

Bank Alkhair B.S.C. (c)

**SHARIA SUPERVISORY BOARD REPORT
REPORT OF THE BOARD OF DIRECTORS
INDEPENDENT AUDITORS' REPORT AND
CONSOLIDATED FINANCIAL STATEMENT**

31 DECEMBER 2020

In the name of Allah, the Most Beneficial, the Most Merciful, Prayers and Peace be upon our Prophet Moahmmed, His Companions and Relatives.

On behalf of the Board of Directors, it is my privilege to present the annual report and consolidated financial statements of Bank Alkhair for the year ended 31 December 2020.

The Board has been working on the process of surrendering the license and conversion to a holding company. We have successfully fulfilled most of the requirements of the Central Bank of Bahrain ("CBB") for surrender of license and are working towards the remaining few.

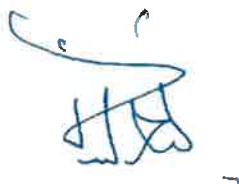
To implement our restructuring plan, we have done all that has been required.

Nevertheless, during 2020, Bank Alkhair exited its investment in the real estate project in Bodrum, Turkey, held through Yalikavak II Cayman and Turquoise Coast Investment Company Cayman. Furthermore, the liquidation process of the Private Equity Fund B.S.C. has been concluded. The Board was able to achieve this despite the recurring lockdowns and restrictions.

The Strategic Acquisition Fund was also put under liquidation and handed over to the liquidator. The liquidation is still in progress, in addition to the liquidation process of AKIIM Sdn Bhd., (formerly Alkhair International Islamic Bank), the Bank's subsidiary in Malaysia, is also underway. Alkhair Gayrimenkul Yatirim Ve Ticaret A.S. (formerly Alkhair Portfoyy Turkey), the Turkish subsidiary of the Bank, is currently not operational, and our lawyers have begun the formal process of liquidation.

The Board remains committed to converting the Bank into a holding company as it is in the best interest of all stakeholders.

In closing, on behalf of the Bank's Board of Directors I would like to extend our sincere appreciation to our loyal shareholders for their unwavering support and confidence.



Yousef Abdullah Al-Shelash
Chairman of the Board

18th April, 2021

**SHARI'AH SUPERVISORY BOARD REPORT
TO THE SHAREHOLDERS OF
BANK ALKHAIR B.S.C. (c)**

Asslamo A'laikom WA Rahmatu Allah WA Barakatuh

In compliance with the terms of our letter of appointment, we are required to report as follows:

The Shari'ah Board, through the Shari'ah department, and under its direct supervision, reviewed the principles and the contracts relating to the transactions conducted by Bank Alkhair B.S.C. (c) ("the Bank") and its subsidiaries (together "the Group") during the year ended 31 December 2020. The review was conducted in order to form an opinion as to whether the Group has complied with rules and principles of Islamic Shari'ah and also with the specific fatwa's, rulings and guidelines issued by us.

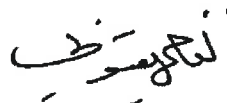
Based on the Articles of Association of the Bank, the Group's management is responsible for ensuring that the Group conducts its business in accordance with the rules and principles of Shari'ah while the Shari'ah Board's responsibility is to form an independent opinion, based on our review of the operations of the Group, and to report this to you.

We conducted our review through the Shari'ah department and under our supervision which included examining, on a test basis, each type of transaction and the relevant documentation and procedures adopted by the Group. We performed our review so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to give assurance that the Group has not violated any rules and principles of Shari'ah.

In our opinion:

- a) The contracts, transactions and dealings entered into by the Group during the year ended 31 December 2020 are in compliance with the rules and principles of Shari'ah.
- b) The Shari'ah Board emphasis that non-Shari'ah compliance issues related to the investment in Taj Mall project, which were not submitted to the Shari'ah Board for approval before its execution, and appear later to be having explicitly non-Shari'ah Compliance issues and not being corrected yet although a various Shari'ah Board resolution issued requesting solving the same several times.
- c) During the year, the Bank has realized no earnings from sources prohibited by Shari'ah .
- d) The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shari'ah rules and principles.
- e) The calculation of Zakah is in compliance with the rules and principles of Islamic Shari'ah based on AAOIFI Shari'ah standard no. (35) and Accounting standard no. (9).

We supplicate to Allah the Almighty to grant us success and a straight path.
Wa Asslamo A'laikom Wa Rahmatu Allah Wa Barakatuh.



Dr. Nizam Mohammad Yaqoub

Sha'ban 26, 1442 H - 8 April 2021

Independent auditor's report to the shareholders of Bank Alkhair B.S.C. (c)

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of Bank Alkhair B.S.C. (c) ("the Bank") and its subsidiaries (together referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the related consolidated statement of income, consolidated statement changes in equity, consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and the consolidated results of the operations, changes in equity, its cash flows for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions "AAOIFI".

Basis for opinion

We conducted our audit in accordance with 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 are independent of the Group in accordance with the AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions, and we have fulfilled our other ethical responsibilities in accordance with this Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainties relating to going concern

Without qualifying our opinion, we draw attention to note 2 to the consolidated financial statements which discusses certain matters relating to the Group's liquidity position, accumulated losses and regulatory capital adequacy requirements, implications of these matters for the basis of preparation of the consolidated financial statements and management's action plans to deal with these matters. Our opinion is not modified in respect of this matter.

Other information included in the Group's consolidated financial statements

Other information consists of the information included in the Board of Directors' report and the Shari'a Supervisory Board's report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent auditor's report to the shareholders of Bank Alkhair B.S.C. (c)

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

Responsibilities of the Board of Directors for the consolidated financial statements

These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'ah Rules and Principles are the responsibility of the 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 AAOIFI and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 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.

Independent auditor's report to the shareholders of Bank Alkhair B.S.C. (c)

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

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

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

Report on other legal and regulatory requirements

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

- a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith.
- b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements.
- c) Except as disclosed in note 35 the Bank's capital adequacy ratio as of 31 December 2020 was below the minimum requirement and note 2 which discusses certain matters relating to the Group's liquidity position, we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2020 that might have had a material adverse effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests.
- d) Except for the matters discussed in the Shari'a Supervisory Board report dated 8 April 2021, we are not aware of any other breaches of the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.




Manama, Kingdom of Bahrain
18 April 2021



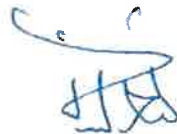
Bank Alkhair B.S.C. (c)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

See Auditor's Report dated 18/4/21
 Signed by BDO, CR No. 10201-04
 Partner: Samson Kattuvattil
 Reg. No. 239
 Signature: 

| | | 31 December 2020 US\$ '000 | 31 December 2019 US\$ '000 |
|--|-------|----------------------------------|----------------------------------|
| | Notes | | |
| ASSETS | | | |
| Cash and balances with banks | 5 | 9,298 | 1,265 |
| Financing receivables | 6 | 782 | - |
| Investments | 7 | 63,596 | 70,778 |
| Investment in associates | 8 | 126,978 | 122,552 |
| Investment in real estate | 9 | 177,059 | 184,053 |
| Other assets | 10 | 12,340 | 10,947 |
| Assets held-for-distribution | 18 | 1,878 | 315 |
| Equipment | | 38 | 102 |
| TOTAL ASSETS | | 391,969 | 390,012 |
| LIABILITIES AND OWNERS' EQUITY | | | |
| Liabilities | | | |
| Due to financial institutions and customers | 11 | 264,596 | 246,891 |
| Other liabilities | 12 | 11,697 | 18,753 |
| Liabilities relating to assets held-for-distribution | 18 | - | 4 |
| Total liabilities | | 276,293 | 265,648 |
| Owners' equity | | | |
| Share capital | 13 | 207,962 | 207,962 |
| Statutory reserve | | 664 | 664 |
| Fair value reserve | | 179 | 207 |
| Foreign currency translation reserve | | (2,470) | (2,726) |
| Accumulated losses | | (164,911) | (153,535) |
| Equity attributable to shareholders of the Bank | | 41,424 | 52,572 |
| Non-controlling interests | | 74,252 | 71,792 |
| Total owners' equity | | 115,676 | 124,364 |
| TOTAL LIABILITIES AND OWNERS' EQUITY | | 391,969 | 390,012 |



Yousef Abdullah Al-Shelash
Chairman



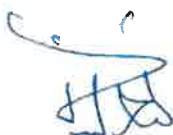
Majid Al Qasem
Vice Chairman

The attached notes 1 to 37 form part of these consolidated financial statements

Bank Alkhair B.S.C. (c)
CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2020

See Auditor's Report dated 18/4/21
Signed by BDO, CR No. 10201-04
Partner: Samson Kattuvattil
Reg. No. 239
Signature: 

| | | 31 December 2020 US\$ '000 | 31 December 2019 US\$ '000 |
|---|--------------|---|---|
| | <i>Notes</i> | | |
| Income from non-banking operations | 14 | 14,897 | 19,145 |
| Finance income | | - | 39 |
| Fees and commission income | 15 | 2,875 | 441 |
| Share of profit from associates - net | 8 | 4,546 | 1,247 |
| Income from investments - net | 16 | - | 1,252 |
| Other income | | 1,784 | 58 |
| Total income | | 24,102 | 22,182 |
| Expenses of non-banking operations | 14 | 10,670 | 12,830 |
| Finance expense | | 15,583 | 14,967 |
| Loss from investments - net | 16 | 5,512 | - |
| Staff cost | | 1,056 | 3,340 |
| General and administrative expenses | 17 | 1,748 | 2,199 |
| Depreciation | | 18 | 62 |
| Foreign exchange loss - net | | 3 | 8 |
| Total expenses | | 34,590 | 33,406 |
| Loss for the year before impairment | | (10,488) | (11,224) |
| Income / (loss) from assets held for distribution and discontinued operations | 18 | 1,572 | (1,762) |
| Net profit on disposal / derecognition of subsidiaries / asset | 18 | - | 575 |
| Impairment charge | 19 | - | (7,296) |
| Net loss for the year | | (8,916) | (19,707) |
| Attributable to: | | | |
| Shareholders of the Bank | | (11,376) | (23,182) |
| Non-controlling interests | | 2,460 | 3,475 |
| | | (8,916) | (19,707) |



