GFH Financial Group
Annual Report + Accounts
2021

His Majesty
King Hamad bin Isa
Al Khalifa

The King of the
Kingdom of Bahrain

His Royal Highness
Prince Salman bin Hamad
Al Khalifa

Crown Prince, Deputy Supreme
Commander and Prime Minister
Kingdom of Bahrain

1 A Profile of GFH Financial Group

2 Our People + Our Performance Summary

3 A Detailed Review of Our Performance

4 Corporate Governance

5 Risk + Capital Management

6 Reports + Financial Statements

Page Contents

10 GFH Financial Group Profile

16 Vision and Values

23 Special Report: Environmental, Social & Governance

50 Sharia Supervisory Board

52 Board of Directors

58 Executive Management

72 Financial Highlights

78 Chairman's Report

84 Message from the Group CEO

92 Business Activities

98 Executive Management Report

106 Treasury and Capital Markets

110 Corporate Governance

134 Risk & Capital Management

164 Sharia Supervisory Board Report

165 Independent Auditors' Report

170 Consolidated Statement of Financial Position

171 Consolidated Income Statement

172 Consolidated Statement of Changes in Owners' Equity

174 Consolidated Statement of Cash Flows

176 Consolidated Statement of Changes in Restricted Investment Account

178 Consolidated Statement of Sources and Uses of Zakah & Charity Fund

179 Notes to the Consolidated Financial Statements

Technology has changed our lives forever. How we navigate this change will ultimately determine...

applyin
technol
advanta

who wins

+

by how much

—

ng our
logical
nge

1011100110011010101010100011100101010101010101000101
10101010101010101010101010101010101010101010101010
10010011010101001010101010111001010001010110010100
01001001010010101001001010010100100100101001001001
1011100110011010101010100011100101010101010101000101
10101010101010101010101010101010101010101010101010
10010011010101001010101010111001010001010110010100
01001001010010101001001010010100100100101001001001
1011100110011010101010100011100101010101010101000101
10101010101010101010101010101010101010101010101010
10010011010101001010101010111001010001010110010100
01001001010010101001001010010100100100101001001001
1011100110011010101010100011100101010101010101000101
10101010101010101010101010101010101010101010101010
10010011010101001010101010111001010001010110010100
01001001010010101001001010010100100100101001001001
1011100110011010101010100011100101010101010101000101
10101010101010101010101010101010101010101010101010
10010011010101001010101010111001010001010110010100
01001001010010101001001010010100100100101001001001
1011100110011010101010100011100101010101010101000101
10101010101010101010101010101010101010101010101010
10010011010101001010101010111001010001010110010100
01001001010010101001001010010100100100101001001001
1011100110011010101010100011100101010101010101000101
10101010101010101010101010101010101010101010101010
10010011010101001010101010111001010001010110010100
01001001010010101001001010010100100100101001001001
1011100110011010101010100011100101010101010101000101
10101010101010101010101010101010101010101010101010
10010011010101001010101010111001010001010110010100
01001001010010101001001010010100100100101001001001
1011100110011010101010100011100101010101010101000101
10101010101010101010101010101010101010101010101010
10010011010101001010101010111001010001010110010100
01001001010010101001001010010100100100101001001001
1011100110011010101010100011100101010101010101000101

GFH Group Profile
Section 01/6

GFH is one of the most dynamic financial groups in the region, actively driven by a clear focus in operational excellence, global talent acquisition and technological innovation across sector investments.

01

Company Profile //Technologically advanced, globally benchmarked

15

$ Billion

Since the Group's inception in 1999, GFH has raised over $15 billion in assets and funds under management

The Group pursues a diversified asset allocation strategy to adapt to the multitude of challenges in an ever-changing macro environment whilst working closely with our stakeholders to realistically meet expectations.

