on currently available information and past experience modified for changes reflected in current conditions, increased exposure, rising claims costs and the severity and frequency of recent claims, as appropriate. Outstanding claims are not discounted for time value of money. The methods used, and the estimates made, are reviewed regularly.

The provision for claims incurred but not reported ('IBNR') is made per the actuarial valuation which is updated on the basis of the latest valuation reports.

Any difference between the provisions for outstanding claims at the statement of financial position date and settlements and provisions for the following year is included in the participants' statement of revenues and expenses for that year.

- Takaful and insurance receivables

Takaful and insurance receivables are recognised when due and are measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of takaful and insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of income.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(j) Fixed assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method to write off the cost of each asset over its estimated useful life as follows:

Buildings	50 years
Leasehold improvements	over the period of the lease
Furniture, equipment and motor vehicles	3-10 years

Depreciation is calculated separately for each significant part of an asset category. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The asset's residual value and useful life are reviewed, and adjusted if appropriate, at each date of the statement of financial position.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost can be measured reliably. All other repairs and renewals are charged to the consolidated income statement during the financial period in which they are incurred.

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with carrying amounts.

(k) Intangible assets

1. Goodwill

Goodwill acquired at the time of acquisitions of subsidiaries is reported in the consolidated statement of the financial position as an asset. Goodwill is initially measured at cost being the excess of the cost of acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary undertaking at the date of acquisition. Subsequently, the goodwill is tested for an impairment on an annual basis. At the end of the financial period, the goodwill is reported in the consolidated statement of financial position at cost less any accumulated impairment losses.

Negative goodwill resulting from the acquisition of a business or entity is recognised in the consolidated income statement.

Acquisition of minority interests is accounted using the Economic Entity Method. Under the Economic Entity Method, the purchase of a minority interest is a transaction with a shareholder. As such, any excess consideration over the Group's share of net assets is recorded in owners' equity.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(k) Intangible assets (continued)

2. Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (three to five years). Costs associated with maintaining computer software programs are recognised as an expense as incurred.

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised using the straight line method over their expected useful lives.

3. Other acquired intangible assets

Other acquired intangible assets determined to have finite lives, such as core deposits, brand and customer relationships, are amortised on a straight line basis over their estimated useful lives of up to twenty years. The original carrying amount of core deposits and customer relationships is determined by independent appraisers, based on the profit rate differential on the expected deposit duration method.

Other acquired intangible assets are tested annually or more often if indicators exist for impairment and carried at cost less accumulated amortization.

Other acquired intangible assets with infinite lives are tested annually for impairment and carried at cost less accumulated amortization.

(l) Assets classified as held-for-sale

Non-current assets (or disposal groups) are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying value and fair value less costs to sell.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

(m) Current taxation

There is no tax on corporate income in the Kingdom of Bahrain. However, taxation related to the subsidiaries incorporated in tax jurisdictions are recorded as per local regulations.

(n) Value Added Tax (VAT)

The Group is subject to VAT at 5% on certain financial services as applicable from 1 January 2019 (increased to 10% from 1 January 2021). The amount of VAT liability is determined by applying the VAT rate on eligible turnover, reduced by the VAT paid on eligible expenses (input VAT). The irrecoverable portion of input VAT is recognized as expense in the consolidated income statement.

(o) Deferred taxation

Deferred taxation is recognised using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

A deferred tax asset is recognised for all deductible temporary differences and carry forward of unused tax losses and tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and unused tax losses and tax credits can be utilised. Enacted tax rates are used to determine deferred income tax.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) <u>Summary of significant accounting policies (continued)</u>

(p) Provision for staff benefits

Staff benefits and entitlements to annual leave, holiday air passage and other short-term benefits are recognised when they accrue to employees. The Group's contributions to defined contribution plans are charged to the consolidated income statement in the period to which they relate. In respect of these plans, the Group has a legal and constructive obligation to pay the contributions as they fall due and no obligation exists to pay future benefits.

In respect of end of service benefits, to which certain employees of the Group are eligible, costs are assessed in accordance with the labour law requirements of the applicable jurisdiction.

For variable remuneration, a provision is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be measured reliably.

(q) Due to investors

Funds received from depositors who take the corporate risk of Ithmaar or its subsidiaries are classified as "Due to investors".

(r) Equity of unrestricted investment accountholders

Under the equity of unrestricted investment accountholders (URIA), the investment account holder authorizes the Group to invest the accountholders' 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.

Investment accounts are initially recognised at fair value of the consideration received at the date on which the contract becomes effective.

After initial recognition, subsequent measurement of investment acocunts takes into account undistributed profits and other reserves created specifically for the account of investment accountholders less any losses on assets attributable to investment accountholders.

(s) Profit Equalisation Reserve (PER)

PER is appropriated out of the income arising from owners or equity of unrestricted investment accountholders for the purpose of managing rate of return risk (including displaced commercial risk).

Contribution to PER is recognised in consolidated income statement allocated to owners or unrestricted investment accountholders as appropriate.

Utilization/ reversal of PER is recognised when the reserve is no longer needed as per management's opinion. The reversal is recognised in consolidated income statement allocated to owners or unrestricted investment accountholders as appropriate.

PER is disclosed as part of the equity of unrestricted investment accountholders or owners' equity as appropriate.

The adequacy of PER is assessed on annual basis using quick update approach in accordance with the Group's risk management policies.

Adjustments or transfers between PER and IRR are accounted for when the underlying event occurs.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(t) Investment Risk Reserve (IRR)

IRR is appropriated out of the income arising from owners or equity of unrestricted investment accountholders for the purpose of creating cushion against credit, market and equity investment risk mainly pertaining to residual future probable losses (after impairment and credit losses accounted for under impairment policy).

Contribution to IRR is recognised in consolidated income statement allocated to owners' equity or unrestricted investment accountholders as appropriate.

Utilization/ reversal of IRR is recognised when the loss event occurs or the reserve is no longer needed as per management's opinion. The reversal is recognised in consolidated income statement allocated to owners or unrestricted investment accountholders as appropriate and not netted off with the respective loss.

IRR is disclosed as part of the equity of unrestricted investment accountholders or owners' equity as appropriate.

The adequacy of IRR is assessed on annual basis using quick update approach in accordance with the Group's risk management policies.

Adjustments or transfers between PER and IRR are accounted for when the underlying event occurs.

(u) Restricted investment accounts (off-balance sheet)

Under the restricted investment accounts (RIA), the investment accountholders impose certain restrictions as to where, how and for what purpose the funds are to be invested. These accounts are disclosed separately in Statement of changed in RIA.

Investment accounts are initially recognised at fair value of the consideration received at the date on which the contract becomes effective.

After initial recognition, subsequent measurement of investment accounts takes into account undistributed profits and other reserves created specifically for the account of investment accountholders less any losses on assets attributable to investment accountholders.

(v) Treasury shares

These shares are treated as a deduction from the owners' equity. Gains and losses on sale of own shares are included in owners' equity.

(w) Statutory reserve

In accordance with the Bahrain Commercial Companies Law, 10% of the Group's consolidated net income for the year is transferred to a statutory reserve until such time as reserve reaches 50% of the paid up share capital. The reserve is not distributable, but can be utilized as stipulated in the Bahrain Commercial Companies Law and other applicable statutory regulations.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(x) Revenue recognition

1. Profit participation and management fees

Income from profit participation and management fees charged to funds managed by the Group is recognised on the basis of the Group's entitlement to receive such revenue from restricted and unrestricted investment accounts as defined in the Mudaraba agreement (trust deed), except when the Group temporarily waives its entitlement.

2. Profit on Murabaha and other financings

Profit on Murabaha transactions is recognised by proportionately allocating the attributable profits over the period of the transaction where each financial period carries its portion of profits irrespective of whether or not cash is received. However, profit accrual is suspended on Murabaha transactions in respect of which repayment instalments are past due for more than ninety days, unless, in the opinion of the management of Ithmaar, the accrual is justified.

Income from other financings is accrued based on the effective yield method over the period of the transaction. Where income is not contractually determined or quantifiable, it is recognised when reasonably certain of realisation or when realised.

3. Income from assets acquired for leasing

Lease rental revenue is recognised on a time-apportioned basis over the lease term.

4. Income from Mudaraba contracts

Income from Mudaraba contracts are recognised when the Mudarib distributes profits. Any share of losses for the period are recognized to the extent such losses are being deducted from the Mudaraba capital.

5. Profit on Musharaka contracts

profits are recognised when a partial or final settlement takes place and its share of the losses are recognised to the extent that such losses are deducted from the Group's share of Musharaka capital. However, in respect of diminishing Musharaka transactions, profits or losses are recognised after considering the decline in the Group's share of the Musharaka capital and, consequently, its proportionate share of the profits or losses.

6. Income from investments carried at amortised cost

All gains or losses from investments carried at amortised cost are recognised in consolidated statement of income.

7. Income from investments carried at fair value through income statement

All gains or losses from investments carried at fair value through income statement are recognised in consolidated statement of income.

8. Income from investments carried at fair value through equity

The realised gains or losses along with the amounts previously recognised in equity are recognised in the consolidated income statement.

Dividend income is recognised in the consolidated statement of income when right to receive payment is established.

9. Fees and commissions

Fees and commissions are recognised when earned.

Commissions on letters of credit and letters of guarantee are recognised as income over the period of the transaction.

Fees for structuring and arrangement of financing transactions for and on behalf of other parties are recognised when the Group has fulfilled all its obligations in connection with the related transaction.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(y) Profit allocation between group and investment accountholders

The Group holds separate books for assets financed by owners, unrestricted and restricted investment accounts. All income generated from the assets financed by the investment accounts are allocated to the customers after deducting provisions, investment risk reserve, profit equalisation reserves, mudarib's share of profit and management fees.

Administrative expenses incurred in connection with the management of the funds are borne directly by the

Some profit incentives are recognised based on term of the contracts with restricted account holders.

(z) Assets transfer between Owner's equity, Unrestricted Investment Accounts and Restricted Investment Accounts

Assets are transferred between Owner's equity, Unrestricted Investment Accounts and Restricted Investment Accounts at fair value.

(aa) Shari'a compliant risk management instruments and hedge accounting

The Group uses certain shari'a compliant risk management instruments (similar to derivatives) to economically hedge exposures to foreign exchange and profit rate risks. Such instruments are initially recognised at fair value on the date on which the contract is entered into and are subsequently remeasured at their fair value. The fair value of a hedging instrument is the equivalent to its prevailing market rates or is based on broker quotes. Instruments with positive market values are disclosed as assets and instruments with negative market values are disclosed as liabilities in the statement of financial position.