Yousef Abdullah Al-Shelash
Chairman



Majid Al Qasem
Vice Chairman

The attached notes 1 to 37 form part of these consolidated financial statements

Bank Alkhair B.S.C. (c)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

| | Attributable to shareholders of the Bank | | | | | |
|--|--|--------------------------------|---------------------------------|---|---------------------------------|--|
| | Share capital US\$ '000 | Statutory reserve US\$ '000 | Fair value reserve US\$ '000 | Foreign currency translation reserve US\$ '000 | Accumulated losses US\$ '000 | Non-controlling interests US\$ '000 |
| | | | | | Total US\$ '000 | Total equity US\$ '000 |
| As at 1 January 2020 | 207,962 | 664 | 207 | (2,726) | (153,535) | 71,792 |
| Net (loss) / profit for the year | - | - | - | - | (11,376) | 124,364 |
| Foreign currency translation differences, net | - | - | - | (4) | - | 2,460 |
| Share of changes in reserves of associates | - | - | (28) | 260 | - | - |
| | | | | | 232 | 232 |
| As at 31 December 2020 | 207,962 | 664 | 179 | (2,470) | (164,911) | 74,252 |
| | | | | | 41,424 | 115,676 |
| As at 1 January 2019 | 207,962 | 664 | 242 | (2,812) | (130,353) | 107,988 |
| Net (loss) / profit for the year | - | - | - | - | (23,182) | 183,691 |
| Foreign currency translation differences, net | - | - | - | (7) | - | 3,475 |
| Share of changes in reserves of associates | - | - | (35) | 93 | - | - |
| Adjustment on sale/derecognition of subsidiaries | - | - | - | - | - | - |
| | | | | | - | (39,671) |
| As at 31 December 2019 | 207,962 | 664 | 207 | (2,726) | (153,535) | 71,792 |
| | | | | | 52,572 | 124,364 |

Bank Alkhair B.S.C. (c)
CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

| | 31 December 2020 US\$ '000 | 31 December 2019 US\$ '000 |
|--|---|---|
| Loss for the year | (8,916) | (19,707) |
| Adjustments for: | | |
| Loss / (income) from investments - net | 5,512 | (220) |
| Fair value changes in investments | - | (1,032) |
| Share of profit from associates - net | (4,546) | (1,551) |
| Depreciation | 18 | 221 |
| Sukuk amortisation | - | 3 |
| Gain on disposal of investment property | (850) | - |
| Impairment charge | - | 7,296 |
| Gain on disposal/derecognition of subsidiaries/asset | - | (575) |
| | (8,782) | (15,565) |
| Changes in: | | |
| Financing receivables | (782) | 5,705 |
| Other assets | (1,392) | (2,373) |
| Due to financial institutions and customers | 18,592 | (4,235) |
| Asset held for distribution | (1,567) | - |
| Other liabilities | (7,056) | 15 |
| | (987) | (16,453) |
| INVESTING ACTIVITIES | | |
| Sale of equipment - net | 46 | 159 |
| Proceeds from sale of investments | 1,968 | 38,444 |
| Purchase of investments | (298) | (8,692) |
| Changes in investment property | 7,843 | (264) |
| Net cash on disposal of subsidiary | - | (11,408) |
| Dividend received | 352 | 353 |
| Net cash from investing activities | 9,911 | 18,592 |
| FINANCING ACTIVITY | | |
| Repayment of financing liabilities | (887) | (9,700) |
| Net cash used in financing activity | (887) | (9,700) |
| NET MOVEMENT IN CASH AND CASH EQUIVALENTS | 8,037 | (7,561) |
| Effect of exchange rate changes on cash and cash equivalents | (4) | (7) |
| Cash and cash equivalents at the beginning of the year | 1,265 | 8,833 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | 9,298 | 1,265 |
| Cash and cash equivalents comprise: | | |
| Cash and balances with banks | 9,298 | 1,265 |

The attached notes 1 to 37 form part of these consolidated financial statements

1 CORPORATE INFORMATION AND ACTIVITIES

a) Incorporation

Bank Alkhair B.S.C. (c) ("the Bank") was incorporated in the Kingdom of Bahrain and registered with the Ministry of Industry, Commerce and Tourism under Commercial Registration No. 53462 on 29 April 2004 and operates under a wholesale Islamic banking license granted by the Central Bank of Bahrain (CBB). The Bank's registered office is at the 15th floor, West Tower Bahrain Financial Harbour, Building No. 1459, Road No. 4626, Manama Sea Front 346, Kingdom of Bahrain.

Shareholders of the Bank at an Extra Ordinary General Meeting held on 22 February 2018 have approved a restructuring which will, inter alia, involve; the surrender of the banking license and the conversion of the Bank into a holding company. The appropriate application was submitted with the CBB and is in process.

b) Activities

The Bank and its subsidiaries (together referred to as "the Group") are in the process of restructuring and converting to a holding company as approved by its shareholders. During the year, based on the CBB letter dated May 17, 2020 the bank has exited out of the Bodrum Project in Turkey and completed the liquidation of its Private Equity fund. The liquidation of the Strategic Acquisition Fund has been initiated and it currently with the liquidator. The Bank is not currently carrying out any regulated activities.

2 BASIS OF PREPARATION

Statement of compliance

The consolidated financial statements have been prepared in accordance with Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). In line with the requirement of AAOIFI and the CBB Rule Book, for matters that are not covered by FAS, the Group uses guidance from the relevant International Financial Reporting Standards ('IFRS').

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention except for certain investments and investment in real estate which are carried at fair value. The consolidated financial statements are presented in United States Dollars (US\$), being the functional currency of the Group's operations. All financial information presented in US\$ has been rounded to the nearest thousands, except when otherwise indicated.

Going concern

As at 31 December 2020, the management has taken a number of initiatives including discussions with creditors who have shown willingness in the past to roll over short term placements, putting together a robust assets sales plan as evidenced by the sale of the Bodrum project in Turkey and particularly the ongoing support from major shareholders who have also in the past provided support when it was needed. The management is also working on the conversion of the Bank into a holding company as approved by the shareholders. The Board of Directors has reviewed these initiatives and is satisfied with the appropriateness of the going concern assumption for preparation of the consolidated financial statements.

Moreover, the accumulated deficit of the Group exceeded 50% of its paid-up capital as at the reporting date. The Bahrain Commercial Companies Law requires that, where the accumulated losses of the Group exceed its share capital by more than 50%, the shareholders should resolve to continue with the operations of the Group. The fact was conveyed to the shareholders during the last annual general meeting of the Bank held on 10 May 2018.

2 BASIS OF PREPARATION (continued)**Basis of consolidation**

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

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

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

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

Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in owners' equity since the date of combination. Losses applicable to the non-controlling interest in excess of the non-controlling interest in subsidiaries' equity are allocated against the interests of the Group except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses.

Transactions with non-controlling interests are handled in the same way as transactions with external parties. Sale of participations to non-controlling interests result in a gain or loss that is recognised in the consolidated statement of income. Changes in the ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transaction.

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

| <i>Subsidiary</i> | <i>Ownership 2020</i> | <i>Ownership 2019</i> | <i>Year of Incorporation/ Acquisition</i> | <i>Country of Incorporat- ion</i> | <i>Principal activity</i> |
|---|---------------------------|---------------------------|---|---|--|
| Al-Tajamouat for Touristic Projects Co Pie | 50.6% | 50.6% | 2013 | Jordan | It was incorporated in January 2004 and its activities are real estate property investment, development, ownership and operation of a shopping mall in Amman. |
| Alkhair Gayrimenkul Yatirim Ve Ticaret A.S (formerly Alkhair Portfoy Yonetimi A.S.) | 99.6% | 99.6% | 2007 | Turkey | The entity was established to provide investment consultancy and asset management. Due to restructuring at group level, financial services license of the entity was surrendered and converted to a real estate and trading company. The Bank is in the process of initiating voluntary liquidation proceedings for the same |

2 BASIS OF PREPARATION (continued)

| <i>Subsidiary</i> | <i>Ownership 2020</i> | <i>Ownership 2019</i> | <i>Year of Incorporation/ Acquisition</i> | <i>Country of Incorporat- ion</i> | <i>Principal activity</i> |
|---|---------------------------|---------------------------|---|---|---|
| AKIIM Sdn Bhd - Delete (formerly Alkhair International Islamic Bank Malaysia Berhad) | 100% | 100% | 2004 | Malaysia | It was established in 2004 to source investment opportunities in the Far East and monitor the performance of the acquired companies on behalf of the Bank and investors and to establish distribution channels for the Group. In 2007, Alkhair International Islamic Bank Malaysia Berhad was granted an investment banking license by Bank Negara Malaysia to carry out investment banking activity in currencies other than the Malaysian Ringgit. Due to restructuring at group level, in 2019, banking license was surrendered to the regulator (Bank Negara Malaysia) and the entity was converted into Sdn Bhd. The entity has been put on voluntary liquidation and the control has been transferred to liquidator, therefore, the entity has been deconsolidated and classified as held-for-distribution in the financial statements. |

The Bank has other special purpose entities (SPE's) holding companies and subsidiaries which are set up to supplement the activities of the Bank and its principal subsidiaries.

Business combination

Business combinations are accounted for using the acquisition method as at the acquisition date i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in the consolidated statement of income immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in consolidated statement of income. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in consolidated statement of income.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market based value of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

3 SIGNIFICANT ACCOUNTING POLICIES

a) Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash in hand, balances with banks and placements with financial institutions with an original maturity of three months or less.

b) Placements with financial institutions

These comprise inter-bank placements mainly made using Sharia compliant contracts. Placements are usually for short-term and are stated at their amortised cost.

c) Financing receivables

Financing receivables comprise Sharia compliant financing contracts with fixed or determinable payments. These include financing provided through Murabaha contracts. Financing assets are recognised on the date they are originated and are carried at their amortised cost.

d) Investments

Investments comprise equity-type instruments at fair value through statement of income and debt-type instruments at amortised cost.

Equity-type instruments at fair value through statement of income

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

Debt-type instruments at amortised cost

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

e) Investment in associates

Associates are those entities in which the Group has significant influence but no control or joint control over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

On initial recognition of an associate the Group makes an accounting policy choice as to whether the associate shall be equity accounted or designated as at fair value through income statement. The Group makes use of the exemption in FAS 24 - Investment in Associates for venture capital organisation and designates certain of its investment in associates, as 'equity-type instruments at fair value through statement of income'. These investments are managed, evaluated and reported internally on a fair value basis.

If the equity accounting method is chosen for an associate, these are initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investees after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investees arising from changes in the investee's equity.