GFH is a well renowned financial group in the GCC region, with a diversified offering and pioneering track record. Headquartered in Bahrain, GFH's innovative approach to Islamic investment banking services has been recognized internationally for over a decade. GFH has developed a strong and consistent ability to identify, successfully bring to market and capitalize on a wide range of solid investment opportunities in some of the world's most dynamic markets and sectors. This approach signifies the Group's investment insights and commitment to increase the value of its assets, and financial returns to its investors and shareholders.

Since the Group's inception in 1999, GFH has raised over $15 billion in assets and funds under management from its strong client base in four main activities:

- Investment Management;
- Real Estate Development;
- Commercial Banking; and
- Treasury & Proprietary Investments

GFH is listed on three stock exchanges in the GCC, including the Bahrain Bourse, Boursa Kuwait and Dubai Financial Market (DFM) where it is one of the most liquid and actively traded stocks. GFH's operations are principally focused across the GCC, North Africa and India, along with strategic investments in the U.S., Europe and U.K.

Recognition

GFH has consistently been widely recognized by various industry stakeholders for its innovative approach, investment prudence and overall achievements in Islamic finance, real estate development and investment management. In 2021, GFH was named "Best Sukuk Deal of the Year" & "Best Investment Bank – Islamic" by MEA Finance Awards, and "Best Corporate & Investment Bank Middle East" by AsiaMoney. GFH was also ranked in the top 10 of "The Middle East's 30 Biggest Asset Managers 2021" by Forbes Magazine. In 2020, GFH was named "Best Private Bank" and "Best Investment Management Firm, Bahrain" by MEA Finance Awards 2020, "Best Investment Bank Middle East 2020" by International Business Magazine and "Most Innovative Diversified Investment Portfolio" by Global Business Outlook. GFH was also named "Best Investment Management Services" and "Best Investment Banking Services" at the Banker Middle East Product Awards 2019, "Best Investment Bank" at CPI Financial Islamic Business & Finance Awards 2019, "Best Investment Bank-Middle East" and "Best Islamic Bank-Bahrain" at the Islamic Business & Finance Awards-EMEA in 2018. The Group has also been recognized with three prestigious awards at the Bankers Middle East Awards in 2018 as well as five top honours in 2017. In 2016, the Group was awarded the "Best Islamic Financial Group" from Global Brands Magazine, "Best Investment Bank" from Middle East Industry Award, "Investment Banker of the Year" from CPI Awards and "GCC Best Employer Brand" from Dubai. Prior to that, in 2015, the group was awarded the 'Best Investment Bank – Middle East' at the 10th Islamic Business & Finance Awards. In 2014, GFH was recognized as the 'Fastest Growing Bank in Bahrain' and 'Best Wealth Management Firm' by CPI Financial and Banker Middle East. Earlier in 2012, the company won the prestigious award for 'Best Islamic Investment Bank, Bahrain' from Capital Finance International (CFI). Other awards include Banker Middle East's 'Deal of the Year 2008', Euromoney's 'Best Investment Bank' in 2005, 2006 and 2007 and 'Best Islamic Investment Bank' in 2005.

Creation

As an innovative financial Group, GFH has an enviable track record in conceptualizing and establishing a large number of pioneering financial institutions in the GCC. GFH was instrumental in the creation of First Energy Bank, the world's first Islamic investment bank focusing exclusively on the energy sector. The Group also established various cross-border entities including Khaleeji Commercial Bank in Bahrain, Arab Finance House in Lebanon, First Leasing Bank in Bahrain, Asia Finance Bank in Malaysia, and Gulf Holding Company in Kuwait.

In recognition of its responsibility towards all the Group's stakeholders – including investors, shareholders, employees and the communities GFH invests in – the Group announced the establishment of "Infracorp" in January 2022. With over $3 billion of the Group's infrastructure and related assets now under its management, "Infracorp" specialises in investments that are hyper-focused on accelerating the growth and development of sustainable infrastructure assets across the MENA region and global markets. GFH has also successfully conceived, funded and developed large, complex and innovative real estate and infrastructure projects in the GCC, MENA and India including residential and commercial projects such as Bahrain and Tunisia's iconic

GFH Financial Group
Headquartered in Bahrain Financial Harbour and regulated by the Central Bank of Bahrain to operate as a Commercial Bank

Financial Harbours. The Group has also acted as the master developer for luxury lifestyle developments such as Royal Ranches of Marrakech in Morocco. More recently, the Group has led on the development of prestigious Bahrain-based developments such as the revival of the multi-million dollar Harbour Heights project, formerly known as Villamar, and the centrally located waterfront The Harbour Row project.