In certain circumstances the Group enters into shari'a compliant risk management instruments to hedge foreign currency risks. Changes in the fair value of derivative financial instruments that are designated, and qualify as fair value hedges, are included in the consolidated income statement together with the corresponding change in the fair value of the hedged asset or liability that is attributable to the risk being hedged. Unrealised gains or losses on hedged assets which are attributable to the hedged risk are adjusted against the carrying values of the hedged assets or liabilities. For derivatives that are not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in the statement of changes in owners' equity.

Cash flow hedging attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in statement of changes in owners' equity and presented in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in consolidated income statement. The Group currently has hedged cash flows to manage its profit rate risk on variable rate financial liabilities.

Hedges directly affected by variable profit rate benchmark reforms

For the purpose of evaluating whether there is an economic relationship between the hedged item(s) and the hedging instrument(s), the Group assumes that the benchmark variable profit rate is not altered as a result of global variable profit rate benchmark reform.

For a cash flow hedge of a forecast transaction, the Group assumes that the benchmark variable profit rate will not be altered as a result of variable profit rate benchmark reform for the purpose of assessing whether the forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss. In determining whether a previously designated forecast transaction in a discontinued cash flow hedge is still expected to occur, the Group assumes that the variable profit rate benchmark cash flows designated as a hedge will not be altered as a result of variable profit rate benchmark reform.

The Group will cease to apply the specific policy for assessing the economic relationship between the hedged item and the hedging instrument (i) to a hedged item or hedging instrument when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the variable profit rate benchmark-based cash flows of the respective item or instrument or (ii) when the hedging relationship is discontinued. For its highly probable assessment of the hedged item, the Group will no longer apply the specific policy when the uncertainty arising from variable profit rate benchmark reform about the timing and the amount of the variable profit rate benchmark-based future cash flows of the hedged item is no longer present, or when the hedging relationship is discontinued.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(ab) Impairment

Impairment of financial assets is assessed in accordance with FAS 30 "Impairment, credit losses & onerous commitments" as follows:

1. Financings & receivables

Financings, receivables (including off-balance sheet exposures) are measured using the Expected Credit Losses (ECL) model in accordance with the Credit Losses Approach.

FAS 30 replaces the 'incurred loss' model with an 'expected credit loss' model ("ECL"). The new impairment model also applies to certain financing commitments and financial guarantees. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination in which case the allowance is based on the change in the ECLs over the life of the asset. Under FAS 30, credit losses are recognized earlier than under the previous standard.

The measurement of the expected credit loss allowance of a receivable or exposure measured with the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

• Determining the criteria for significant increase in credit risk;
• Determining the criteria for definition of default;
• Choosing appropriate models and assumptions for the measurement of ECL;
• Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
• Establishing groups of similar receivables for the purpose of measuring ECL

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 assess for significant increase in credit risk (SICR) at a counterparty level as the internal rating is currently carried out at a counterparty level and rating is not assigned at facility level. The Group maintains a facility level rating being the counterparty's internal rating at date of facility origination and date of assessment.

For the Retail portfolio, the Group currently manages its retail portfolio at a facility level, therefore assessment for SICR on the retail portfolio is done on a facility level. Days past due (DPD) of individual facilities will reflect on the counterparty SICR assessment.

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.

The Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due as applicable. 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.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(ab) Impairment (continued)

1. Financings & receivables (continued)

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: for financial instruments 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.

• Stage 2: for financial instruments 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 financings categorized in this stage based on the actual / expected maturity profile including restructuring or rescheduling of facilities.

• Stage 3: for credit-impaired financial instruments, the Group recognises the lifetime ECL. Default identification process i.e. DPD of 90 more is used as stage 3.

Default

FAS 30 seeks to align accounting for impairment of financial instruments with the manner in which credit risk is internally managed within the Group. In this context, the 'risk of default' of a financial instrument is a key component of the expected loss model under FAS 30.

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

Non-Retail:

The Group has set out the following definition of default (as provided by the Basel document and FAS 30 guidelines):

Non-retail customers with the following characteristics:

• All or any of the facility/ies in which any instalment or part thereof is outstanding for a period of 90 days or more
• All or any of the facility/ies put on non-accrual status (i.e. profit suspended)
• All or any of the facility/ies wherein 'specific provision' is set aside individually

Event driven defaults such as declaration of bankruptcy, death of borrower (in absence of succession plan or professional management), and other specific events which would significantly impact the borrower's ability the Group.

The Group will not consider the 90 days past due criteria in cases of technical defaults (e.g. facilities marked as 90+DPD due to administrative reasons and not credit related concerns and there is no dispute regarding repayment).

Retail:

The Group has set out the following definition of default:

All facilities in which any instalment or part thereof is outstanding for a period of 90 days or more.

The Group will not consider the 90 days past due criteria in cases of technical defaults (e.g. facilities marked as 90+DPD due to administrative reasons and not credit related concerns and there is no dispute regarding repayment).

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(ab) Impairment (continued)

1. Financings & receivables (continued)

Measurement of ECL

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

• financial assets that are not credit-impaired at the reporting date: as the 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);

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

• financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

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);
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.

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

LGD is the magnitude of the likely loss if there is a default. In case of non-availability of recovery data, the Group uses LGD estimate based on market practice.

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 lending commitments and financial guarantees, the EAD includes the amount currently outstanding.

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 financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period 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 loan commitment or guarantee.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(ab) Impairment (continued)

1. Financings & receivables (continued)

Incorporation of forward looking information

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

Management judgement is exercised when assessing the macroeconomic variables. The macro economic variables used for FAS 30 PD modelling include, among others, GDP growth rate and oil price.

Generating the term structure of PD

Credit risk grades and days past due (DPD) are primary inputs 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 borrower, days past due and 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. For most exposures, key macro-economic indicators include: GDP growth rate and oil prices.

Based on consideration of a variety of external actual and forecast information, The Group calculates PiT PD estimates under three scenarios, a base case, good case and bad case. An appropriate probability weighted ECL is then calculated by assigning probabilities, based on current market conditions, to each scenario.

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.

The retail portfolio is segmented based on products that exhibit distinguished behavior into the following categories:

- Auto finance;
- Mortgage finance;
- Personal Finance; and
- Credit cards.

PDs for each segment are measured using Observed Default Estimation and thus PD is calculated based on 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.

The PD’s derived are adjusted with forward looking information based on macro-economic variables and calibrated to derive the final PD’s separately for Corporate and Retail portfolio.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(ab) Impairment (continued)

1. Financings & receivables (continued)

Impairment

The Group recognizes loss allowances for ECL on the following type of financial instruments:

• All Islamic financing and certain other assets (including Commodity and Murabaha receivables)
• Debt instruments that are measured at amortised cost or at fair value through equity.
• Financing commitments that are not measured at fair value through profit and loss (FVTPL)
• Financial guarantee contracts that are not measured at fair value through profit and loss (FVTPL)
• Lease receivables and contract assets
• Balances with banks
• Related party balances
• Contingent liabilities

The Group measures loss allowances at an amount equal to lifetime ECL, except for the other financial instruments on which credit risk has not increased significantly since their initial recognition, for which ECL is measured as 12-month ECL.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

• If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing

• If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial asset

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

• significant financial difficulty of the borrower or issuer;
• a breach of contract such as a default or past due event;

• the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise; or
• it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL in case of financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(ab) Impairment (continued)

1. Financings & receivables (continued)

Write-off

The Group's existing policy remains the same under FAS 30. Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. 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 credit loss expense.

The Group writes off financial assets, in a whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on a collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full. The Group may however write-off financial assets that are still subject to enforcement activity.

2. **Investments**

Development properties

Development properties are carried at lower of cost or estimated net realisable value in accordance with the Net realisable value approach. This includes the situation when there is a possible indication of decline in the value of such properties. Estimated net realisable value is determined using the estimated selling price in the ordinary course of business, less estimated development expenditure. Impairment losses are recognised in the consolidated income statements.

Intangible assets

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

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the consolidated income statement.

Assets classified as held for sale

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Other investments

All other investments (excluding investments carried at fair value through income statement) are assessed for impairment in accordance with the Impairment approach.

Impairment loss represents the amount by which an investment's carrying value exceeds its recoverable amount.

In case of indications of possible impairment, the recoverable amount of an investment is determined as being the higher of its fair value less costs of disposal and its value-in-use.

Impairment losses are recognised in the consolidated income statement, taking into account the split between owners and unrestricted investment accounts.

(Expressed in thousands of United States Dollars unless otherwise stated)

3 CASH AND BALANCES WITH BANKS AND CENTRAL BANKS

	31 December 2021			31 December 2020		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Cash reserve with central banks	92,402	18,010	110,412	101,500	9,867	111,367
Cash and balances with banks and central banks	248,250	186,454	434,704	404,038	135,393	539,431
	340,652	**204,464**	**545,116**	**505,538**	**145,260**	**650,798**

4 COMMODITY AND OTHER PLACEMENTS WITH BANKS, FINANCIAL AND OTHER INSTITUTIONS

	31 December 2021			31 December 2020		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Commodity placements	249,700		249,700	268,001	12,581	280,582
Less: Provision for impairment	(131)	-	(131)	(482)	-	(482)
	249,569	**-**	**249,569**	**267,519**	**12,581**	**280,100**

Cash and cash equivalents for the purpose of consolidated statement of cash flows are as under:

	31 December 2021			31 December 2020		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Cash and balances with banks and central banks	340,652	204,464	545,116	505,538	145,260	650,798
Commodity and other placements with banks, financial and other institutions	249,569	-	249,569	267,519	12,581	280,100
Less: Placement maturing after ninety days	(63,053)	-	(63,053)	(52,843)	(12,581)	(65,424)
Less: Balances with central bank relating to minimum reserve requirement	(92,402)	(18,010)	(110,412)	(101,500)	(9,867)	(111,367)
	434,766	**186,454**	**621,220**	**618,714**	**135,393**	**754,107**

(Expressed in thousands of United States Dollars unless otherwise stated)

5 MURABAHA AND OTHER FINANCINGS

	31 December 2021			31 December 2020		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Murabaha and other financings	760,241	1,788,170	2,548,411	1,359,218	1,408,082	2,767,300
Less: Provision for impairment	(289,193)	(68,244)	(357,437)	(314,205)	(47,340)	(361,545)
	471,048	**1,719,926**	**2,190,974**	**1,045,013**	**1,360,742**	**2,405,755**

Other financings represents conventional loans and advances totalling $253.2 million (31 December 2020: $800 million) made by a subsidiary of Ithmaar.