When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associates.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Investment in associates (continued)

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate at the date of acquisition is recognised as goodwill, and included within the carrying amount of the investment. When the excess is negative, a bargain purchase gain is recognised immediately in the consolidated statement of income.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in equity is reclassified to the consolidated statement of income where appropriate.

f) Investment in real estate

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

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

g) Equipment

Equipment includes computers, office equipment, fixtures and fittings. Equipment is recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method to write-off the cost of the assets over their estimated useful lives ranging from 1 to 8 years. The assets residual values and useful lives are reviewed and adjusted if appropriate at each reporting date.

h) Due to financial institutions

These comprise funds from financial institutions received on Sharia compliant contracts. Due to financial institutions are stated at their amortised cost.

i) Due to customers

These comprise funds payable to corporate customers received using Sharia compliant contracts. Due to customers are stated at their amortised cost.

j) Revenue recognition

Revenue is recognised when it is probable that future economic benefits will flow to the Group and the amount of the revenue can be reliably measured. Revenue earned by the Group and gain / loss on assets are recognised on the following basis:

Dividend income

Dividend income is recognised when the Group's right to receive the payment is established.

Gain / (loss) on sale of investments (realised gain / (loss))

Gain / (loss) on sale of investments (realised gain / (loss)) is recognised on trade date at the time of derecognition of the investment securities. The gain or loss is the difference between the carrying value on the trade date and the consideration received or receivable.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Revenue recognition (continued)

Fair value gain / (loss) on investments (unrealised gain or loss)

Fair value gain / (loss) on investments (unrealised gain or loss) is recognised on each measurement date in accordance with the accounting policy for equity-type instruments carried at fair value through income statement (refer note 3 d).

Fees and Commission income

Fees and Commission income represents advisory fees, arrangement fees, management fees and brokerage fees. Fees and Commission income is recognised at the fair value of consideration received or receivable and when the service is provided and income is earned. This is usually when the Group has performed all significant acts in relation to a transaction and it is highly probable that the economic benefits from the transaction will flow to the Group. Significant acts in relation to a transaction are determined based on the terms for each transaction.

Finance income and expense

Finance income and expense is recognised using effective profit rate.

Income from non-banking operations

This consists of income from Al-Tajamouat for Touristic Projects Company PLC (lease income).

Lease income

Lease income is recognised on straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Revenue from a contract to provide services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract, when the outcome of the transaction and related revenue and cost can be measured reliably, and that economic benefit flows to the Group.

k) Employees' end of service benefits

Bahraini employees are covered by the Social Insurance Organisation scheme which comprises a defined contribution scheme to which the Group contributes a monthly sum based on a fixed percentage of the salary. The contribution is recognised as an expense in the consolidated statement of income.

The Group provides end of service benefits to its non-Bahraini employees. Entitlement to these benefits is usually based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits which comprise a defined benefit scheme are accrued over the period of employment based on the notional amount payable if all employees had left at the statement of financial position date.

l) Earnings prohibited by Sharia

The Group is committed to avoid recognising any income generated from non Islamic sources. Accordingly all non Islamic income is credited to a charity account and these funds are used for charitable purposes.

m) Zakah

The Group is not obliged to pay Zakah on behalf of its shareholders. However, the Group is required to calculate and notify individual shareholders of their pro-rata share of the Zakah payable amount.

n) Provision for taxation

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on foreign operations is provided in accordance with the fiscal regulations of the respective countries in which the subsidiaries operate.

o) Impairment of financial assets

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Impairment of financial assets (continued)

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

p) Foreign currency transactions

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in US\$ (United States Dollar) which is functional and presentation currency of the Bank.

Foreign currency transactions are translated 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 year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income. Translation differences on non-monetary items carried at their fair value, such as certain equity securities measured at fair value through equity, are included in investments fair value reserve.

Other group companies

As at the reporting date, the assets and liabilities of subsidiaries, associates and joint venture are translated into the Bank's functional currency at the rate of exchange prevailing at the reporting date, and their statements of income are translated at the average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate reserve in owners' equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated statement of income.

q) Offsetting of financial instruments

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

r) Statutory reserve

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

s) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

t) Contingent liabilities and contingent assets

Contingent liabilities are not recognised in the consolidated financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is probable. Contingent assets are not recognised in the consolidated financial statements, but are disclosed when an inflow of economic benefits is probable.

u) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and commitments. Financial guarantee liabilities are recognised initially at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

v) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from the contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

w) Leases

Payments under operating lease are recognised in the consolidated statement of income on a straight line basis over the term of the lease. Lease incentives are recognised as an integral part of the total lease expense, over the term of the lease.

x) Sharia supervisory board

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

y) Trade date accounting

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

z) Judgements and estimates

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

Classification of investments

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

Special purpose entities

The Group sponsors the formation of Special Purpose Entities ("SPE") primarily for the purpose of allowing clients to hold investments. The Group provides corporate administration, investment management and advisory services to these SPEs, which involve the Group making decisions on behalf of such entities. The Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. The Group does not consolidate SPEs that it does not have the power to control. In determining whether the Group has the power to control an SPE, judgments are made about the objectives of the SPE's activities, its exposure to the risks and rewards, as well as about the Group intention and ability to make operational decisions for the SPE and whether the Group derives benefits from such decisions.

Fair valuation of investments

The determination of fair values of unquoted investments requires management to make estimates and assumptions that may affect the reported amount of assets at the date of consolidated financial statements. Investments in funds or similar investment entities are carried at the latest net asset valuation provided by the fund administrator.

Nonetheless, the actual amount that is realised in a future transaction may differ from the current estimate of fair value and may still be outside management estimates, given the inherent uncertainty surrounding valuation of unquoted investments.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

z) Judgements and estimates (continued)

Impairment of financing receivables

Each counterparty exposure is evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying assets/collaterals. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently evaluated by the Risk Management Department. All individually significant financing receivables are tested for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

Financing receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss in respect of a financing receivables measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective profit rate. Losses are recognised in consolidated income and reflected in an allowance account against financing receivable.

Profit on the impaired asset does not continue to be recognised. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through consolidated statement of income.

Valuation of investment in real estate

The Group obtains valuations performed by external independent property valuers in order to determine the fair value of its investment properties. These valuations are based upon assumptions including future rental income, anticipated maintenance costs and the appropriate discount rate. The independent property valuers also refer to market evidence of transaction prices for similar properties.

Going concern

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

4 PROSPECTIVE CHANGES IN ACCOUNTING POLICIES

New standard issued and adopted

The following new standard, amendment to existing standard or interpretation to published standard is mandatory for the first time for the financial year beginning 1 January 2020 and has been adopted in the preparation of these consolidated financial statements:

4 PROSPECTIVE CHANGES IN ACCOUNTING POLICIES (continued)**FAS 30 - Impairment, credit losses and onerous commitments**

AAOIFI has issued FAS 30 Impairment, Credit Losses and onerous commitments in 2017. FAS 30 replaces FAS 11 Provisions and Reserves and parts of FAS 25 Investment in Sukuk, shares and similar instruments that deals with impairment. The objective of this standard is to establish the principles of accounting and financial reporting for the impairment and credit losses on various Islamic financing, investment and certain other assets of Islamic financial institutions (the institutions), and provisions against onerous commitments enabling in particular the users of financial statements to fairly assess the amounts, timing and uncertainties with regard to the future cash flows associated with such assets and transactions. The standard is effective from the financial periods beginning on or after 1 January 2020, where early adoption is permitted. However based on CBB circular EDBS/KH/C/57/2017 dated 29 November 2017, the CBB required banks to implement FAS 30 with effect from 1 January 2018. However, the Group has sought an extension from CBB until 31 December 2019 in its letter dated 21 January 2019. The Group has performed the assessment of FAS 30 at 31 December 2020 and concluded no significant impact on the consolidated financial statements.

FAS 33 “Investments in Sukuk, Shares and Similar Instruments”

FAS 33 “Investments in Sukuk, Shares and Similar Instruments” was issued on 31 December 2018. FAS 33 (which supersedes earlier FAS 25) sets out the improved principles for classification, recognition, measurement, presentation and disclosure of investment in Sukuk, shares and other similar instruments of investments made by Islamic financial institutions (IFIs / the institutions), in line with Sharia principles. It defines the key types of instruments of Sharia compliant investments and defines the primary accounting treatments commensurate to the characteristics and business model of the institution under which the investments are made, managed and held. The standard will be effective from the financial periods beginning on or after 1 January 2020 with earlier adoption being permitted. The Group has performed the assessment of FAS 33 at 31 December 2020 and concluded no significant impact on the consolidated financial statements.

Standards, amendments and interpretations issued but not yet effective in 2020

The following new/amended accounting standards and interpretations have been issued, but are not mandatory for financial year ended 31 December 2020. They have not been adopted in preparing the consolidated financial statements for the year ended 31 December 2020 and will or may have an effect on the entity's future consolidated financial statements. In all cases, the entity intends to apply these standards from application date as indicated in the table below:

| Standard or interpretation | Title | Effective for annual periods beginning on or after |
|----------------------------|--|--|
| FAS 31 | Investment agency (Al-Wakala Bi Al-Istithmar) | 01-Jan-20 |
| FAS 34 | Financial reporting for sukuk-holders | 01-Jan-20 |
| FAS 36 | First time adoption of AAOIFI financial accounting standards | 01-Jan-20 |
| FAS 32 | Ijarah | 01-Jan-21 |
| FAS 35 | Risk reserves | 01-Jan-21 |
| FAS 38 | Wa'ad, khiyar and tahawwut | 01-Jan-22 |

Early adoption of amendments or standards in 2020

The Group did not early-adopt any new or amended standards in 2020. There would have been no change in the operational results of the Group for the year ended 31 December 2020 had the Group early adopted any of the above standards applicable to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

5 CASH AND BALANCES WITH BANKS

| | 2020 US\$ '000 | 2019 US\$ '000 |
|---------------------|---------------------------------|---------------------------------|
| Cash in hand | 3 | 5 |
| Balances with banks | 9,295 | 1,260 |
| | <u>9,298</u> | <u>1,265</u> |

6 FINANCING RECEIVABLES

| | 2020 US\$ '000 | 2019 US\$ '000 |
|---------------------------------------|---------------------------------|---------------------------------|
| Murabaha receivables | - | 782 |
| Less: Specific impairment allowance | - | (782) |
| Add: Reversal of impairment allowance | 782 | - |
| | <u>782</u> | <u>-</u> |

Financing receivables comprise due from customers under murabaha financing contract and were fully provided for in the prior year. However, during the year, the impairment allowance has been reversed due to the receipt of funds in the subsequent year.