Diversification

As part of GFH's vision, the Group adopts a dynamic, entrepreneurial investment approach underpinned by solid professional credentials. Furthermore, the Group pursues a diversified asset allocation strategy to adapt to the multitude of challenges in an ever changing macro environment whilst working closely with our stakeholders to realistically meet expectations. In terms of asset class diversification, GFH has participated in and brought privileged access to unique private equity investments in wide-ranging sectors such as real estate, hospitality, retail, healthcare, industrial, education, and technology. Geographically, GFH initially had an investment focus on the Middle East, North Africa and India, but in recent years the Group has further diversified its holdings across the U.S. and U.K. to take advantage of emerging opportunities in these markets.

GFH is Headquartered in
Bahrain Financial Harbour

GFH Financial Group //Achievements & Recognition

2006_

Best Investment Bank
Euromoney

2008_

Deal of the Year
Banker Middle East

2012_

Best Islamic Investment Bank (Bahrain)
Capital Finance International (CFI)

2014_

Fastest Growing Bank (Bahrain)
CPI Financial

Best Wealth Management Firm
Banker Middle East

2015_

Best Investment Bank (Middle East)
Islamic Business & Finance Awards

Best Wealth Management Firm
CPI Financial Bankers Middle East

2016_

Best Islamic Financial Group
Global Brands Magazine

Best Investment Bank
Middle East Industry Award

GFH Financial Group is proud to have won a number of accolades over the previous years from a number of the industry's most highly rated international awards shows.

2017_

Fastest Growing Bank (Middle East)
Banker Middle East Awards

2018_

Best Investment Bank (Middle East)
Banker Middle East Awards
Best Investment Bank
Islamic Business & Finance Awards EMEA