Murabaha and other financings includes restructured facilities amounting to $535.1 million (31 December 2020: $7.1 million)

The movement in provision for impairment is as follows:

	31 December 2021			31 December 2020		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	314,205	47,340	361,545	312,556	26,624	339,180
Charge for the year	31,053	23,076	54,129	41,148	20,668	61,816
Write back during the year	(29,981)	(529)	(30,510)	(9,202)	(58)	(9,260)
Utilised during the year	(14,880)	(667)	(15,547)	(30,820)	-	(30,820)
Reclassification	(319)	-	(319)	5,821	210	6,031
Exchange differences and other movements	(10,885)	(976)	(11,861)	(5,298)	(104)	(5,402)
At 31 December	**289,193**	**68,244**	**357,437**	**314,205**	**47,340**	**361,545**

6 MUSHARAKA FINANCING

	31 December 2021			31 December 2020		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Musharaka financing	115	1,439,478	1,439,593	268	939,835	940,103
Less: expected credit loss	-	(13,850)	(13,850)	-	(10,607)	(10,607)
	115	**1,425,628**	**1,425,743**	**268**	**929,228**	**929,496**

(Expressed in thousands of United States Dollars unless otherwise stated)

7 SUKUK AND INVESTMENT SECURITIES

	31 December 2021			31 December 2020		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	**Relating to owners**	**Relating to unrestricted investment accounts**	**Total**
Investment securities at fair value through income statement						
Debt-type instruments – listed	174	-	174	-	-	-
Debt-type instruments – unlisted	66,022	-	66,022	40,959	-	40,959
Equity-type securities – listed	4,916	-	4,916	3,848	-	3,848
	71,112	**-**	**71,112**	**44,807**	**-**	**44,807**
Investment securities at fair value through equity						
Debt-type instruments – listed	187,535	90,153	277,688	204,334	101,598	305,932
Debt-type instruments – unlisted	760,857	846,482	1,607,339	1,009,478	250,778	1,260,256
Equity-type securities – listed	82,482	567	83,049	85,623	-	85,623
Equity-type securities – unlisted	293,924	-	293,924	279,377	-	279,377
	1,324,798	937,202	2,262,000	1,578,812	352,376	1,931,188
Provision for impairment	(209,541)	-	(209,541)	(209,464)	-	(209,464)
	1,115,257	**937,202**	**2,052,459**	**1,369,348**	**352,376**	**1,721,724**
Investment securities carried at amortised cost						
Debt-type instruments – listed	43,788	313,329	357,117	52,185	270,930	323,115
Debt-type instruments – unlisted	10,424	42,259	52,683	12,000	65,110	77,110
	54,212	355,588	409,800	64,185	336,040	400,225
Provision for impairment	(8,629)	-	(8,629)	(9,577)	-	(9,577)
	45,583	**355,588**	**401,171**	**54,608**	**336,040**	**390,648**
	1,231,952	**1,292,790**	**2,524,742**	**1,468,763**	**688,416**	**2,157,179**

Sukuk and investment securities include conventional investments totalling $1,067.2 million (31 December 2020: $1,311 million) made by a subsidiary of Ithmaar.

Certain assets totalling $4.5 million (31 December 2020: $4.5 million) included above are held by third parties as nominee on behalf of the Group.

The movement in provision for impairment relating to sukuk and investment securities is as follows:

	31 December 2021			31 December 2020		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	**Relating to owners**	**Relating to unrestricted investment accounts**	**Total**
At 1 January	219,041	-	219,041	202,504	-	202,504
Charge for the year	12,463	-	12,463	22,260	-	22,260
Write back during the year	(7,794)	-	(7,794)	(3,197)	-	(3,197)
Utilised during the year	(3,855)	-	(3,855)	-	-	-
Reclassification	1,104	-	1,104	(2,757)	-	(2,757)
Exchange differences and other movements	(2,789)	-	(2,789)	231	-	231
At 31 December	**218,170**	**-**	**218,170**	**219,041**	**-**	**219,041**

(Expressed in thousands of United States Dollars unless otherwise stated)

7 SUKUK AND INVESTMENT SECURITIES (continued)

FAS 33 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical investments.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the investments, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – inputs for the investments that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

Investments measured at fair value

	Level 1	Level 2	Level 3	Total
At 31 December 2021				
Investment securities at fair value through income statement				
Debt-type instruments	174	66,022	-	66,196
Equity securities	4,916	-	-	4,916
Investment securities at fair value through equity				
Debt-type instruments – listed	277,147	-	-	277,147
Debt-type instruments – unlisted	-	1,606,581	-	1,606,581
Equity-type securities	74,528	10,400	83,803	168,731
	356,765	**1,683,003**	**83,803**	**2,123,571**

	Level 1	Level 2	Level 3	Total
At 31 December 2020				
Investment securities at fair value through income statement				
Debt-type instruments	-	40,959	-	40,959
Equity securities	3,848	-	-	3,848
Investment securities at fair value through equity				
Debt-type instruments – listed	301,200	-	-	301,200
Debt-type instruments – unlisted	-	1,263,694	-	1,263,694
Equity-type securities	67,948	16,634	72,248	156,830
	372,996	**1,321,287**	**72,248**	**1,766,531**

There was no movement between level 1 and level 2 during the year.

Reconciliation of Level 3 Items

	Investment securities at fair value through equity	
	2021	**2020**
At 1 January	**72,248**	**79,290**
Total gains/(losses) recognised in		
- Income statement	(5,963)	(18,201)
- Equity	(1,191)	2,928
Purchases	6,011	-
Other movement	12,698	8,231
At 31 December	**83,803**	**72,248**

(Expressed in thousands of United States Dollars unless otherwise stated)

8 INVESTMENT IN ASSOCIATES

Investment in associated companies, as adjusted for the Group's share of their results comprise:

Name of company	2021	% of Share-holding	2020	% of Share-holding	Country	Activity
Unlisted:						
Citic International Assets Management Limited	29,253	20	33,070	20	Hong Kong	Asset management
Sanpak Engineering Industries (Pvt) Limited	-	31	-	31	Pakistan	Manufacturing
Ithraa Capital Company	-	23	-	23	Saudi Arabia	Investment company
Naseej B.S.C. (C)	72,564	31	73,027	31	Bahrain	Infrastructure
Health 360 Ancillary Services W.L.L.	490	20	487	20	Bahrain	Third party administrator
Solidarity Saudi Takaful Company	-	28	-	28	Saudi Arabia	Takaful
Faysal Saving Growth Fund*	411	35	-	-	Pakistan	Mutual funds
Faysal Asset Allocation Fund*	6,105	23	-	-	Pakistan	Mutual funds
Listed:						
BBK B.S.C.	568,110	26	516,577	26	Bahrain	Banking
	676,933		**623,161**			

*During the period, the Group's subsidiary increased its shareholding in these funds, thereby classiying them as associates.

During the year, the Group reversed an impairment provision amounting to $35 million (31 December 2020 $27 million) against one of its investment in a listed associate based on its assessment of the recoverable amount being higher than the carrying value. The recoverable amount is determined based on thebased on the market share price and the estimated fair value of the related significant influence premium the Group has over the associate, and the fair value determined by independent valuer (note 43)

Group's share of associates's results comprise mainly from following associated companies:

Name of company	2021	2020
Unlisted:		
Solidarity Saudi Takaful Company	-	4,074
Citic International Assets Management Limited	(4,362)	(8,530)
Naseej B.S.C. (C)	2,699	(1,624)
Others	357	(293)
Listed:		
BBK B.S.C .	37,759	37,351
	36,453	**30,978**

Share of reserves of Investment in associates amount to $36.5 million (31 December 2020: $37.9 million).

Investment in associates include conventional investments totalling $674.3 million (31 December 2020: $622.7 million).

Investment in associates amounting to $568.1 million (31 December 2020: $516.6 million) are pledged as collateral against borrowings with the terms and conditions in the ordinary course of business.

Amortisation charge for the intangible assets for the year ended 31 December 2021 amounted to $7.2 million (31 December 2020: $7.2 million).

Summarised financial position of associates that have been equity accounted:

	31 December 2021	31 December 2020
Total assets	10,169,973	10,480,239
Total liabilities	8,352,352	8,695,653
Total revenues	328,722	330,004
Total net profit	150,311	120,114

(Expressed in thousands of United States Dollars unless otherwise stated)

9 ASSETS ACQUIRED FOR LEASING

	31 December 2021			31 December 2020		
	Cost	Accumulated depreciation	Net book amount	Cost	Accumulated depreciation	Net book amount
Property & equipment	457,624	(65,804)	391,820	439,717	(54,183)	385,534

The net book amount of assets acquired for leasing is further analysed as follows:

	31 December 2021	31 December 2020
Relating to owners	922	3,133
Relating to unrestricted investment accounts	390,898	382,401
	391,820	385,534

(Expressed in thousands of United States Dollars unless otherwise stated)

10 INSURANCE AND RELATED RECEIVABLES

	31 December 2021	31 December 2020
Insurance and other receivables	54,008	58,064
Reinsurers' share of outstanding claims	20,760	15,950
Reinsurers' share of unearned contribution	36,614	34,023
	111,382	108,037
Less: Provision for impairment	(7,908)	(6,930)
	103,474	**101,107**

	31 December 2021		
Movement in Reinsurers' share of outstanding claims	**Gross**	**Reinsurance**	**Net**
Reported claims	37,723	(13,242)	24,481
Incurred But Not Reported (IBNR)	11,442	(2,708)	8,734
At 1 January 2021	**49,165**	**(15,950)**	**33,215**
Change in liabilities	3,238	(4,810)	(1,572)
At 31 December 2021	**52,403**	**(20,760)**	**31,643**
Reported claims	34,426	(17,834)	16,592
IBNR	17,977	(2,926)	15,051
At 31 December 2021	**52,403**	**(20,760)**	**31,643**
Movement in Reinsurers, share of unearned contribution	**Gross**	**Reinsurance**	**Net**
At 1 January 2021	74,002	(34,023)	39,979
Net movement	3,329	(2,591)	738
At 31 December 2021	**77,331**	**(36,614)**	**40,717**

	31 December 2020		
Movement in Reinsurers' share of outstanding claims	**Gross**	**Reinsurance**	**Net**
Reported claims	43,925	(20,625)	23,300
Incurred But Not Reported (IBNR)	6,727	(455)	6,272
At 1 January 2020	**50,652**	**(21,080)**	**29,572**
Change in liabilities	(1,487)	5,130	3,643
At 31 December 2020	**49,165**	**(15,950)**	**33,215**
Reported claims	37,723	(13,242)	24,481
IBNR	11,442	(2,708)	8,734
At 31 December 2020	**49,165**	**(15,950)**	**33,215**
Movement in Reinsurers, share of unearned contribution	**Gross**	**Reinsurance**	**Net**
At 1 January 2020	79,116	(37,404)	41,712
Net movement	(5,114)	3,381	(1,733)
At 31 December 2020	**74,002**	**(34,023)**	**39,979**