7 INVESTMENTS

| | 2020 US\$ '000 | 2019 US\$ '000 |
|--|---------------------------------|---------------------------------|
| Equity-type instruments: | | |
| At fair value through statement of income | | |
| Equity securities | | |
| - Unquoted | 42,768 | 49,807 |
| Total equity securities | 42,768 | 49,807 |
| Mutual funds | | |
| - Unquoted | 20,828 | 20,971 |
| Total mutual funds | 20,828 | 20,971 |
| Total fair value through statement of income | <u>63,596</u> | <u>70,778</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

7 INVESTMENTS (continued)

Movement in equity type investments carried at fair value through income statement is as follows:

| | 1 January 2020 US\$ '000 | Additions during the year US\$ '000 | Disposal during the year US\$ '000 | Gain/(loss) Fair value/ exchange difference US\$ '000 | 31 December 2020 US\$ '000 |
|----------------------------|---|--|---|--|---|
| Unquoted equity securities | 49,807 | 298 | (1,835) | (5,502) | 42,768 |
| Unquoted mutual funds | 20,971 | - | (133) | (10) | 20,828 |
| | 70,778 | 298 | (1,968) | (5,512) | 63,596 |

| | 1 January 2019 US\$ '000 | Additions during the year US\$ '000 | Disposal during the year US\$ '000 | Gain/(loss) Fair value/ exchange difference US\$ '000 | 31 December 2019 US\$ '000 |
|----------------------------|---|--|---|--|---|
| Quoted equity securities | 22,448 | - | (23,350) | 902 | - |
| Unquoted equity securities | 4,975 | 44,832 | (205) | 205 | 49,807 |
| Quoted mutual funds | 3,785 | 2,666 | (6,563) | 112 | - |
| Unquoted mutual funds | 38,489 | - | (18,613) | 1,095 | 20,971 |
| | 69,697 | 47,498 | (48,731) | 2,314 | 70,778 |

8 INVESTMENT IN ASSOCIATES

| | 2020 US\$ '000 | 2019 US\$ '000 |
|--|---------------------------|---------------------------|
| BFC Group Holdings Ltd. (note 8.1) | 113,666 | 109,485 |
| T'azur Company B.S.C. (c) (note 8.2) | 7,789 | 7,534 |
| Independent Logistics and Warehousing Company (note 8.3) | 5,523 | 5,533 |
| | 126,978 | 122,552 |

Note 8.1

The Group has 43.54% stake (2019: 43.54%) in BFC Group Holdings Ltd. ("BFC"), a company incorporated in the United Arab Emirates. BFC is a holding company of a group of money changers in different jurisdictions. BFC is engaged in buying and selling of foreign currencies and traveler cheques, handling of remittance business and provision of other exchange house services in both local and foreign currencies. The Group has fair valued the investment in associate during the year and concluded that the fair value is not significantly different from the carrying value, hence no impairment loss has been recorded (2019 : USD 8.5 Million).

Note 8.2

The Group has 25.86% (2018: 25.86%) stake in T'azur B.S.C. (c) an unlisted regional takaful company incorporated in the Kingdom of Bahrain. T'azur Company B.S.C (c) has a commitment to provide a qard hassan to the extent of the accumulated deficit in the participants' fund of US\$ 38.185 million at 31 December 2020 (31 December 2019: US\$ 41.51 million). The Group's share of the commitment is US\$ 9.784 million (31 December 2019: US\$ 10.73 million).

Note 8.3

The Group acquired 33.33% stake in Independent Logistics and Warehousing Company, a company incorporated in the Hashmiet Kingdom of Jordan. The company owns and operates warehouses in Amman, Jordan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

8 INVESTMENT IN ASSOCIATES (continued)

The movement in associates is as follows:

| | 2020 US\$ '000 | 2019 US\$ '000 |
|-------------------------------------|---------------------------------|---------------------------------|
| 1 January | 122,552 | 127,440 |
| Share of reserves of associates | 232 | 76 |
| Net share of profit from associates | 4,546 | 1,247 |
| Addition during the year | - | 2,642 |
| Dividend received | (352) | (353) |
| Impairment charge | - | (8,500) |
| 31 December | 126,978 | 122,552 |

Summarised financial information of associates that have been equity accounted not adjusted for the percentage ownership held by the Group (based on most recent audited financial statements / most recent management accounts):

| | 2020 US\$ '000 | 2019 US\$ '000 |
|---------------------|---------------------------------|---------------------------------|
| Assets | 533,121 | 576,650 |
| Liabilities | 251,457 | 309,316 |
| Revenue | 132,355 | 87,255 |
| Profit for the year | 11,915 | 3,076 |

9 INVESTMENT IN REAL ESTATE

| | 1 January 2020 US\$ '000 | Amount capitalised US\$ '000 | Amount Derecognised US\$ '000 | Fair value changes US\$ '000 | 31 December 2020 US\$ '000 |
|---------------------------|---|---|--|---|---|
| Land and building | | | | | |
| - Jordan | 184,053 | - | (6,994) | - | 177,059 |
| | 184,053 | - | (6,994) | - | 177,059 |
| | | | | | |
| | 1 January 2019 US\$ '000 | Amount capitalised US\$ '000 | Amount Derecognised US\$ '000 | Fair value changes US\$ '000 | 31 December 2019 US\$ '000 |
| Land and building | | | | | |
| - Jordan | 183,789 | 264 | - | - | 184,053 |
| - Kingdom of Saudi Arabia | 38,521 | - | (38,521) | - | - |
| | 222,310 | 264 | (38,521) | - | 184,053 |

10 OTHER ASSETS

| | 2020 US\$ '000 | 2019 US\$ '000 |
|--------------------------------|---------------------------------|---------------------------------|
| Rental income receivable | 8,521 | 8,138 |
| Accounts receivable | 1,986 | 1,291 |
| Prepayments and advances | 135 | 1,199 |
| Fees and expenses receivable | 3,403 | 1,059 |
| Others | 193 | 1,529 |
| | 14,238 | 13,216 |
| Less: Provision for impairment | (1,898) | (2,269) |
| | 12,340 | 10,947 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

11 DUE TO FINANCIAL INSTITUTIONS AND CUSTOMERS

| | 2020 | 2019 |
|------------------|------------------|------------------|
| | US\$ '000 | US\$ '000 |
| Due to customers | 231,552 | 213,909 |
| Bank financing | 33,044 | 32,982 |
| | 264,596 | 246,891 |

Due to customers included deposits on wakala basis with maturities ranging from 2 to 6 months from a corporate customers carried an average profit rate of 7% per annum. During the third quarter of 2020, the deposits were converted to loan based on a murabaha agreement. Profit rate for murabaha loan is 7% per annum and is secured against the Bank's assets.

Bank financing represents a syndicated loan through the Housing Bank for Trade and Finance in Jordan secured by mortgage over the Group's investment property. The profit rate of the syndicated loan equals the prime lending rate of the Jordanian Dinar less an annual margin of 1.97%. "On 19 September 2019, the Group signed an amendment and waiver agreement, based on the agreement, the last payment of the loan has been rescheduled till November 2029 and the interest calculation was not changed. The quarterly installments amounted to USD 824,504 (USD 3,298,017 Annually), in addition to the interest are settled in February, May, August and November of each year. Due to the COVID-19 outbreak, management requested deferring the quarterly payments due in May, August and November 2020 amounting to USD 2,473,513 to be included as a part of the last payment due on 3 November 2029. The interest deferred during this period amounting to USD 1,161,339 was added to the loan's balance and will be paid as a part of the loan's final payment. The Housing Bank for Trade and Finance approved management's request on 6 April 2020."

12 OTHER LIABILITIES

| | 2020 | 2019 |
|-------------------------------|------------------|------------------|
| | US\$ '000 | US\$ '000 |
| Advance rental income | 7,448 | 8,277 |
| Trade and other payables | 2,907 | 8,495 |
| Accruals and other provisions | 518 | 771 |
| Staff-related payables | 824 | 1,210 |
| | 11,697 | 18,753 |

13 SHARE CAPITAL

| | 2020 | 2019 |
|--|------------------|------------------|
| | US\$ '000 | US\$ '000 |
| Authorised: | | |
| 750,000,000 (2019: 750,000,000) ordinary shares of US\$1 each | 750,000 | 750,000 |
| Issued and fully paid up: | | |
| 186,170,234 (2019: 186,170,234) ordinary shares of US\$1 each, issued against cash | 186,170 | 186,170 |
| 20,371,807 (2019: 20,371,807) ordinary shares of US\$1 each, issued in kind | 20,372 | 20,372 |
| 1,419,873 (2019: 1,419,873) ordinary shares of US\$1 each, granted to employees | 1,420 | 1,420 |
| | 207,962 | 207,962 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

14 INCOME FROM NON-BANKING OPERATIONS - NET

| | 2020 US\$ '000 | 2019 US\$ '000 |
|--|---------------------------------|---------------------------------|
| Income from Al-Tajamouat for Touristic Projects Co Pie | 14,897 | 19,145 |
| Total Income | 14,897 | 19,145 |
| Expenses of Al-Tajamouat for Touristic Projects Co Pie | (10,670) | (12,830) |
| Total Expenses | (10,670) | (12,830) |
| Income from non-banking operations - net | 4,227 | 6,315 |

15 FEES AND COMMISSION INCOME

| | 2020 US\$ '000 | 2019 US\$ '000 |
|-----------------|---------------------------------|---------------------------------|
| Management fees | 2,875 | 441 |
| | 2,875 | 441 |

16 INCOME / (LOSS) FROM INVESTMENTS - NET

| | 2020 US\$ '000 | 2019 US\$ '000 |
|--|---------------------------------|---------------------------------|
| (Loss) / income from equity type investment: | | |
| Fair value (loss) / gains on equity type investments - net | (2,878) | 1,032 |
| (Loss) / gain on sale of equity type investments - net | (2,634) | 205 |
| Realised gain on sale of sukuk | - | 15 |
| | (5,512) | 1,252 |

17 GENERAL AND ADMINISTRATIVE EXPENSES

| | 2020 US\$ '000 | 2019 US\$ '000 |
|---------------------------------|---------------------------------|---------------------------------|
| Legal and professional expenses | 1,217 | 834 |
| Premises cost | 243 | 389 |
| Business development expenses | 34 | 36 |
| Other operating expense | 254 | 940 |
| | 1,748 | 2,199 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

18 DISCONTINUED OPERATIONS AND ASSETS HELD-FOR-DISTRIBUTION

Below are the details of assets held-for-distribution and discontinued operations:

During the prior year the Group sold its total stake of 52.1% in one of its subsidiary, Cleanswift UAE held through Tintoria International Limited.

In the previous year the Group's holding in its subsidiary Alkhair Capital Saudi Arabia ("ACSA") was diluted from 53.33% to 16% due to new capital issue at ACSA.