2019_

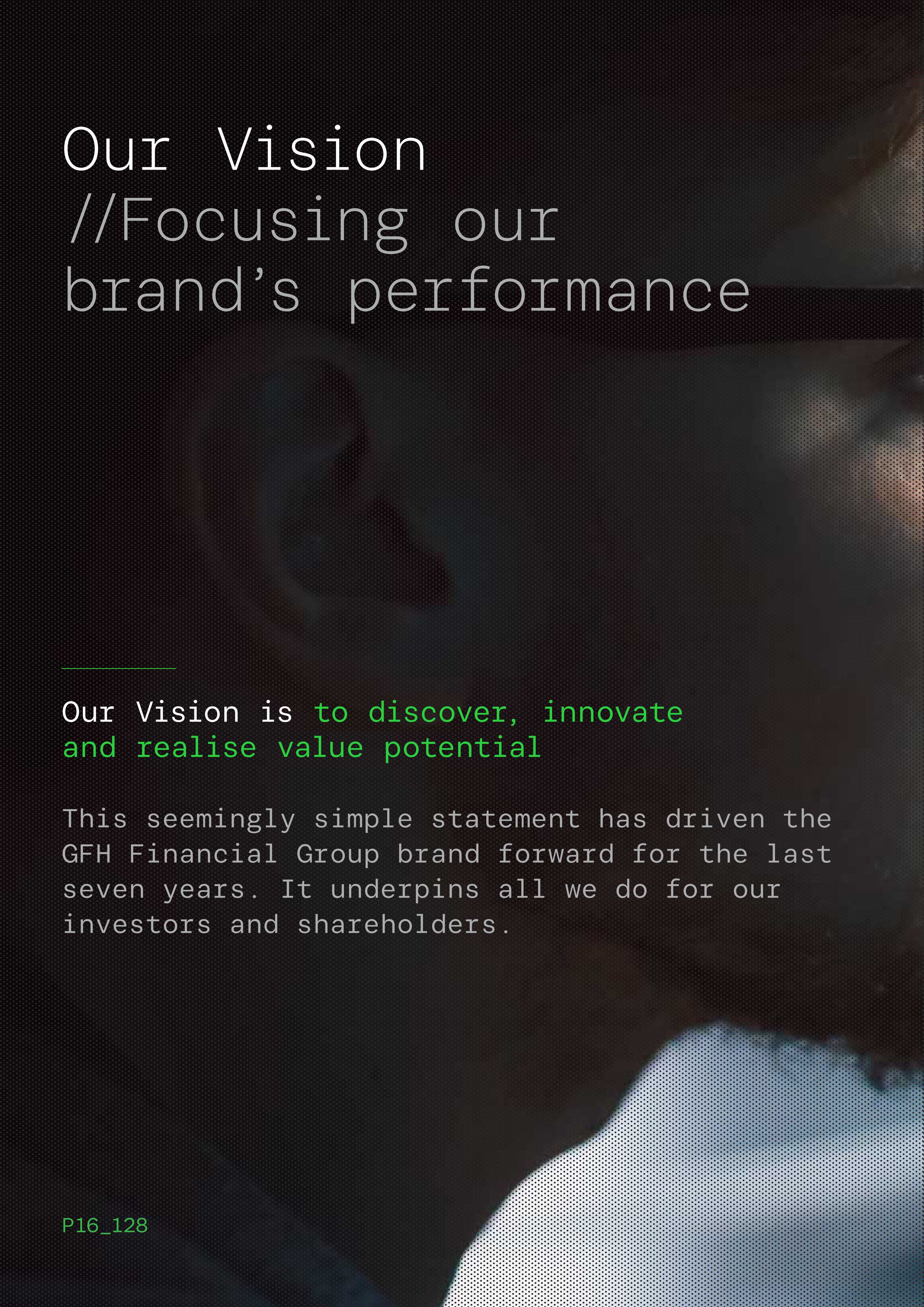
Best Islamic Investment Bank
WIBC Performance Awards
Best Investment Management Services
Banker Middle East Awards

2020_

Best Private Bank
Best Investment Management Firm
MEA Finance Awards
Best Investment Bank (Middle East)
International Business Magazine
Most Innovative Diversified Investment Portfolio
Global Business Outlook

2021_

Best Sukuk Deal of the Year
Best Investment Bank - Islamic
MEA Finance Awards
Best Corporate & Investment Bank Middle East
AsiaMoney (a division of Euromoney)
The Middle East's 30 Biggest Asset Managers 2021 ranked top 10
Forbes Magazine



Our Vision
//Focusing our brand's performance

Our Vision is to discover, innovate and realise value potential

This seemingly simple statement has driven the GFH Financial Group brand forward for the last seven years. It underpins all we do for our investors and shareholders.