11 INSURANCE RELATED RESERVES

	31 December 2021	31 December 2020
Outstanding claims - Gross	52,403	49,165
Unearned contributions, commission and other reserves	77,331	74,002
	129,734	**123,167**

(Expressed in thousands of United States Dollars unless otherwise stated)

12 OTHER ASSETS

	31 December 2021			31 December 2020		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Account receivable	141,385	83,925	225,310	125,938	77,914	203,852
Due from related parties	684	-	684	557	-	557
Taxes – deferred	9,326	1,164	10,490	1,382	-	1,382
Taxes – current	525	-	525	261	-	261
Non-current assets held for sale	23,623	-	23,623	22,339	-	22,339
	175,543	85,089	260,632	150,477	77,914	228,391
Provision for impairment	(67,904)	(12,104)	(80,008)	(64,993)	(11,939)	(76,932)
	107,639	**72,985**	**180,624**	**85,484**	**65,975**	**151,459**

The movement in provision for impairment is as follows:

	31 December 2021			31 December 2020		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	64,993	11,939	76,932	75,176	12,150	87,326
Charge for the year	1,716	182	1,898	2,033	-	2,033
Write back during the year	(843)	-	(843)	(11,885)	-	(11,885)
Utilised during the year	(6,961)	-	(6,961)	-	-	-
Reclassification	10,020	-	10,020	597	(209)	388
Exchange differences and other movements	(1,021)	(17)	(1,038)	(928)	(2)	(930)
At 31 December	**67,904**	**12,104**	**80,008**	**64,993**	**11,939**	**76,932**

(Expressed in thousands of United States Dollars unless otherwise stated)

13 INVESTMENT IN REAL ESTATE

	31 December 2021			31 December 2020		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Investment properties	266,289	-	266,289	292,050	-	292,050
Less: Provision for impairment	(9,970)	-	(9,970)	(35,746)	-	(35,746)
	256,319	**-**	**256,319**	**256,304**	**-**	**256,304**

Fair value of investment properties at the year end approximates their carrying value.

Certain assets totalling $0.6 million (31 December 2020: $0.6 million) included above are held by third parties as nominee on behalf of the Group.

The movement in provision for impairment for investment in real estate is as follows:

	31 December 2021			31 December 2020		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	35,746	-	35,746	37,178	-	37,178
Charge for the year	-	-	-	2,019	-	2,019
Write back during the year	-	-	-	(359)	-	(359)
Utilised during the year	(15,141)	-	(15,141)	-	-	-
Reclassification	(10,613)	-	(10,613)	(3,582)	-	(3,582)
Exchange differences and other movements	(22)	-	(22)	490	-	490
At 31 December	**9,970**	**-**	**9,970**	**35,746**	**-**	**35,746**

14 DEVELOPMENT PROPERTIES

	Relating to owners	
	31 December 2021	31 December 2020
Land	185,080	197,610
Development costs	48,155	74,408
	233,235	**272,018**

Development costs represent the infrastructure costs incurred such as roads and networks, electricity stations and design and supervision costs and the infrastructure cost. The infrastructure cost commitments are expected to be met by anticipated sale of plots. Based on this, management has estimated that the current carrying value is lower than the net realisable value, and accordingly, no impairment has been considered necessary.

15 FIXED ASSETS

	Relating to owners					
	31 December 2021			31 December 2020		
	Cost	Accumulated depreciation	Net book amount	Cost	Accumulated depreciation	Net book amount
Land and building	58,463	(10,143)	48,320	54,512	(10,593)	43,919
Leasehold improvements	37,207	(24,276)	12,931	36,356	(23,362)	12,994
Furniture and equipment	93,980	(69,445)	24,535	90,704	(67,779)	22,925
Motor vehicles	3,387	(2,009)	1,378	3,417	(1,948)	1,469
Right-of-use assets	99,581	(14,971)	84,610	-	-	-
	292,618	**(120,844)**	**171,774**	**184,989**	**(103,682)**	**81,307**

Depreciation charge for the year ended 31 December 2021 amounted to $12.8 million (31 December 2020: $8.9 million).

(Expressed in thousands of United States Dollars unless otherwise stated)

16 INTANGIBLE ASSETS

	Relating to owners				
					31 December 2021
	Cost	**Accumulated amortisation**	**Provision for impairment**	**Exchange differences**	**Net book amount**
Goodwill	93,355	-	(71,070)	(12,619)	9,666
Customer relations	120,212	(83,505)	-	(11,911)	24,796
Core deposits	155,546	(119,586)	-	(13,711)	22,249
Others	63,965	(38,210)	-	-	25,755
	433,078	**(241,301)**	**(71,070)**	**(38,241)**	**82,466**

	Relating to owners				
					31 December 2020
	Cost	**Accumulated amortisation**	**Provision for impairment**	**Exchange differences**	**Net book amount**
Goodwill	93,355	-	(71,070)	(12,178)	10,107
Customer relations	120,212	(78,810)	-	(13,497)	27,905
Core deposits	155,546	(111,808)	-	(17,662)	26,076
Others	60,120	(34,761)	-	-	25,359
	429,233	**(225,379)**	**(71,070)**	**(43,337)**	**89,447**

Amortisation charge for the year ended 31 December 2021 amounted to $15.9 million (31 December 2020: $16.2 million)

The carrying amount of goodwill has been allocated to cash-generating units as follows:

	31 December 2021	**31 December 2020**
Faysal Bank Limited	7,088	7,529
Solidarity Group Holding B.S.C. (C)	2,578	2,578
	9,666	**10,107**

The recoverable amount of the cash-generating units were determined based on Value-in-Use (VIU) and Fair Value Less Cost to Sell (FVLCTS). VIU calculations were determined using cash flow projections from financial budgets approved by the Group's senior management covering a three year period. The discount rate applied to cash flow projections represent the cost of capital adjusted for an appropriate risk premium for these cash-generating units. For FVLCTS calculations, the Comparable Companies Multiple (CCM) method was used, whereby the price to book value (P/B) multiple of the listed Islamic banks operating in the region was considered. The key assumptions used in estimating the recoverable amounts of cash-generating units were assessed to ensure reasonableness of the VIU and FVLCTS and resulting adjustment, if any, is recorded in the consolidated income statement.

17 CUSTOMERS' CURRENT ACCOUNTS

Customers' current accounts include balance relating to a counterparty amounting to $203.9 million which is subject to sanctions under US measures (31 December 2020: $223.2 million).

(Expressed in thousands of United States Dollars unless otherwise stated)

18 DUE TO BANKS, FINANCIAL AND OTHER INSTITUTIONS

	31 December 2021			31 December 2020		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Due to banks	822,562	427,690	1,250,252	847,841	145,655	993,496
Due to financial and other institutions	63,902	53,548	117,450	121,418	-	121,418
	886,464	**481,238**	**1,367,702**	**969,259**	**145,655**	**1,114,914**

Due to banks, financial and other institutions include balances totalling $427.6 million from two counterparties which are subject to sanctions under US measures (31 December 2020: $438.2 million).

Due to banks, financial and other institutions include conventional deposits totalling $203.5 million (31 December 2020: $282.6 million), accepted by a subsidiary of Ithmaar.

At 31 December 2021, there were collateralized borrowings against an investment in associate in aggregate $146.8 million (31 December 2020: $192.5 million).

Cash dividends amounting to $18.8 million (31 December 2020: $26.9 million) on certain shares pledged as collateral was directly received by the lender (as per agreed terms and conditions) during the year and adjusted against the outstanding facility amount as per the agreed terms.

Assets which are pledged as collateral are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

19 DUE TO INVESTORS

	Relating to owners	
	31 December 2021	31 December 2020
Due to corporate institutions	705,221	713,135
Due to individuals	197,561	578,757
Due to financial institutions	211,405	72,128
	1,114,187	**1,364,020**

Due to investors represent conventional deposits accepted by a subsidiary of the Group.

(Expressed in thousands of United States Dollars unless otherwise stated)

20 OTHER LIABILITIES

	31 December 2021			31 December 2020		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Accounts payable	260,562	184,265	444,827	281,387	86,510	367,897
Due to related parties (note 38)	13	-	13	129	-	129
Provision for taxation – current	5,080	-	5,080	1,088	-	1,088
Provision for taxation – deferred	3,356	-	3,356	3,671	-	3,671
	269,011	**184,265**	**453,276**	**286,275**	**86,510**	**372,785**

21 EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS

The funds received from Unrestricted Investment Accountholders (URIA) are invested on their behalf without recourse to the Group. The statement of financial position of URIA is as follows:

	Notes	31 December 2021	31 December 2020
Cash and balances with banks and central banks	3	204,464	145,260
Commodity and other placements with banks, financial and other institutions	4	-	12,581
Murabaha and other financings	5	1,719,926	1,360,742
Musharaka financing	6	1,425,628	929,228
Sukuk and investment securities	7	1,292,790	688,416
Assets acquired for leasing		390,898	382,401
Other assets	12	72,985	65,975
Fixed assets		56,897	-
Due from the Group (net)		532,697	703,937
		5,696,285	4,288,540
Customers' current accounts	17	(1,279,085)	(692,739)
Due to banks, financial and other institutions	18	(481,238)	(145,655)
Other liabilities	19	(184,265)	(86,510)
Equity of unrestricted investment accountholders		**3,751,697**	**3,363,636**

Due from the Group represents amount invested by URIA with owners. This amount is eliminated on consolidated and reflected as URIA's share of jointly financed assets on the the consolidated balance sheet.

(Expressed in thousands of United States Dollars unless otherwise stated)

21 EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS (continued)

The assets attributable to unrestricted investment accountholders have been disclosed net of impairment provisions amounting to $94.2 million (31 December 2020: $69.9 million). The movement of impairment provisions relating to unrestricted investment accountholders has been disclosed in note 29.

Other liabilities include profit equalization reserve and the movement is as follows:

	31 December 2021	31 December 2020
At 1 January	11,497	19,495
Net utilisation during the year	(7,339)	(7,998)
At 31 December	**4,158**	**11,497**

The average gross rate of return in respect of unrestricted investment accounts was 3.9% per annum for 2021 (2020: 4.9%) of which 2.4% per annum (2020: 3.2%) was distributed to the investors and the balance was either set aside as provision for impairment, management fees of $1.2 million (up to 1.5% of the total invested amount per annum to cover administration and other expenses related to the management of such funds) and/or retained by the Group as share of profits in its capacity as a Mudarib.

22 MINORITY INTERESTS

The consolidated financial statements include 100% of the assets, liabilities and earnings of subsidiaries. The ownership interests of the other shareholders in the subsidiaries are called minority interests.

The following table summarises the minority shareholders' interests in the equity of consolidated subsidiaries.