During the previous year the Banking license for Alkhair International Islamic Bank was surrendered and the company was renamed to AKIIM Sdn Bhd. The company was put under voluntary liquidation and the control was handed over to the liquidator.

Accordingly, the Group has derecognized/deconsolidated the operations and assets and liabilities of the subsidiaries on loss of control. Profit from operations of the subsidiaries till the date of loss of control has been presented as "Discontinued Operations" in the consolidated statement of income.

Financial services license for Alkhair Portfoy Turkey was also surrendered during the prior year and the company was renamed as Alkhair Gayrimenkul Yatirim Ve Ticaret A.S. The company was put under voluntary liquidation. Accordingly, the loss from operations of the subsidiary had been presented as "Discontinued Operation" in the consolidated statement of income and assets and liabilities had been presented as held-for-distribution in the consolidated statement of financial position.

The disposal/derecognitions have the following impact on the consolidated financial statements:

| | 2020 | 2019 |
|--|---------------------|-----------------------|
| | US\$ '000 | US\$ '000 |
| Income: | | |
| Tintoria International Limited | - | 2,516 |
| Alkhair Capital Saudi Arabia | - | 5,137 |
| AKIIM Sdn Bhd | <u>1,643</u> | <u>249</u> |
| | <u>1,643</u> | <u>7,902</u> |
| Expenses: | | |
| Tintoria International Limited | - | (2,258) |
| Alkhair Capital Saudi Arabia | - | (4,587) |
| AKIIM Sdn Bhd | <u>(71)</u> | <u>(2,758)</u> |
| Alkhair Gayrimenkul Yatirim Turkey | - | (61) |
| | <u>(71)</u> | <u>(9,664)</u> |
| Income / (loss) from discontinued operations | <u><u>1,572</u></u> | <u><u>(1,762)</u></u> |
| | 2020 | 2019 |
| | US\$ '000 | US\$ '000 |
| Gross consideration | | |
| Tintoria International Limited | - | 2,987 |
| Alkhair Capital Saudi Arabia | - | 42,769 |
| AKIIM Sdn Bhd | <u>-</u> | <u>261</u> |
| | <u>-</u> | <u>46,017</u> |
| Less: Net assets derecognised | | |
| Tintoria International Limited | - | (2,889) |
| Alkhair Capital Saudi Arabia | - | (42,292) |
| AKIIM Sdn Bhd | <u>-</u> | <u>(261)</u> |
| | <u>-</u> | <u>(45,442)</u> |
| Net gain on disposal / de-recognition of subsidiaries | <u><u>-</u></u> | <u><u>575</u></u> |

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For the year ended 31 December 2020

18 DISCONTINUED OPERATIONS AND ASSETS HELD-FOR-DISTRIBUTION (continued)

| | 2020 US\$ '000 | 2019 US\$ '000 |
|------------------------------------|-------------------|-------------------|
| Gross consideration | | |
| Tintoria International Limited | - | 2,987 |
| | <u>-</u> | <u>2,987</u> |
| Less: Cash derecognised | | |
| Tintoria International Limited | - | (299) |
| Alkhair Capital Saudi Arabia | - | (13,791) |
| AKIIM Sdn Bhd | - | (273) |
| Alkhair Gayrimenkul Yatirim Turkey | - | (32) |
| | <u>-</u> | <u>(14,395)</u> |
| | <u>-</u> | <u>(11,408)</u> |

Below are the details of assets and liabilities held-for-distributions as of 31 December 2020.

| | Assets US\$ '000 | Liabilities US\$ '000 |
|------------------------------------|---------------------|--------------------------|
| AKIIM Sdn Bhd | 1,834 | - |
| Alkhair Gayrimenkul Yatirim Turkey | 44 | - |
| | <u>1,878</u> | <u>-</u> |

Below are the details of assets and liabilities held-for-distributions as of 31 December 2019.

| | Assets US\$ '000 | Liabilities US\$ '000 |
|------------------------------------|---------------------|--------------------------|
| AKIIM Sdn Bhd | 261 | - |
| Alkhair Gayrimenkul Yatirim Turkey | 54 | 4 |
| | <u>315</u> | <u>4</u> |

19 IMPAIRMENT CHARGE

| | 2020 US\$ '000 | 2019 US\$ '000 |
|---|-------------------|-------------------|
| Impairment on financing receivables | - | 1,204 |
| Impairment loss on investment in an associate | - | (8,500) |
| | | <u>(7,296)</u> |

20 COMMITMENTS AND CONTINGENCIES

| | 2020 US\$ '000 | 2019 US\$ '000 |
|-------------------|-------------------|-------------------|
| Lease commitments | 159 | 66 |
| | <u>159</u> | <u>66</u> |

Litigations and claims

The Group has filed a number of legal cases against the former Chief Executive Officer before the Civil and Criminal Courts of the Kingdom of Bahrain. The Bahraini Courts have ruled in favour of the Group in a number of the civil and criminal cases. Currently these rulings are being enforced in Kuwait, where the former Chief Executive Officer resides.

The Group's share of commitments arising from its associates is disclosed in note 8.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

21 FAIR VALUE

The fair value represents the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to curtail materially the scale of its operation or to undertake a transaction on adverse terms. Generally accepted methods of determining fair value include reference to quoted prices and the use of valuation techniques such as discounted cash flow analysis.

Valuation techniques

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

Investments

The Group measures the fair value of quoted investments using the market bid-prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active or the instrument is not quoted, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), discounted cash flow analyses and other valuation models with accepted economic methodologies for pricing financial instruments.

Financing receivables

The fair values of financing receivables are principally estimated at their carrying amount less impairment provisions as these are for short term (i.e. less than 12 months). Hence, the present value of expected future cash flows is not expected to be different from their carrying values.

Other financial instruments

Placements with financial institutions, due to financial institutions and due to customers are for short term tenure hence their carrying value is not different from the fair value. Fair value of other financial assets and liabilities are not significantly different from their carrying values due to their short term nature.

Fair value hierarchy

The table below analyses the financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

| 31 December 2020 | Level 1 US\$ '000 | Level 2 US\$ '000 | Level 3 US\$ '000 | Total US\$ '000 |
|--|------------------------------|------------------------------|------------------------------|----------------------------|
| Investments carried at fair value through statement of income | - | 20,828 | 42,768 | 63,596 |
| 31 December 2019 | Level 1 US\$ '000 | Level 2 US\$ '000 | Level 3 US\$ '000 | Total US\$ '000 |
| Investments carried at fair value through statement of income | - | 20,971 | 49,807 | 70,778 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

21 FAIR VALUE (continued)*Movements in level 3 financial instruments*

The following table shows the reconciliation of the opening and closing amount of Level 3 financial assets which are recorded at fair value.

| | 1 January 2020 US\$ '000 | Additions / Deletion US\$ '000 | Fair value loss US\$ '000 | 31 December 2020 US\$ '000 |
|--|---|---|--|---|
| Investments carried at fair value through statement of income | 49,807 | (1,537) | (5,502) | 42,768 |
| | 1 January 2019 US\$ '000 | Additions / Deletion US\$ '000 | Fair value loss US\$ '000 | 31 December 2019 US\$ '000 |
| Investments carried at fair value through statement of income | 4,975 | 44,832 | - | 49,807 |

Transfers between level 1, level 2 and level 3

There were no transfers between the levels during the year ended 31 December 2020 and 2019.

The following table shows the impact on fair value of level 3 financial instruments using reasonably possible alternative assumptions.

For investments the Bank adjusted the carrying values $\pm 5\%$ where appropriate, which is considered by the Bank to be within a range of reasonably possible alternatives.

| | Rate | Carrying amount US\$ '000 | Effects of reasonably possible alternative assumptions on carrying amount US\$ '000 |
|---|-------------|--|--|
| 31 December 2020 | | | |
| Investments carried at fair value through statement of income | 5% | 42,768 | 2,138 |
| 31 December 2019 | | | |
| Investments carried at fair value through statement of income | 5% | 49,807 | 2,490 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

22 ASSETS UNDER MANAGEMENT

| | 2020 US\$ '000 | 2019 US\$ '000 |
|-------------|---------------------------------|---------------------------------|
| Proprietary | - | 7,038 |
| Clients | - | 16,038 |
| | <u>-</u> | <u>23,076</u> |

Proprietary assets are included in the consolidated statement of financial position under "investments". Client assets, which represent client investments, are managed in a fiduciary capacity without recourse to the Group and are not included in the consolidated statement of financial position.

23 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include significant shareholders and entities over which the Bank and shareholders exercise significant influence, directors, members of Sharia Supervisory Board, executive management and external auditors of the Group.

Compensation of key management personnel

Key management personnel of the Group comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group. The key management personnel compensation during the year is as follows:

| | 2020 US\$ '000 | 2019 US\$ '000 |
|------------------------------|---------------------------------|---------------------------------|
| Short term employee benefits | 1,281 | 2,200 |
| Post-employment benefits | 118 | 800 |
| | <u>1,399</u> | <u>3,000</u> |

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For the year ended 31 December 2020

23 RELATED PARTY TRANSACTIONS (continued)

Significant related party transactions and balances included in this consolidated financial statements are as follows:-

| | 31 December 2020 | | | | 31 December 2019 | | | |
|---|-------------------------|---|--------------------------------|--|-------------------------|---|--------------------------------|--|
| | Associates US\$ '000 | Significant shareholders/ entities in which directors have interest US\$ '000 | Key management US\$ '000 | Assets under management and other entities US\$ '000 | Associates US\$ '000 | Significant shareholders/ entities in which directors have interest US\$ '000 | Key management US\$ '000 | Assets under management and other entities US\$ '000 |
| Assets | | | | | | | | |
| Investments | 20,828 | 42,768 | - | - | 20,971 | 42,769 | - | 7,037 |
| Investment in associates | 126,978 | - | - | - | 122,552 | - | - | - |
| Other assets | - | - | - | 3,418 | 59 | 247 | - | 1,058 |
| Liabilities | | | | | | | | |
| Due to financial institutions | - | 33,044 | - | - | - | 32,982 | - | - |
| Due to customers | - | 231,552 | - | - | - | 213,909 | - | - |
| Other liabilities | 22 | 283 | 824 | - | 41 | 233 | 1,084 | 356 |
| | 31 December 2020 | | | | 31 December 2019 | | | |
| | Associates US\$ '000 | Significant shareholders/ entities in which directors have interest US\$ '000 | Key management US\$ '000 | Assets under management and other entities US\$ '000 | Associates US\$ '000 | Significant shareholders/ entities in which directors have interest US\$ '000 | Key management US\$ '000 | Assets under management and other entities US\$ '000 |
| Income / (loss) from investments - net | (5,512) | - | - | - | 1,237 | 15 | - | - |
| Fees and commission income | 2,875 | - | - | - | 441 | - | - | - |
| Net finance cost | - | (15,583) | - | - | (15) | (14,884) | - | - |
| Share of profit from associates - net | 4,546 | - | - | - | 1,247 | - | - | - |
| Directors' and Sharia board remuneration and expenses | - | - | (159) | - | - | (201) | - | - |

24 RISK MANAGEMENT

Risk is an inherent part of the Group's business activities. The Group's risk management and governance framework is intended to provide progressive controls and continuous management of the major risks involved in the Group's activities. Risks are managed by a process of identification, measurement and monitoring, and are subject to risk limits and other controls. The process of risk management is critical to the Group's operations and each business unit within the Group is accountable for the risk exposures relating to their responsibilities. The Group's main risk exposure categories are Credit risk, Market risk, Liquidity risk and Operational.