	31 December 2021		31 December 2020	
	Minority %		Minority %	
Faysal Bank Limited	33	117,997	33	116,101
Solidarity Group Holding B.S.C. (C)	45	101,871	45	101,002
Health Island B.S.C. (C)	50	33,668	50	34,150
Dilmunia Development Fund I L.P.	8	21,546	10	27,273
Cityview Real Estate Development B.S.C. (C)	49	(2,206)	49	(3,795)
Sakana Holistic Housing Solutions B.S.C. (C)	50	1,576	50	2,644
		274,452		**277,375**

Minority interests in the consolidated income statement of $21.7 million (31 December 2020: $20 million) represent the minority shareholders' share of the earnings of these subsidiaries for the respective years.

(Expressed in thousands of United States Dollars unless otherwise stated)

23 SHARE CAPITAL

	Number of shares (thousands)	Share capital
Authorised	8,000,000	2,000,000
Issued and fully paid		
Total outstanding	3,030,755	757,690
Treasury shares	(120,595)	(30,149)
At 31 December 2020 (Audited)	**2,910,160**	**727,541**
Issued and fully paid		
Total outstanding as at 1 January 2020	3,030,755	757,690
Treasury shares	(120,595)	(30,149)
At 31 December 2021 (Audited)	**2,910,160**	**727,541**

Ithmaar's total issued and fully paid share capital at 31 December 2021 comprises 3,030,755,027 shares at $0.25 per share amounting to $757,688,757. The share capital of Ithmaar is denominated in United States Dollars and these shares are traded on Bahrain Bourse in United States dollars and Dubai Financial Market in Arab Emirates Dirham.

Ithmaar owned 120,595,238 of its own shares at 31 December 2021 (31 December 2020: 120,595,238). The shares are held as treasury shares and the Group has the right to reissue these shares at a later date.

24 EARNINGS/(LOSSES) PER SHARE (BASIC & DILUTED)

Earnings per share (Basic & Diluted) are calculated by dividing the net (loss)/income attributable to shareholders by the weighted average number of issued and fully paid up ordinary shares during the year.

	31 December 2021	31 December 2020
Net profit/(loss) attributable to shareholders ($ '000)	38,603	(41,719)
Weighted average number of issued and fully paid up ordinary shares ('000)	2,910,160	2,910,160
Earnings/(Losses) per share (Basic & Diluted) - US Cents	**1.33**	**(1.43)**

Earnings per share on non-sharia compliant income and expenses is included under note 41.

(Expressed in thousands of United States Dollars unless otherwise stated)

25 INCOME FROM MURABAHA AND OTHER FINANCINGS

	Relating to owners	
	31 December 2021	**31 December 2020**
Income from Islamic financings	3,717	3,247
Income from other financings	57,755	112,758
	61,472	**116,005**

26 INCOME FROM OTHER INVESTMENTS

	Relating to owners	
	31 December 2021	**31 December 2020**
Income from investment securities at amortised cost	2,490	3,581
Income from investment securities at fair value through equity	101,304	117,209
Income from investment securities at fair value through income statement	20,919	23,937
(Loss)/income from investment in real estate	(7,141)	2,616
	117,572	**147,343**

27 OTHER INCOME

	Relating to owners	
	31 December 2021	**31 December 2020**
Income from banking services	47,439	51,256
Insurance underwriting profit (note 27.1)	27,013	25,938
Income from commodity placements	8,434	12,887
Foreign exchange income/ (loss)	18,084	(14,358)
Gain on disposal of fixed assets	1,578	133
	102,548	**75,856**

27.1 ***Breakdown of Insurance underwriting profit***		
Net insurance premiums earned	72,738	74,150
Net insurance claims incurred	(45,725)	(48,212)
	27,013	**25,938**

28 ADMINISTRATIVE AND GENERAL EXPENSES

	Relating to owners	
	31 December 2021	**31 December 2020**
Salaries and other benefits	92,424	93,324
Office expenses	74,230	67,285
Professional fees	15,498	18,150
Other administrative expenses	26,612	23,856
	208,764	**202,615**

(Expressed in thousands of United States Dollars unless otherwise stated)

29 PROVISION FOR IMPAIRMENT

	31 December 2021			31 December 2020		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	830,116	69,886	900,002	835,622	44,858	880,480
Charge for the year	46,210	32,954	79,164	80,683	26,127	106,810
Write back during the year	(73,618)	(5,678)	(79,296)	(51,993)	(849)	(52,842)
Utilised during the year	(47,010)	(667)	(47,677)	(30,821)	(103)	(30,924)
Exchange differences	(19,230)	(2,297)	(21,527)	(3,375)	(147)	(3,522)
At 31 December	**736,468**	**94,198**	**830,666**	**830,116**	**69,886**	**900,002**

Provision utilised during the year represents write-offs during the year pertaining to stage 3.

The allocation of the provision for impairment to the respective assets is as follows:

	31 December 2021			31 December 2020		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Murabaha and other financings	289,193	68,244	357,437	314,205	47,340	361,545
Musharaka financing	-	13,850	13,850	-	10,607	10,607
Commodity and other placements with banks, financial and other institutions	131	-	131	482	-	482
Investment in mudaraba	176	-	176	176	-	176
Investment in associates	9,662	-	9,662	51,049	-	51,049
Sukuk and investment securities	218,170	-	218,170	219,041	-	219,041
Restricted investment accounts	49,735	-	49,735	49,735	-	49,735
Insurance and related receivables	7,908	-	7,908	6,930	-	6,930
Other assets	66,040	12,104	78,144	63,250	11,939	75,189
Off-balance sheet related	1,864	-	1,864	1,743	-	1,743
Development properties	12,549	-	12,549	16,689	-	16,689
Investment in real estate	9,970	-	9,970	35,746	-	35,746
Intangible assets	71,070	-	71,070	71,070	-	71,070
	736,468	**94,198**	**830,666**	**830,116**	**69,886**	**900,002**

(Expressed in thousands of United States Dollars unless otherwise stated)

29 PROVISION FOR IMPAIRMENT (continued)

Loss allowance

The following table sets out information about the credit quality of financial assets measured at amortized cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

31 December 2021

	Stage 1	Stage 2	Stage 3	Total
Financial assets - amortized cost				
Cash, Commodity and other placements with banks, financial and other institutions	**795,167**	**-**	**-**	**795,167**
Financings (Funded and unfunded exposure) Corporate				
Low risks (1-3)	930,205	190,215	-	1,120,420
Acceptable risks (4-6)	1,616,002	86,407	-	1,702,409
Watch list (7)	-	479,855	-	479,855
Non performing (8-10)	-	-	313,578	313,578
Carrying amount - Corporate	**2,546,207**	**756,477**	**313,578**	**3,616,262**
Retail (un-rated)	1,493,811	24,331	63,613	1,581,755
Carrying amount including unfunded	**4,040,018**	**780,808**	**377,191**	**5,198,017**
Sukuk and investment securities	**378,954**	**22,219**	**8,627**	**409,800**
Other receivables	**238,078**	**8,198**	**76,693**	**322,969**
Loss allowance	**(38,131)**	**(83,138)**	**(348,688)**	**(469,957)**
Total financial assets carrying amount	**5,414,086**	**728,087**	**113,823**	**6,255,996**

31 December 2020

	Stage 1	Stage 2	Stage 3	Total
Financial assets - amortized cost				
Cash, Commodity and other placements with banks, financial and other institutions	**931,380**	**-**	**-**	**931,380**
Financings (Funded and unfunded exposure) Corporate				
Low risks (1-3)	675,345	67,759	-	743,104
Acceptable risks (4-6)	1,643,059	58,336	400	1,701,795
Watch list (7)	-	509,549	-	509,549
Non performing (8-10)	-	-	302,165	302,165
Carrying amount - Corporate	**2,318,404**	**635,644**	**302,565**	**3,256,613**
Retail (un-rated)	1,297,500	136,491	100,775	1,534,766
Carrying amount including unfunded	**3,615,904**	**772,135**	**403,340**	**4,791,379**
Sukuk and investment securities	**390,693**	**-**	**9,532**	**400,225**
Other receivables	**229,498**	**2,884**	**62,901**	**295,283**
Loss allowance	**(37,469)**	**(79,212)**	**(350,120)**	**(466,801)**
Total financial assets carrying amount	**5,130,006**	**695,807**	**125,653**	**5,951,466**

Gross financings (funded) as of 31 December 2021 amounted to $3.3 billion, $0.8 billion and $0.4 billion for Stage 1, Stage 2 and Stage 3 respectively (31 December 2020: $3.0 billion, $0.7 billion and $0.4 billion). Collateral coverage for gross financing as of 31 December 2021 was 82%, 55% and 34% for Stage 1, Stage 2 and Stage 3 respectively (31 December 2020: 80%, 40% and 48%).

(Expressed in thousands of United States Dollars unless otherwise stated)

30 OVERSEAS TAXATION

	Relating to owners	
	31 December 2021	**31 December 2020**
Current taxes	33,602	24,908
Deferred taxes	(3,487)	1,930
	30,115	**26,838**

The Group is subject to income taxes in some jurisdictions. Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences impact the income tax and deferred tax provisions in the period in which such determination is made.

Current tax receivable/(payable)

	31 December 2021	31 December 2020
At 1 January	(827)	10,871
Charge for the year	(33,602)	(24,908)
Payments made	42,316	15,162
Exchange differences and other movements	(12,442)	(1,952)
At 31 December	**(4,555)**	**(827)**

Deferred tax asset/(liability)

	31 December 2021	31 December 2020
At 1 January	(2,289)	4,982
Charge for the year	3,487	(1,930)
Charges due to fair value reserve	4,356	(3,729)
Exchange differences and other movements	416	(1,612)
At 31 December	**5,970**	**(2,289)**

(Expressed in thousands of United States Dollars unless otherwise stated)

31 SEGMENTAL INFORMATION

The Group constitutes of three main business segments, namely;

(i) Retail & Corporate banking business, in which the Group receives customer funds and deposits and extends financing to its retail and corporate clients.

(ii) Asset Management/Investment Banking, in which the Group directly participates in investment opportunities.

	31 December 2021				31 December 2020			
	Retail & Corporate banking	Asset Management / Investment Banking	Others	Total	Retail & Corporate banking	Asset Management / Investment Banking	Others	Total
Operating income/(loss)	278,532	(9,946)	39,123	**307,709**	240,435	(9,782)	38,627	**269,280**
Total expenses	(189,133)	(29,515)	(26,030)	**(244,678)**	(185,251)	(25,326)	(24,654)	**(235,231)**
Net income/(loss) before provision and overseas taxation	**89,399**	**(39,461)**	**13,093**	**63,031**	**55,184**	**(35,108)**	**13,973**	**34,049**
Provision and overseas taxation	(20,303)	18,967	(1,371)	**(2,707)**	(67,155)	13,452	(1,825)	**(55,528)**
Net income/(loss) for the year	**69,096**	**(20,494)**	**11,722**	**60,324**	**(11,971)**	**(21,656)**	**12,148**	**(21,479)**
Attributable to:								
Equity holders of Ithmaar	51,384	(18,039)	5,258	**38,603**	(25,159)	(22,388)	5,828	**(41,719)**
Minority interests	17,712	(2,455)	6,464	**21,721**	13,188	732	6,320	**20,240**
	69,096	**(20,494)**	**11,722**	**60,324**	**(11,971)**	**(21,656)**	**12,148**	**(21,479)**
Total assets	**7,630,642**	**1,037,807**	**364,340**	**9,032,789**	**6,907,505**	**1,126,662**	**349,498**	**8,383,665**
Total liabilities and equity of unrestricted investment account holders	**8,484,557**	**49,398**	**186,620**	**8,720,575**	**7,838,742**	**72,547**	**180,239**	**8,091,528**

The Group constitutes of four geographical segments which are Middle East, Asia and others

	31 December 2021				31 December 2020			
	Middle East & Africa	Rest of Asia	Others	Total	Middle East & Africa	Rest of Asia	Others	Total
Operating income/(loss)	101,869	203,272	2,568	**307,709**	65,432	202,118	1,730	**269,280**
Total expenses	(112,595)	(129,856)	(2,227)	**(244,678)**	(110,703)	(122,230)	(2,298)	**(235,231)**
Net income/(loss) before provision and overseas taxation	**(10,726)**	**73,416**	**341**	**63,031**	**(45,271)**	**79,888**	**(568)**	**34,049**
Provision and overseas taxation	17,020	(19,022)	(705)	**(2,707)**	(15,983)	(39,616)	71	**(55,528)**
Net income/(loss) for the year	**6,294**	**54,394**	**(364)**	**60,324**	**(61,254)**	**40,272**	**(497)**	**(21,479)**
Attributable to:								
Equity holders of the Ithmaar	2,756	36,211	(364)	**38,603**	(68,032)	26,810	(497)	**(41,719)**
Minority interests	3,538	18,183	-	**21,721**	6,778	13,462	-	**20,240**
	6,294	**54,394**	**(364)**	**60,324**	**(61,254)**	**40,272**	**(497)**	**(21,479)**
Total assets	**3,584,288**	**4,935,056**	**513,445**	**9,032,789**	**3,503,404**	**4,340,175**	**540,086**	**8,383,665**
Total liabilities and equity of unrestricted investment account holders	**3,868,032**	**4,502,872**	**349,671**	**8,720,575**	**3,814,244**	**3,907,521**	**369,763**	**8,091,528**

(Expressed in thousands of United States Dollars unless otherwise stated)

32 ZAKAH

Zakah is directly borne by the owners and investors in restricted and equity of unrestricted investment accountholders. Ithmaar does not collect or pay Zakah on behalf of its owners and its investment accountholders.

33 CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities

	31 December 2021	31 December 2020
Acceptances and endorsements	47,295	66,883
Guarantees and irrevocable letters of credit	693,242	589,686
Customer and other claims	190,174	224,481
	930,711	**881,050**

Commitments

	31 December 2021	31 December 2020
Undrawn facilities, financing lines and other commitments to finance	**1,550,227**	**1,600,375**

(Expressed in thousands of United States Dollars unless otherwise stated)

34 CURRENCY RISK

The currency exposure of the assets and liabilities, of the Group, including equity of unrestricted investment accountholders, is as follows:

31 December 2021	United States Dollar	Pakistan Rupee	Bahraini Dinar	Euro	UAE Dirham	Other	Total
Cash and balances with banks and central banks	100,170	304,407	99,065	20,508	1,898	19,068	545,116
Commodity and other placements with banks, financial and other institutions	26,976	-	134,255	72,357	-	15,981	249,569
Murabaha and other financings	57,231	798,495	1,055,191	215,846	-	64,211	2,190,974
Musharaka financing	-	1,425,743	-	-	-	-	1,425,743
Sukuk and investment securities	198,615	2,048,552	238,932	1,338	-	37,305	2,524,742
Investment in associates	-	-	640,674	-	-	36,259	676,933
Assets acquired for leasing	-	-	391,820	-	-	-	391,820
Insurance and related receivables	-	-	19,041	61,231	-	23,202	103,474
Other assets	8,301	64,496	50,408	5,437	-	51,982	180,624
Investment in real estate	13,316	6,544	179,095	-	-	57,364	256,319
Development properties	-	-	233,235	-	-	-	233,235
Fixed assets	-	121,526	33,935	-	-	16,313	171,774
Intangible assets	56,276	12,006	7,278	-	-	6,906	82,466
Total assets	**460,885**	**4,781,769**	**3,082,929**	**376,717**	**1,898**	**328,591**	**9,032,789**
Customer current accounts	163,274	1,249,536	243,888	221,790	404	25,087	1,903,979
Due to banks, financial and other institutions	371,299	571,904	6,182	78,661	327,144	12,512	1,367,702
Due to investors	30,254	1,081,117	-	967	-	1,849	1,114,187
Other liabilities	65,807	208,811	101,244	5,206	3,658	68,550	453,276
Insurance related reserves	-	-	83,548	-	-	46,186	129,734
Total liabilities	**630,634**	**3,111,368**	**434,862**	**306,624**	**331,206**	**154,184**	**4,968,878**
Equity of unrestricted investment accountholders	415,084	1,075,482	2,261,131	-	-	-	3,751,697
Total liabilities and equity of unrestricted investment accountholders	**1,045,718**	**4,186,850**	**2,695,993**	**306,624**	**331,206**	**154,184**	**8,720,575**
Contingent liabilities and commitments	**805,902**	**1,416,586**	**4,054**	**54,894**	**3,225**	**196,277**	**2,480,938**
31 December 2020							
Total assets	**570,895**	**4,122,480**	**3,007,430**	**326,117**	**1,532**	**355,211**	**8,383,665**
Total liabilities and equity of unrestricted investment accountholders	**837,497**	**3,667,332**	**2,767,210**	**351,355**	**329,488**	**138,646**	**8,091,528**
Contingent liabilities and commitments	**751,192**	**1,503,068**	**5,922**	**65,449**	**66**	**155,728**	**2,481,425**

Ithmaar Holding B.S.C.
Notes to the consolidated financial statements for the year ended 31 December 2021
(Expressed in thousands of United States Dollars unless otherwise stated)

35 MATURITY PROFILE

The contractual maturity profile of the assets and liabilities of the Group, including equity of unrestricted investment accountholders, is as follows:

31 December 2021	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Cash and balances with banks and central banks	538,699	4,514	1,903	-	-	545,116
Commodity and other placements with banks, financial and other institutions	131,066	57,353	43,605	17,545	-	249,569
Murabaha and other financings	511,087	277,493	339,118	497,695	565,581	2,190,974
Musharaka financing	422,314	46,705	144,711	579,622	232,391	1,425,743
Sukuk and investment securities	81,631	472,944	106,579	1,411,155	452,433	2,524,742
Investment in associates	-	-	-	-	676,933	676,933
Assets acquired for leasing	562	-	902	4,243	386,113	391,820
Insurance and related receivables	-	-	103,474	-	-	103,474
Other assets	40,071	744	92,205	34,023	13,581	180,624
Investment in real estate	-	-	6,544	24,826	224,949	256,319
Development properties	-	-	-	233,235	-	233,235
Fixed assets	-	128	9,049	38,315	124,282	171,774
Intangible assets	-	-	-	-	82,466	82,466
Total assets	**1,725,430**	**859,881**	**848,090**	**2,840,659**	**2,758,729**	**9,032,789**
Customer current accounts	1,903,979	-	-	-	-	1,903,979
Due to banks, financial and other institutions	661,280	308,197	178,083	17,672	202,470	1,367,702
Due to investors	628,669	297,383	184,278	3,852	5	1,114,187
Other liabilities	128,215	18	127,917	81,737	115,389	453,276
Insurance related reserves	-	-	129,734	-	-	129,734
Total liabilities	**3,322,143**	**605,598**	**620,012**	**103,261**	**317,864**	**4,968,878**
Equity of unrestricted investment accountholders	2,065,792	395,276	900,536	390,093	-	3,751,697
Total liabilities and equity of unrestricted investment accountholders	**5,387,935**	**1,000,874**	**1,520,548**	**493,354**	**317,864**	**8,720,575**
Net position	**(3,662,505)**	**(140,993)**	**(672,458)**	**2,347,305**	**2,440,865**	**312,214**
Contingent liabilities and commitments	**1,114,743**	**285,539**	**765,005**	**100,403**	**215,248**	**2,480,938**
31 December 2020						
Total assets	**1,329,888**	**1,473,550**	**986,218**	**1,777,769**	**2,816,240**	**8,383,665**
Total liabilities and equity of unrestricted investment accountholders	**5,026,427**	**761,456**	**1,738,161**	**520,621**	**44,863**	**8,091,528**
Net position	**(3,696,539)**	**712,094**	**(751,943)**	**1,257,148**	**2,771,377**	**292,137**
Contingent liabilities and commitments	**1,422,470**	**453,252**	**251,357**	**323,074**	**31,272**	**2,481,425**

(Expressed in thousands of United States Dollars unless otherwise stated)

36 CONCENTRATION OF ASSETS, LIABILITIES AND LETTERS OF CREDIT AND GUARANTEE

Assets and liabilities of the Group, including equity of unrestricted investment accountholders, and letters of credit and guarantee are distributed over the following industry sectors and geographical regions:

31 December 2021	Banks and financial institutions	Trading and manu-facturing	Property and Cons-truction	Services	Private individuals	Textile	Other	Total
Cash and balances with banks and central banks	545,116	-	-	-	-	-	-	545,116
Commodity and other placements with banks, financial and other institutions	249,569	-	-	-	-	-	-	249,569
Murabaha and other financings	225,061	730,323	314,516	63,988	741,734	96,313	19,039	2,190,974
Musharaka financing	95	747,583	242,428	127,114	173,403	95,519	39,601	1,425,743
Sukuk and investment securities	2,301,568	58,375	151,043	13,174	582	-	-	2,524,742
Investment in associates	671,669	871	4,393	-	-	-	-	676,933
Assets acquired for leasing	-	4,260	922	203	386,435	-	-	391,820
Insurance and related receivables	73,022	-	-	-	-	-	30,452	103,474
Other assets	31,572	32,945	78,630	-	27,079	-	10,398	180,624
Investment in real estate	6,544	-	176,948	-	-	-	72,827	256,319
Development properties	-	-	233,235	-	-	-	-	233,235
Fixed assets	122,988	-	25,419	-	-	-	23,367	171,774
Intangible assets	47,669	-	-	-	-	-	34,797	82,466
Total assets	**4,274,873**	**1,574,357**	**1,227,534**	**204,479**	**1,329,233**	**191,832**	**230,481**	**9,032,789**
Customer current accounts	84,710	681,188	65,114	238,447	439,222	10,423	384,875	1,903,979
Due to banks, financial and other institutions	1,216,016	-	8,904	98,965	-	-	43,817	1,367,702
Due to investors	185,432	449,656	11,949	103,367	98,664	1,535	263,584	1,114,187
Other liabilities	198,707	14,624	81,218	1,762	10,350	-	146,615	453,276
Insurance related reserves	-	-	-	-	-	-	129,734	129,734
Total liabilities	**1,684,865**	**1,145,468**	**167,185**	**442,541**	**548,236**	**11,958**	**968,625**	**4,968,878**
Equity of unrestricted investment accountholders	5,911	999,522	71,312	513,096	1,884,866	7,916	269,074	3,751,697
Total liabilities and equity of unrestricted investment accountholders	**1,690,776**	**2,144,990**	**238,497**	**955,637**	**2,433,102**	**19,874**	**1,237,699**	**8,720,575**
Contingent liabilities and commitments	**685,207**	**964,403**	**62,853**	**26,303**	**6,521**	**156,323**	**579,328**	**2,480,938**
31 December 2020								
Total assets	**3,559,038**	**1,481,857**	**1,142,150**	**578,866**	**1,302,329**	**106,431**	**212,994**	**8,383,665**
Total liabilities and equity of unrestricted investment accountholders	**1,044,540**	**2,011,391**	**334,130**	**1,164,861**	**2,365,451**	**154,166**	**1,016,989**	**8,091,528**
Contingent liabilities and commitments	**535,504**	**1,160,448**	**54,940**	**52,730**	**15,076**	**169,233**	**493,494**	**2,481,425**

(Expressed in thousands of United States Dollars unless otherwise stated)

36 CONCENTRATION OF ASSETS, LIABILITIES AND LETTERS OF CREDIT AND GUARANTEE (continued)

31 December 2021	Asia / Pacific	Middle East	Europe	North America	Others	Total
Cash and balances with banks and central banks	351,858	138,871	27,964	26,423	-	545,116
Commodity and other placements with banks, financial and other institutions	900	243,838	4,831	-	-	249,569
Murabaha and other financings	863,163	1,062,538	83,810	181,116	347	2,190,974
Musharaka financing	1,425,743	-	-	-	-	1,425,743
Sukuk and investment securities	2,052,661	443,990	6,046	22,045	-	2,524,742
Investment in associates	35,768	641,165	-	-	-	676,933
Assets acquired for leasing	-	391,820	-	-	-	391,820
Insurance and related receivables	-	42,243	61,231	-	-	103,474
Other assets	64,887	74,078	40,876	783	-	180,624
Investment in real estate	6,544	193,263	56,512	-	-	256,319
Development properties	-	233,235	-	-	-	233,235
Fixed assets	121,526	48,787	1,461	-	-	171,774
Intangible assets	12,006	70,460	-	-	-	82,466
Total assets	**4,935,056**	**3,584,288**	**282,731**	**230,367**	**347**	**9,032,789**
Customer current accounts	1,391,178	287,824	205,302	19,675	-	1,903,979
Due to banks, financial and other institutions	633,789	677,239	56,674	-	-	1,367,702
Due to investors	1,114,182	5	-	-	-	1,114,187
Other liabilities	209,493	175,763	68,020	-	-	453,276
Insurance related reserves	-	129,734	-	-	-	129,734
Total liabilities	**3,348,642**	**1,270,565**	**329,996**	**19,675**	**-**	**4,968,878**
Equity of unrestricted investment accountholders	1,154,230	2,597,467	-	-	-	3,751,697
Total liabilities and equity of unrestricted investment accountholders	**4,502,872**	**3,868,032**	**329,996**	**19,675**	**-**	**8,720,575**
Contingent liabilities and commitments	**2,408,945**	**71,993**	**-**	**-**	**-**	**2,480,938**
31 December 2020						
Total assets	**4,340,175**	**3,503,404**	**274,868**	**264,871**	**347**	**8,383,665**
Total liabilities and equity of unrestricted investment accountholders	**3,907,521**	**3,814,244**	**361,257**	**8,063**	**443**	**8,091,528**
Contingent liabilities and commitments	**2,379,062**	**102,363**	**-**	**-**	**-**	**2,481,425**

37 RISK MANAGEMENT

Risk Management in the Group

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the banking business, and these risks are an inevitable consequence of participating in financial markets. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

The Group's risk management policies, procedures and systems are designed to identify and analyze these risks and to set appropriate risk mitigants and controls. The Group reviews its risk management policies and systems on an ongoing basis to reflect changes in markets, products and emerging best practices.

Risk management is performed by the Risk Management Department under policies approved by the Board of Directors. The Risk Management Department identifies and evaluates financial risks in close co-operation with the Group's operating units. The most important types of risks identified by the Group are credit risk, liquidity risk, market risk, reputational risk and operational risk. Market risk includes currency risk, profit rate risk, and price risk.

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) and from cash and deposits held with other banks and financial institutions. Further, there is credit risk in certain off-balance sheet financial instruments, including guarantees, letters of credit, acceptances and commitments to extend credit. Credit risk monitoring and control is performed by the Risk Management Department which sets parameters and thresholds for the Group's financing and off-balance sheet financial instruments.

Considering this evolving situation of COVID-19, the Group has taken preemptive measures to mitigate credit risk by adopting more cautious approach for credit approvals thereby tightening the criteria for extending credit to impacted sectors. Payment holidays have been extended to customers, including private and SME sector, in line with the instructions of CBB. These measures may lead to lower disbursement of financing facilities, resulting in lower net financing income and decrease in other revenue.

The risk management department has also enhanced its monitoring of financing portfolio by reviewing the performance of exposures to sectors expected to be directly or indirectly impacted by COVID-19 to identify potential Significant increase in Credit Risk (SICR).

The Group has updated its inputs and assumptions for computation of Expected Credit Losses (ECL) (refer to note 2).

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 and a significant drop in prices. 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 has been 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.

37 RISK MANAGEMENT (continued)

Credit Risk (continued)

Modification loss net of Government assistance

During 2020, based on a regulatory directive issued by the CBB as concessionary measures to mitigate the impact of COVID-19, the one-off modification losses amounting to $54.8 million arising from the 6-month payment holidays provided to financing customers without charging additional profits has been recognized directly in equity. The modification loss has been calculated as the 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 provided payment holidays on financing exposures amounting to $1.5 billion as part of its support to impacted customers.

Further, as per the regulatory directive, financial assistance amounting to $3.4 million (representing specified reimbursement of a portion of staff costs and waiver of fees, levies and utility charges) received from the government and/or regulators, in response to its COVID-19 support measures, has been recognized directly in equity.

Credit Risk Mitigation

Group uses a variety of tools to mitigate its credit risk, the primary one being that of securing the exposure by suitable collateral. While the existence of collateral is not a precondition for credit, exposures are fully or partially collateralized as a second line of defense. The Group has in place a Credit Risk Mitigation policy which provides guidelines on the types of assets that may be accepted as collateral and the methodology of valuation of these assets. In general, all collateral valued periodically depending on the collateral type. The legal validity and enforceability of the documents used for collateral have been established by qualified personnel, including lawyers and Sharia scholars.

Group's credit portfolio is supported by various types of collateral such as real estate, listed equity, cash and guarantees. Group prefers liquid and marketable credit collateral; however other types of collateral are accepted provided that such collateral can be reasonably valued. Third party guarantees are accepted as collateral only after analyzing the financial strength of the guarantors.

Collateral Valuation

Collateral when taken are identified as having reasonable value, their value would however change over a period of time due to prevailing economic conditions, plant and machinery becoming obsolete due to technological advancements, due to passage of time and due to increase in availability of similar collateralized securities. Listed securities are valued at monthly intervals, unlisted securities are valued at annual intervals, real estate properties are valued at least once in two years' intervals, and special assets of the nature of marine vessels and aircrafts are valued at annual intervals. Value of collateral are accounted post assigning various levels of haircuts depending on the type of collateral, the same are provided in the Credit Risk Mitigation Policy.

Guarantees

Guarantees are taken from individuals and Corporates. In cases where a letter of guarantee from the counterparty's parent company or from a third party is offered as credit risk mitigant, it is ensured that the guarantees must be irrevocable and unconditional. If the guarantor is located outside Bahrain, legal opinion is obtained from a legal counsel domiciled in the country of guarantor (overseas) regarding the enforceability of the guarantee. Further, the financial position of the guarantor is adequately analyzed to determine the value and commercial viability of the guarantee.

Collateral Concentration

Group has established internal limits to avoid over concentration on certain class of collateral. Prudent maximum limits have been set for the acceptance of collateral as credit risk mitigation.

(Expressed in thousands of United States Dollars unless otherwise stated)

37 RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that Ithmaar is unable to meet its financial obligations as they fall due, which could arise due to mismatches in cash flows.

Liquidity risk arises either:
• From the inability to manage unplanned decreases or changes in funding sources; or
• from the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

Liquidity risk management ensures that funds are available at all times to meet the funding requirements, Funding and liquidity management is performed centrally by the Asset and Liability Management Committee (ALCO). Group's liquidity policies are designed to ensure it will meet its obligations as and when they fall due, by ensuring it is able to generate funds from the market, or have sufficient High Quality Liquid Assets (HQLAs) to sell and raise immediate funds without incurring unacceptable costs and losses. Ithmaar regularly monitors the concentration in the funding sources and ensures that the funding sources are adequately diversified.

Market risk

Market risk is the risk of potential loss arising from change in the value of any exposure due to adverse changes in the underlying benchmark market rates, i.e. foreign exchange rates, equity prices and profit rates.

Management of market risk is the responsibility of the relevant business units with the group companies with oversight by the Asset-Liability Committee (ALCO).

Shari'a compliant risk management hedging instruments

Types of instruments:		2021		2020
	Notional Amount	**Fair value**	**Notional Amount**	**Fair value**
Profit rate swaps - Liability	174,000	3,581	174,000	7,324
	174,000	**3,581**	**174,000**	**7,324**

Profit rate swaps:		2021		2020
	Less than one year	More than one year	Less than one year	More than one year
Net exposure	2,584	997	3,613	3,711
Average fixed profit rate	3.03%	3.03%	3.03%	3.03%

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events which includes but not limited to legal risk and Sharia compliance risk. This definition excludes strategic and reputational risks.