- Risk identification: The Group's exposure to risk through its business activities, including investment in Private Equity, Brokerage, and Capital Markets, is identified through the Group's risk management infrastructure, which includes prior review of all new activities by Risk management.
- Risk measurement: The Group measures risk using risk management position methodologies which reflect the Group's investment risks, foreign exchange and profit rate exposure risks. The Bank relies on both quantitative and qualitative approaches in quantifying risks.
- Risk monitoring: The Group's risk management policies and procedures incorporate respective limits and the Group's activities. The Bank conducts periodic reporting for ongoing monitoring of its position at both Management and Board level.
- Risk reporting: The Group undertakes reporting of all core risks relevant to its businesses on a consolidated basis. The Board oversees risk management and transaction approval for the Group.

Group Risk Framework and Governance

The Board of Directors is ultimately accountable for the risk management of the Group. The Board has advocated a wholly integrated risk management process within the Group, in which all business activities are aligned to the risk framework. The Group Risk Framework establishes Group risk management standards, risk processes, structures, and defines the Bank's risk philosophy.

Board of Directors

The Board of Directors is responsible for defining the Group's risk appetite within which it manages its risk exposures and reviews the Group's compliance with delegated risk authorities.

Audit Committee

The Audit Committee is appointed by the Board of Directors and consists of four non-executive Board members. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting and oversight of the Internal Audit function.

Sharia Supervisory Board

The Group's Sharia Supervisory Board is vested with the responsibility of ensuring that the Group complies with the Sharia rules and principles in its transactions, activities and general philosophy.

Risk Management

The Board along with the Audit Committee is responsible for designing and implementing the Group's risk framework, including policies, processes and systems. Risk Management is responsible for ensuring that the Group's processes capture all sources of transaction risk and that appropriate limit methodologies are developed for use in the management of business risk.

Investment Monitoring and Reporting

Proprietary investment risks are identified and assessed via extensive due diligence activities conducted by the respective departments. This is supported by Risk Management which undertakes an independent risk assessment of every investment transaction. Post-acquisition investment management is rigorously exercised, mainly via board representation within the investee company, during the life of the investment transaction.

25 CREDIT RISK

The Group has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk
- Operational Risk

The information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the Bank's management of capital is explained in notes below.

Credit Risk Policy Framework

The Bank has a Group Credit Risk Policy framework establishing Group credit risk appetite, credit risk origination, underwriting and administration standards. The credit policy articulates key credit markets, minimum criteria for the granting of credit, minimum requirements on collateral and defines roles and responsibilities for credit risk management. The policy provides a guideline to business units when originating credit business.

Credit Risk Management

Credit risk is the risk that the Group will incur a loss of principal or profit earned because its customers, clients or counterparties fail to discharge their contractual obligations and arises principally from the Group's balances with banks, placements with financial institutions, financing receivables, investments and other receivables.

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. There is no significant use of master netting and collateral agreements.

| | 2020 | 2019 |
|--------------------------|------------------|------------------|
| | Maximum | Maximum |
| | exposure | exposure |
| | US\$ '000 | US\$ '000 |
| On balance sheet: | | |
| Balances with banks | 9,295 | 1,260 |
| Financing receivables | 782 | - |
| Other assets | 12,340 | 9,857 |
| | 22,417 | 11,117 |

Risk Exposure Concentration

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

In order to avoid excessive concentrations of risk, the Group's policies and procedures include guidelines to focus on maintaining a diversified portfolio. In line with regulatory requirements, the Bank has a group level Large Exposure Policy which details the Bank's approach in managing concentration risk to sectors, asset classes, single obligors and countries including defining specific limits.

Concentration of risks is managed by counterparty, by geographical region and by industry sector. The maximum credit exposure to any client, or counterparty, or group of closely related counterparties as of 31 December 2020 was US\$ 2.5 million relating to "balances with banks" (2019: US\$ 0.6 million relating to "Balances with Banks").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

25 CREDIT RISK (continued)

Geographical Exposure Distribution

The analysis by geographical region of the Group's financial assets having credit risk exposure is as follows:

| Type of Assets/Region | 31 December 2020 | | | | | Grand Total US\$ '000 |
|-----------------------|----------------------|-----------------------------------|-------------------------------|-------------------|---------------------|--------------------------|
| | Bahrain US\$ '000 | Other Middle East US\$ '000 | North America US\$ '000 | Asia US\$ '000 | Europe US\$ '000 | |
| Balances with banks | 2,456 | 6,839 | - | - | - | 9,295 |
| Financing receivables | 782 | - | - | - | - | 782 |
| Other assets | 3,494 | 8,711 | - | - | - | 12,205 |
| Grand Total | 6,732 | 15,550 | - | - | - | 22,282 |

| Type of Assets/Region | 31 December 2019 | | | | | Grand Total US\$ '000 |
|-----------------------|----------------------|-----------------------------------|-------------------------------|-------------------|---------------------|--------------------------|
| | Bahrain US\$ '000 | Other Middle East US\$ '000 | North America US\$ '000 | Asia US\$ '000 | Europe US\$ '000 | |
| Balances with banks | 615 | 645 | - | - | - | 1,260 |
| Other assets | 953 | 7,371 | - | - | 334 | 8,658 |
| Grand Total | 1,568 | 8,016 | - | - | 334 | 9,918 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

25 CREDIT RISK (continued)

Industry Sector Exposure

The distribution of assets and off-statement of financial position items by industry sector is as follows:

| Type of Assets /Industry | 31 December 2020 | | | | | | Total US\$ '000 |
|-----------------------------|-------------------------------------|-------------------------|---|-------------------------|--------------------|--------------------|--------------------|
| | Banking and Finance US\$ '000 | Industrial US\$ '000 | Real Estate and Const- ruction US\$ '000 | Technology US\$ '000 | Funds US\$ '000 | Trade US\$ '000 | |
| Funded: | | | | | | | |
| Balances | | | | | | | |
| with banks | 2,456 | - | 6,839 | - | - | - | 9,295 |
| Financing receivables | 782 | - | - | - | - | - | 782 |
| Other Assets | 3,494 | - | 8,711 | - | - | - | 12,205 |
| | 6,732 | - | 15,550 | - | - | - | 22,282 |

| Type of Assets /Industry | 31 December 2019 | | | | | | Total US\$ '000 |
|-----------------------------|-------------------------------------|-------------------------|---|-------------------------|--------------------|--------------------|--------------------|
| | Banking and Finance US\$ '000 | Industrial US\$ '000 | Real Estate and Const- ruction US\$ '000 | Technology US\$ '000 | Funds US\$ '000 | Trade US\$ '000 | |
| Funded: | | | | | | | |
| Balances with banks | 1,260 | - | - | - | - | - | 1,260 |
| Other Assets | 953 | - | 7,705 | - | - | - | 8,658 |
| | 2,213 | - | 7,705 | - | - | - | 9,918 |

25 CREDIT RISK (continued)**Collateral and other credit enhancements**

The Group utilizes collateral and other credit enhancements mostly on its credit facilities, in line with Shari'a requirements. Before taking any form of collateral the Bank pre-assesses impediments that may restrict accessibility to collateral should the need arise as well as acceptability from a Shari'a perspective. In this respect the Bank will formally agree with the customer at the time of signing the offer letter on the usage, redemption and utilization of collateral when the customer/counterparty defaults. In the past year, the Bank has obtained collateral including shareholders' personal guarantees, cash, real estate, unlisted equity shares and debentures. The Bank's credit policy discourages taking collateral value where there is positive correlation between collateral value and obligor's ability to pay.

Credit quality per class of financial assets

The Group did not apply a standard credit rating to its investment business, as the Group assessed credit quality according to the policies of the respective business areas. Management considers the credit quality of the Group's financial assets to be of standard quality as of 31 December 2020. Following is an analysis of credit quality by class of financial assets:

| | <i>Neither past due nor impaired US\$ '000</i> | <i>Past due but not impaired US\$ '000</i> | <i>Individually impaired US\$ '000</i> | <i>Impairment/ provision US\$ '000</i> | <i>Total US\$ '000</i> |
|-----------------------|--|--|--|--|----------------------------|
| Balances with banks | 9,295 | - | - | - | 9,295 |
| Financing receivables | 782 | - | - | - | 782 |
| Other assets | 12,205 | - | 1,898 | (1,898) | 12,205 |
| Total | 22,282 | - | 1,898 | (1,898) | 22,282 |

| | 2019 | | | | |
|-----------------------|--|--|--|--|----------------------------|
| | <i>Neither past due nor impaired US\$ '000</i> | <i>Past due but not impaired US\$ '000</i> | <i>Individually impaired US\$ '000</i> | <i>Impairment/ provision US\$ '000</i> | <i>Total US\$ '000</i> |
| Balances with banks | 1,260 | - | - | - | 1,260 |
| Financing receivables | 782 | - | - | (782) | - |
| Other assets | 9,857 | - | 2,269 | (2,269) | 9,857 |
| Total | 11,899 | - | 2,269 | (3,051) | 11,117 |

25 CREDIT RISK (continued)**Collateral and other credit enhancements (continued)**

The following table summarises the counterparty credit risk exposure covered by collateral as of:

| | 31 December 2020 | | 31 December 2019 | |
|-----------------------|---------------------------------------|-------------------------|---------------------------------------|-------------------------|
| | Gross positive FV of contracts | *Collateral held | Gross positive FV of contracts | *Collateral held |
| | US\$ '000 | US\$ '000 | US\$ '000 | US\$ '000 |
| Balances with banks | 9,295 | - | 1,260 | - |
| Financing receivables | 782 | - | - | - |
| Other assets | 12,205 | - | 12,126 | - |
| Total | 22,282 | - | 13,386 | - |

* Collaterals values have been restricted to outstanding exposure of financing facilities.