Through a control framework and by monitoring and responding to potential risks, Ithmaar is able to manage the operational risks to an acceptable level.

In response to COVID-19 outbreak, there were various changes in the working model, interaction with customers, digital modes of payment and settlement, customer acquisition and executing contracts and carrying out transactions with and on behalf of the customers. The management of the Group has enhanced its monitoring to identify risk events arising out of the current situation and the changes in the way business is conducted.

As of 31 December 2021, the Group did not have any significant exposure to contracts linked to benchmark rates, except a long term borrowing, and it continues to enhance its systems and processes to cope with the change in benchmark rates.

Reputational Risk

The Reputational Risk Management is defined as the risk arising risk arising from negative perception on the part of customers, counterparties, shareholders, investors, debt-holders, market analysts, other relevant parties or regulators that can adversely affect a Group's ability to maintain existing, or establish new, business relationships and continued access to sources of funding. The Group has developed a framework and has identified various factors that can impact its reputation. Management of reputation risk is an inherent feature of the Group's corporate culture which is embedded as an integral part of the internal control systems

(Expressed in thousands of United States Dollars unless otherwise stated)

37 RISK MANAGEMENT (continued)

Profit rate risk

The table below summarises the Group's exposure to profit rate risk. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

31 December 2021	Up to one month	One-three months	Three-twelve months	One-five years	Over five years	Non rate sensitive	Total
Cash and balances with banks and central banks	-	-	-	-	-	545,116	545,116
Commodity and other placements with banks, financial and other institutions	-	41,862	185,550	11,969	10,188	-	249,569
Murabaha and other financings	378,716	267,617	585,183	506,021	453,437	-	2,190,974
Musharaka financing	416,620	46,705	144,711	812,014	5,693		1,425,743
Sukuk and investment securities	275,489	680,229	82,322	231,944	1,142,991	111,767	2,524,742
Assets acquired for leasing	-	-	382	2,087	389,351	-	391,820
Insurance and related receivables	-	-	-	-	-	103,474	103,474
Other assets	-	-	-	-	-	180,624	180,624
Total financial assets	**1,070,825**	**1,036,413**	**998,148**	**1,564,035**	**2,001,660**	**940,981**	**7,612,062**
Customer current accounts	-	-	-	-	-	1,903,979	1,903,979
Due to banks, financial and other institutions	753,346	106,783	123,838	383,735	-	-	1,367,702
Due to investors	693,252	187,892	228,089	4,954	-	-	1,114,187
Other liabilities	-	-	-	-	-	453,276	453,276
Total financial liabilities	**1,446,598**	**294,675**	**351,927**	**388,689**	**-**	**2,357,255**	**4,839,144**
Equity of unrestricted investment accountholders	1,837,329	331,995	1,121,550	460,823	-	-	3,751,697
Total financial liabilities and equity of unrestricted investment accountholders	**3,283,927**	**626,670**	**1,473,477**	**849,512**	**-**	**2,357,255**	**8,590,841**
Total repricing gap	**(2,213,102)**	**409,743**	**(475,329)**	**714,523**	**2,001,660**	**(1,416,274)**	**(978,779)**
31 December 2020							
Total financial assets	**917,421**	**1,179,323**	**1,064,167**	**1,928,566**	**1,009,443**	**962,508**	**7,061,428**
Total financial liabilities and equity of unrestricted investment accountholders	**3,010,187**	**801,015**	**1,650,267**	**381,101**	**-**	**2,125,791**	**7,968,361**
Total repricing gap	**(2,092,766)**	**378,308**	**(586,100)**	**1,547,465**	**1,009,443**	**(1,163,283)**	**(906,933)**

(Expressed in thousands of United States Dollars unless otherwise stated)

38 RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence or joint control over the other party in making financial and operating decisions.

(a) Directors and companies in which they have an ownership interest.
(b) Major shareholders of Ithmaar, Ultimate Parent and companies in which Ultimate Parent has ownership interest and subsidiaries of such companies (affiliates).
(c) Associated companies of Ithmaar.
(d) Senior management.

A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged.

Significant balances with related parties comprise:

					31 December 2021
	Shareholders & Affiliates	**Associates and other investments**	**Directors and related entities**	**Senior management**	**Total**
Assets					
Murabaha and other financings	379,661	-	-	-	379,661
Investment in associates	-	676,933	-	-	676,933
Sukuk and investment securities	13,310	-	-	-	13,310
Other assets	-	-	-	684	684
Liabilities					
Customers' current accounts	21,583	7,047	-	980	29,610
Due to banks, financial and other institutions	25,159	5,200	-	-	30,359
Equity of unrestricted investment accounts	-	-	-	5,019	5,019
Other liabilities	13	-	-	-	13
Equity					
Fair value reserves	-	(36,543)	-	-	(36,543)
Income					
Return to unrestricted investment accounts	-	-	-	(151)	(151)
Income from murabaha and other financings	3,782	-	-	-	3,782
Share of profit after tax from associates	-	36,453	-	-	36,453
Profit paid to banks, financial and other institutions	-	(287)	-	-	(287)
Reversal of provision for impairment on associate	-	35,000	-	-	35,000
Expenses					
Administrative and general expenses	(1,190)	-	(50)	-	(1,240)

(Expressed in thousands of United States Dollars unless otherwise stated)

38 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

					31 December 2020
	Shareholders & Affiliates	Associates and other investments	Directors and related entities	Senior management	Total
Assets					
Murabaha and other financings	392,972	-	-	2,153	395,125
Investment in associates	-	623,161	-	-	623,161
Other assets	-	-	-	557	557
Liabilities					
Customers' current accounts	14,054	538	-	2,460	17,052
Due to banks, financial and other institutions	32,661	10,002	-	-	42,663
Equity of unrestricted investment accounts	-	-	-	6,379	6,379
Other liabilities	129	-	-	-	129
Equity					
Fair value reserves	-	(42,521)	-	-	(42,521)
Income					
Return to unrestricted investment accounts	-	-	-	(191)	(191)
Income from murabaha and other financings	3,781	-	-	-	3,781
Share of profit after tax from associates	-	30,978	-	-	30,978
Profit paid to banks, financial and other institutions	-	(1,844)	-	-	(1,844)
Reversal of provision for impairment on associate	-	27,350	-	-	27,350
Expenses					
Administrative and general expenses	(1,208)	-	(50)	-	(1,258)

Certain collaterals amounting to $332 million (31 December 2020: $346 million) with respect to certain financing facilities are legally held by related parties for the beneficial interest of the Group.

Certain assets amounting to $5.1 million (31 December 2020: $5.1 million) are legally held by related parties for the beneficial interest of the Group.

39 CAPITAL MANAGEMENT

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;

- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and;

- To maintain a strong capital base to support the development of its business.

The Group does not engage in any banking activity at solo level, hence Basel III requirements are not applicable. The Group complies with CBB directives with respect to its investment firm category 1 license. The subsidiaries comply with the directives of the respective local regulators for their capital management.

40 PROPOSED DIVIDEND

The Board of Directors has not proposed any dividend for the year ended 31 December 2021 (31 December 2020: Nil).

(Expressed in thousands of United States Dollars unless otherwise stated)

41 NON-SHARIA COMPLIANT INCOME AND EXPENSES

The Group has earned certain income and incurred certain expenses from conventional assets and liabilities. These conventional assets and liabilities are in accordance with the Sharia Compliance Plan. The details of the total income and total expenses are as follows:

	Year ended	
	31 December 2021	**31 December 2020**
INCOME		
Income from other financings	57,755	112,758
Share of profit after tax from associates - note (i)	36,364	27,196
Income from investments	120,397	141,313
Other income	23,864	16,882
Gross income	**238,380**	**298,149**
Less: profit paid to banks, financial and other institutions - note (ii)	(103,759)	(137,345)
Total income	**134,621**	**160,804**
EXPENSES		
Administrative and general expenses - note (ii)	(59,330)	(74,549)
Depreciation and amortisation	(21,750)	(17,792)
Total expenses	**(81,080)**	**(92,341)**
Net income before provision for impairment and overseas taxation	**53,541**	**68,463**
Provision for impairment (net)	44,450	12,597
Net income before overseas taxation	**97,991**	**81,060**
Overseas taxation	(11,950)	(15,090)
NET INCOME FOR THE YEAR	**86,041**	**65,970**
Attributable to:		
Equity holders of the Bank	78,536	59,606
Minority interests	7,505	6,364
	86,041	**65,970**
Basic and diluted earnings per share	**US Cts 2.70**	**US Cts 2.05**

Note (i) – The share of profit attributable to non-sharia compliant associates is based on their accounting policies which are different from the Group accounting policies. Since the non-sharia income is already disclosed separately and hence no adjustment is made on impact of dissimilar accounting policies.

Note (ii) – Expenses relate to entities which are consolidated line by line and exclude associates.

Note (iii) – One of the subsidiaries presently operating as a conventional bank has increased the number of its Islamic branches during the year to 595 branches (2020: 576 branches) out of total 606 branches (2020: 500 branches).

42 SOCIAL RESPONSIBILITY

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

(Expressed in thousands of United States Dollars unless otherwise stated)

43 SUBSEQUENT EVENT

During January 2022, Ithmaar Holding agreed in-principle with Al Salam Bank B.S.C. (Al Salam) on the acquisition of the consumer banking business of Ithmaar Bank, and Ithmaar Holdings' ownership stake in both Bank of Bahrain and Kuwait B.S.C, and Solidarity Group Holding. This announcement followed the execution of a non-legally binding Memorandum of Understanding (MoU) between the two entities in October 2021. The transaction remains subject to the approval of Ithmaar Holding's shareholders and the signing of definitive agreements.

The assets subject to the transaction were agreed in-principle based on 30 September 2021 carrying values as per below:

	30 September 2021
Cash and balances with banks and central banks	57,825
Consumer business assets	1,460,584
Bank of Bahrain and Kuwait B.S.C.	520,751
Solidarity Group Holding B.S.C. (C)	105,918
	2,145,078

The consideration will be settled by transferring consumer business liabilities of $2.2 billion (as of 30 September 2021)

Final values and premium will be determined on the carrying values of assets and liabilities subject to the transaction as of the date of business transfer to be mutually agreed after completion of regulatory and legal formalities and shareholders' approval.

The assets subject to the transaction with Al Salam were not classified as held for sale in the consolidated financial statements as at 31 December 2021, based on the Group's assessment of the criteria specified by IFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations". The Group's assessment was mainly based on the fact that assets subject to transaction were not available for immediate sale in present condition and the transaction is subject to certain conditions such as identification of assets at business transfer date, the finalization of tentative and definitive agreements, indication of premium and price as of 31 December 2021. Further, the transaction remains subject to shareholders' and regulatory approvals.