26 LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial assets.

The key features of the Group's liquidity methodology are:

The Board is responsible for liquidity monitoring, cash flow planning and general asset liability management.

In accordance with the Basel recommendations on liquidity management, the Group measures liquidity according to two criteria: "normal business", reflecting day-to-day expectations regarding the funding of the Group; and "crisis scenario", reflecting simulated extreme business circumstances in which the Group's survival may be threatened.

The Group's liquidity policy is to hold sufficient liquid assets to cover its committed statement of financial position requirements, plus its budgeted expenses for the liquidity horizon and its forecast investment commitments over the liquidity horizon.

Analysis of financial liabilities

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations.

| | Gross un-discounted cash flows | | | | Carrying value |
|---|---------------------------------------|-----------------------|--------------------|------------------|-----------------------|
| | Less than 3 months | 3 to 12 months | Over 1 year | Total | |
| | US\$ '000 | US\$ '000 | US\$ '000 | US\$ '000 | US\$ '000 |
| At 31 December 2020 | | | | | |
| Due to financial institutions and customers | - | 234,024 | 30,572 | 264,596 | 264,596 |
| Other liabilities | 2,924 | 8,773 | - | 11,697 | 11,697 |
| Total financial liabilities | 2,924 | 242,797 | 30,572 | 276,293 | 276,293 |

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26 LIQUIDITY RISK MANAGEMENT (continued)**Analysis of financial liabilities (continued)**

| | Gross un-discounted cash flows | | | | Carrying value |
|--|--------------------------------|-------------------|----------------|-----------|----------------|
| | Less than 3 months | 3 to 12 months | Over 1 year | Total | |
| | US\$ '000 | US\$ '000 | US\$ '000 | US\$ '000 | US\$ '000 |
| At 31 December 2019 | | | | | |
| Due to financial institutions | 218,536 | 7,348 | 28,311 | 254,195 | 246,891 |
| Other liabilities | 9,266 | 8,277 | 1,210 | 18,753 | 18,753 |
| Liabilities relating to assets held-for-distribution | - | 4 | - | 4 | 4 |
| Total financial liabilities | 227,802 | 15,629 | 29,521 | 272,952 | 265,648 |

The table below shows the contractual expiry by maturity of the Group's commitments.

| | On demand US\$ '000 | 3 to 12 months US\$ '000 | Over 1 year US\$ '000 |
|----------------------------|---------------------------|--------------------------------|-----------------------------|
| At 31 December 2020 | | | |
| Lease commitments | - | 60 | 99 |
| Total | - | 60 | 99 |
| | On demand US\$ '000 | 3 to 12 months US\$ '000 | Over 1 year US\$ '000 |
| At 31 December 2019 | | | |
| Lease commitments | - | 66 | - |
| Total | - | 66 | - |

27 MARKET RISK MANAGEMENT

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to adverse changes in market variables such as profit rates, foreign exchange rates, equity prices and commodities. The Group classifies exposures to market risk into either trading or non-trading portfolios. The Group does not currently engage in significant trading activity. Non-trading positions are managed and monitored using sensitivity analysis.

Market Risk: Non-trading**Profit rate risk**

Profit rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair values of the financial instruments. The Group currently has limited exposure to profit rate risk. The Group's assets and liabilities that are exposed to profit rate risk include: placements with financial institutions, financing receivables, investments in sukuks and due to financial and non-financial institutions.

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27 MARKET RISK MANAGEMENT (continued)*Profit rate risk (continued)*

| | 2020 | | | 2019 | | |
|---|-----------|---------------------------------|----------------------------|-----------|---------------------------------|----------------------------|
| | Balance | Change in profit rate bps (+/-) | Effect on net profit (+/-) | Balance | Change in profit rate bps (+/-) | Effect on net profit (+/-) |
| Assets | | | | | | |
| Bank balance | 4,914 | 200 | 98 | - | - | - |
| Liabilities | | | | | | |
| Due to financial institutions and customers | (264,596) | 200 | (5,292) | (246,891) | 200 | (4,938) |
| Total | | | <u>(5,194)</u> | | | <u>(4,938)</u> |

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to adverse changes in foreign exchange rates.

The table below indicates the currencies to which the Group has significant exposure. The analysis shows the impact of a 20% movement in the currency rate against the United States Dollar, with all other variables held constant on the consolidated statement of income and equity. The effect of decreases in the currency rates is expected to be equal and opposite to the effect of the increases shown.

| Currency | 2020 | | | 2019 | | |
|---------------|---------------------------|----------------------------|------------------------|---------------------------|----------------------------|------------------------|
| | Exposure (USD) equivalent | Effect on net profit (+/-) | Effect on equity (+/-) | Exposure (USD) equivalent | Effect on net profit (+/-) | Effect on equity (+/-) |
| Kuwaiti Dinar | 9 | 2 | - | 9 | 2 | - |
| Turkish Lira | - | - | - | 7,954 | 1,586 | 5 |

Equity price risk

Equity price risk is the risk that the fair value of equities decreases as the result of adverse changes in the levels of equity prices and the value of individual stocks. Equity price risk arises from the Group's investment portfolio. The Group conducts significant investment activity in private equity, mainly in unquoted entities. The Group manages this risk through diversification of its investments in terms of geographical distribution and industry concentration by arranging representation on the Board of Directors within the investee company, wherever possible. Investments are managed within maximum concentration risk limits, approved by the Board of Directors of the Bank.

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties prepay or request repayment earlier than expected. The Group is not exposed to any significant prepayment risk.

28 OPERATIONAL RISK

Operational risk is the risk of unexpected losses resulting from inadequate or failed internal controls or procedures, systems failures, fraud, business interruption, compliance breaches, human error, management failure or inadequate staffing. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or lead to financial loss.

While operational risks cannot be entirely eliminated, they are managed and mitigated by ensuring that appropriate infrastructure, controls, systems, procedures and trained and competent people are in place throughout the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

29 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

| | 2020 | | | | | | |
|---|--------------------|---------------------|---------------------|---------------------|---------------------|--------------------|--------------------|
| | Up to 1 | 1 to 3 | 3 to 6 | 6 to 12 | Total up to | 1 to 5 | 5 to 10 |
| | month US\$ '000 | months US\$ '000 | months US\$ '000 | months US\$ '000 | 1 year US\$ '000 | years US\$ '000 | years US\$ '000 |
| ASSETS | | | | | | | |
| Cash and balances with banks | 3 | 9,295 | - | - | 9,298 | - | - |
| Financing receivables | 782 | - | - | - | 782 | - | - |
| Investments | - | - | - | 20,828 | 20,828 | 42,768 | - |
| Investment in associates | - | - | - | - | - | - | 126,978 |
| Investment in real estate | - | - | - | - | - | - | 177,059 |
| Other assets | - | - | - | 12,340 | 12,340 | - | 12,340 |
| Assets held-for-distribution | - | - | - | 1,878 | 1,878 | - | 1,878 |
| Equipment | - | - | - | - | - | - | 38 |
| Total assets | 785 | 9,295 | - | 35,046 | 45,126 | 42,768 | 304,075 |
| LIABILITIES | | | | | | | |
| Due to financial institutions and customers | | 232,170 | 618 | 1,236 | 234,024 | 13,194 | 17,378 |
| Other liabilities | - | 5,849 | 5,848 | - | 11,697 | - | - |
| Total liabilities | - | 238,019 | 6,466 | 1,236 | 245,721 | 13,194 | 276,293 |
| Commitments | 5 | 15 | 15 | 30 | 65 | 94 | - |
| Net liquidity gap | 780 | (228,739) | (6,481) | 33,780 | (200,660) | 29,480 | 286,697 |
| Net cumulative gap | 780 | (227,959) | (234,440) | (200,660) | (200,660) | (171,180) | 115,517 |

* There are no items beyond the maturity of 10 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

29 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

| | 2019 | | | | | | |
|--|--------------------|---------------------|---------------------|---------------------|---------------------|--------------------|--------------------|
| | Up to 1 | 1 to 3 | 3 to 6 | 6 to 12 | Total up to | 1 to 5 | 5 to 10 |
| | month US\$ '000 | months US\$ '000 | months US\$ '000 | months US\$ '000 | 1 year US\$ '000 | years US\$ '000 | years US\$ '000 |
| ASSETS | | | | | | | |
| Cash and balances with banks | - | 1,265 | - | - | 1,265 | - | - |
| Investments | - | - | 20,971 | 7,038 | 28,009 | 42,769 | - |
| Investment in associates | - | - | - | - | - | - | - |
| Investment in real estate | - | - | - | - | - | - | 122,552 |
| Other assets | - | - | - | - | - | - | 184,053 |
| Assets held-for-distribution | - | 2,702 | 8,245 | - | 10,947 | - | - |
| Equipment | - | - | - | 315 | 315 | - | 102 |
| Total assets | - | 3,967 | 29,216 | 7,353 | 40,536 | 42,769 | 306,707 |
| | | | | | | | 390,012 |
| LIABILITIES | | | | | | | |
| Due to financial institutions and customers | 1,940 | 213,909 | 1,940 | 3,880 | 221,669 | 25,222 | - |
| Other liabilities | 215 | 9,050 | 8,278 | - | 17,543 | 1,210 | - |
| Liabilities relating to assets held-for-distribution | - | - | - | 4 | 4 | - | 4 |
| Total liabilities | 2,155 | 222,959 | 10,218 | 3,884 | 239,216 | 26,432 | - |
| | | | | | | | 265,648 |
| Commitments | - | 66 | - | - | 66 | - | 66 |
| Net liquidity gap | (2,155) | (219,058) | 18,998 | 3,469 | (198,746) | 16,337 | 306,707 |
| | | | | | | | 124,298 |
| Net cumulative gap | (2,155) | (221,213) | (202,215) | (198,746) | (198,746) | (182,409) | 124,298 |

* There are no items beyond the maturity of 10 years.

30 SEGMENT INFORMATION

Operating segments are reported in accordance with internal reporting provided to Executive Management (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses its performance. All operating segments used by the Group meet the definition of a reportable segment under FAS 22.

Currently, the Group is organised into business units based on their nature of operations and services and has three reportable operating segments which are as follows:

Investment Banking

The Group's investment banking business is engaged in transaction origination and structuring, investment, placement to third-party investors, restructuring and managing portfolio companies. This segment focuses on stable companies, historically revenue-generating with positive profitability, requiring growth capital or partial exits. The segment focuses on specific sectors and geographies, whilst avoiding start-ups, venture capital, and greenfield investments. The segment targets businesses in the oil & gas services; industrial services; building materials; logistics; and agri-business; specifically in the MENA region including Turkey.

The business manages Al-Tajamouat for Touristic Projects Co. "Taj" which own and operate a shopping mall in Amman. At 31 December 2020, the total assets of Taj are US\$ 189 million and the total equity is US\$ 146 million. In 2020, Taj reported a net loss of US\$ 0.5 million.

The business managed the Bank's Global Private Equity Fund. It also sources and managed investments on behalf of the Bank's Strategic Acquisition Fund. During the year, the Global Private Equity Fund has been liquidated. The Strategic Acquisition fund has also been in the process of liquidation.

AKIIM Sdn Bhd - UPDATE (formerly Alkhair International Islamic Bank Malaysia Berhad)

Alkhair International Islamic Bank Malaysia Berhad was established in 2004 to source investment opportunities in the Far East and monitor the performance of the acquired companies on behalf of the Bank and investors and to establish distribution channels for the Group. Banking license was surrendered during the period and entity was put on voluntary liquidation.

Information regarding the results of each reportable segment is included below. Inter-segment pricing is determined on an arm's length basis. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

30 SEGMENT INFORMATION (continued)

| For the year ended 31 December 2020 | | | | |
|---|-----------------------|---------------|-------------------|----------------|
| | Investment Banking | AKIIM Sdn Bhd | Inter- company | Total |
| | US\$ '000 | US\$ '000 | US\$ '000 | US\$ '000 |
| Net finance expense | (15,583) | - | - | (15,583) |
| Loss from investments - net | (5,512) | - | - | (5,512) |
| Fees and commission income | 2,875 | - | - | 2,875 |
| Share of profit from associates - net | 4,546 | - | - | 4,546 |
| Income from non-banking operations | 14,897 | - | - | 14,897 |
| Foreign exchange loss - net | (3) | - | - | (3) |
| Other income | 1,784 | - | - | 1,784 |
| Total income | 3,004 | - | - | 3,004 |
| Total operating expenses | (13,492) | - | - | (13,492) |
| Income / (loss) from assets held for distribution and discontinued operations | - | 1,572 | - | 1,572 |
| Income / (loss) from assets held for sale and discontinued operations | - | - | - | - |
| (Loss) / profit for the year | (10,488) | 1,572 | - | (8,916) |
| Investment in associates | 126,978 | - | - | 126,978 |
| Segment assets | 390,091 | 1,878 | - | 391,969 |
| Segment liabilities | 276,293 | - | - | 276,293 |

| For the year ended 31 December 2019 | | | | | |
|---|-----------------------|----------------|------------------------------------|-------------------|-----------------|
| | Investment Banking | AKIIM Sdn Bhd | Alkhair Capital Saudi Arabia | Inter- company | Total |
| | US\$ '000 | US\$ '000 | US\$ '000 | US\$ '000 | US\$ '000 |
| Net finance expense | (14,928) | - | - | - | (14,928) |
| Income from investments | 1,252 | - | - | - | 1,252 |
| Fees and commission income | 441 | - | - | - | 441 |
| Share of profit loss from associates - net | 1,247 | - | - | - | 1,247 |
| Income from non-banking operations | 19,145 | - | - | - | 19,145 |
| Foreign exchange loss - net | (8) | - | - | - | (8) |
| Other income | 58 | - | - | - | 58 |
| Total income | 7,207 | - | - | - | 7,207 |
| Total operating expenses | (18,431) | - | - | - | (18,431) |
| Income / (loss) from assets held for sale and discontinued operations | 197 | (2,509) | 550 | - | (1,762) |
| Net Loss on disposal of subsidiary | 575 | - | - | - | 575 |
| Charge of impairment | (7,296) | - | - | - | (7,296) |
| (Loss) / profit for the year | (17,748) | (2,509) | 550 | - | (19,707) |
| Investment in associates | 122,552 | - | - | - | 122,552 |
| Segment assets | 389,739 | 273 | - | - | 390,012 |
| Segment liabilities | 265,636 | 12 | - | - | 265,648 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

30 SEGMENT INFORMATION (continued)**Geographic segment information:**

The Group operates in four geographic markets: Bahrain, Other Middle East, Asia Pacific and Europe. The following tables show the distribution of the Group's total income and non-current assets by geographical segments:

| | <i>For the year ended 31 December 2020</i> | | | | |
|---|--|--------------------|---------------------|------------------|------------------|
| | <i>Bahrain</i> | <i>Middle East</i> | <i>Asia Pacific</i> | <i>Europe</i> | <i>Total</i> |
| | <i>US\$ '000</i> | <i>US\$ '000</i> | <i>US\$ '000</i> | <i>US\$ '000</i> | <i>US\$ '000</i> |
| Total (loss) / income | (10,790) | 15,633 | - | - | 4,843 |
| Net (loss) / profit for the year | (13,898) | 4,982 | - | - | (8,916) |
| Non-current assets * | 13 | 25 | - | | 38 |

| | <i>For the year ended 31 December 2019</i> | | | | |
|---|--|--------------------|---------------------|------------------|------------------|
| | <i>Bahrain</i> | <i>Middle East</i> | <i>Asia Pacific</i> | <i>Europe</i> | <i>Total</i> |
| | <i>US\$ '000</i> | <i>US\$ '000</i> | <i>US\$ '000</i> | <i>US\$ '000</i> | <i>US\$ '000</i> |
| Total income | (11,938) | 19,145 | - | 85 | 7,292 |
| Net (loss) / profit for the year | (24,214) | 7,076 | (2,509) | (60) | (19,707) |
| Non-current assets * | 18 | 184,137 | - | - | 184,155 |

* includes equipment and investment in real estate.

31 SHARIA SUPERVISORY BOARD

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

32 EARNINGS AND EXPENSES PROHIBITED BY SHARIA

The Group did not receive any significant income or incur significant expenses that were prohibited by the Sharia.

33 SOCIAL RESPONSIBILITIES

The Group discharges its social responsibilities through donations to good faith charity funds.

34 ZAKAH

The Bank is not obliged to pay Zakah. Payment of Zakah is the responsibility of the shareholders of the Bank. Zakah payable by shareholders on their holdings in the Bank is calculated on the basis of a method prescribed by the Bank's Sharia Supervisory Board. Zakah payable by the shareholders in respect of the year ended 31 December 2020 was US\$ 0.01669 per share (2019: US\$ 0.00656 per share).

35 CAPITAL MANAGEMENT

The Group is regulated by the Central Bank of Bahrain (CBB) which sets and monitors capital requirements for the Group as a whole. CBB required the Group to maintain a prescribed ratio of total capital (net of prudential deductions) to total risk-weighted assets (determined according to specified requirements to reflect the varying levels of risk attached to assets and off-balance sheet exposures).

The primary objectives of the Group's capital management policies are to ensure that the Group complies with externally imposed capital requirements and that the Group maintaining capital ratios in order to support its business and to maximise shareholders' value. The Group does not have any significant restrictions on its ability to access or use its assets and settle its liabilities other than any restrictions that may result from the supervisory frameworks within which the banking subsidiaries operate.

The Bank's capital adequacy ratio, is calculated in accordance with the capital adequacy rules set by the regulator. The Group's regulatory capital is analysed into two tiers:

Tier 1 capital

Tier 1 capital includes CET1 and AT1.

CET1 comprise of ordinary share capital that meet the classification as common shares for regulatory purposes, disclosed reserves including share premium, general reserves, legal/statutory reserve, common shares issued by consolidated banking subsidiaries of the Bank and held by third parties, retained earnings after regulatory adjustments relating to goodwill and items that are included in equity which are treated differently for capital adequacy purposes.

AT1 comprise of instruments that meet the criteria for inclusion in AT1, instruments issued by consolidated banking subsidiaries of the Bank held by third parties which meet the criteria of AT1, and regulatory adjustments applied in calculation of AT1.

Tier 2 capital

It includes instruments issued by the Bank that meet the criteria for inclusion in Tier 2 capital, stock surplus resulting from issue of Tier 2 capital, instruments issued by consolidated banking subsidiaries of the Bank held by third parties that meet the criteria for inclusion in Tier 2, general provisions held against unidentified losses on financing and qualify for inclusion within regulatory adjustments applied in the calculation of Tier 2 capital.

The regulatory adjustments are subject to limits prescribed by the CBB requirements. These deductions would be effective in a phased manner through transitional arrangements from 2015 to 2018. The regulations prescribe higher risk weights for certain exposures that exceed materiality thresholds. These regulatory adjustments required for certain items such as goodwill on mortgage service right, deferred tax assets, cash flow hedge reserve, gain on sale of related securitization transactions, defined benefit pension fund assets and liabilities, investment in own shares and reciprocal cross holdings in the capital of Banking and financial entities, investment in the capital of banking and financial entities that are outside the scope of regulatory consolidation and where the Bank does not own more than 10% of issued common shares capital of the entity and significant investments in the capital of banking and financial entities that are outside the scope of regulatory consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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35 CAPITAL MANAGEMENT (continued)

The Bank's regulatory capital position at 31 December is as follows:

| | <i>Unaudited</i> 2020 <i>US\$ '000</i> | <i>Unaudited</i> 2019 <i>US\$ '000</i> |
|---|---|---|
| Total risk-weighted exposures | 2,012,734 | 1,992,063 |
| CET1 capital | (140,297) | (121,427) |
| Tier 1 capital | - | - |
| Total Capital | (140,297) | (121,427) |
| % of Total Risk Weighted Exposures (CAR) | | |
| CET1 capital adequacy ratio | -6.97% | -6.10% |
| Tier1 capital adequacy ratio | 0.00% | 0.00% |
| Total capital adequacy ratio | -6.97% | -6.10% |

The capital adequacy ratio as at 31 December 2020 was below the minimum regulatory capital requirement of 12.5%.

Shareholders of the Bank at an Extraordinary General Meeting held on 22 February 2018 have approved a restructuring which will, inter alia, involve; the surrender of the banking license and the conversion of the Bank into a holding company. The application for conversion has been submitted with the CBB and is in process.

36 COMPARATIVES

Certain prior year amounts have been regrouped to agree with current year presentations. Such regrouping does not affect the previously reported loss or total equity.

37 SUBSEQUENT EVENTS

There have been no events subsequent to 31 December 2020 that would significantly impact the amounts reported in the consolidated financial statements as at 31 December 2020.