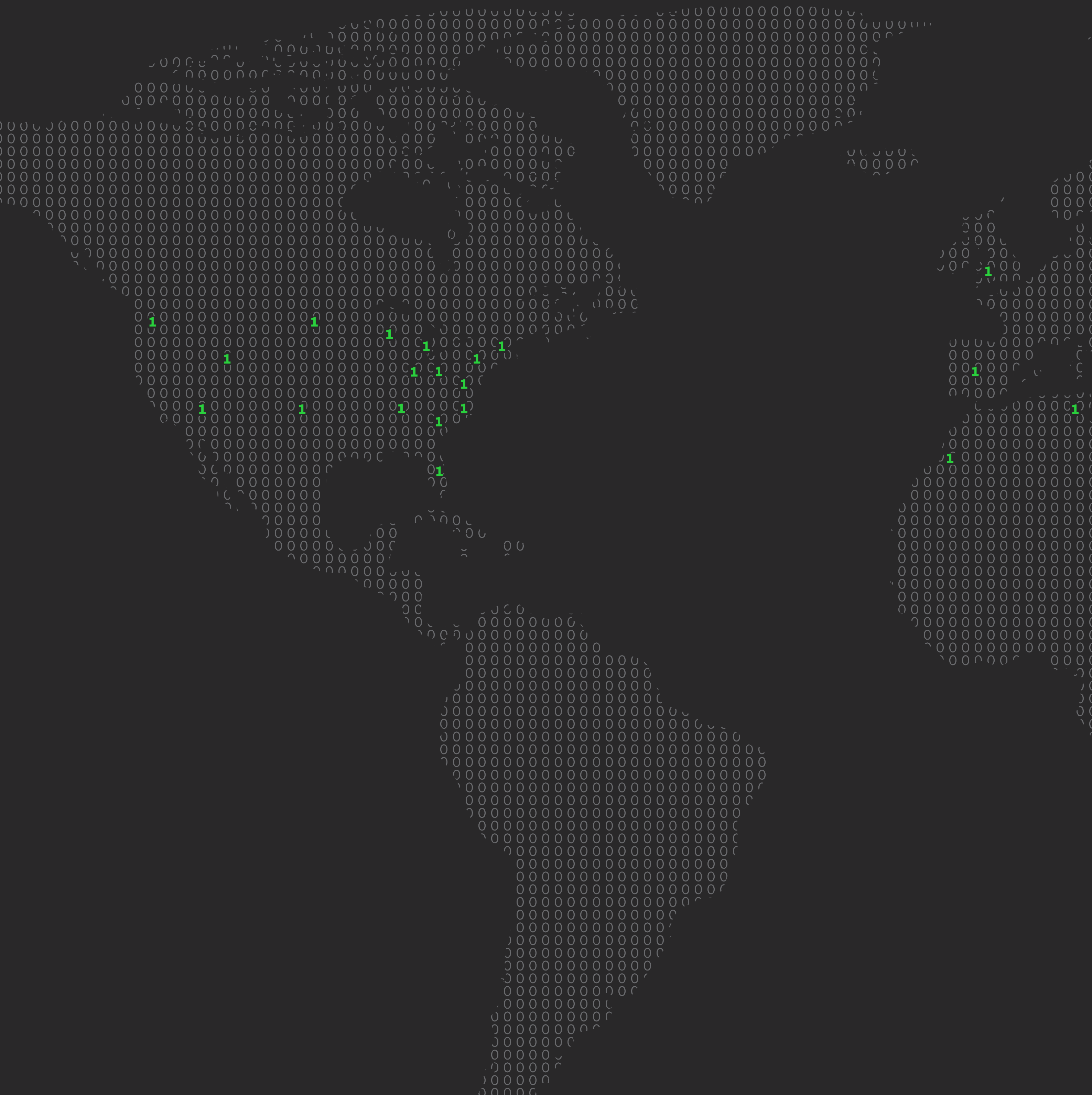

95
BPM
99 BPM, 1m ago

Our values //Human-focused, driven to advance

The GFH Brand is guided towards its vision by three values which can be summarised as: Diligent, Honest and Smart. These three core principles drive our brand culture forward and help us to create unity and cohesion.

GFH Financial Group

Headquartered in Bahrain with an investment footprint spanning three continents.



Americas	Europe	Africa	Middle East	Asia
USA	Spain	Egypt	Bahrain	India
	UK	Libya	KSA	
		Morocco	Kuwait	
		Tunisia	Oman	
			UAE	

Our brand progresses through innovations that are in alignment with our Islamic principles as well as our global responsibilities.


e
s
g

What we are doing
+
Impact it is having

putting environmental social and governance criteria to work

A special report

How we are applying ESG principles across our business

ESG issues are a key investment consideration for GFH, and we are increasingly applying these factors as part of the underwriting and investment decision-making processes specifically as they relate to sustainability.

During 2021, we achieved 91% of our ESG goals, a 7% greater achievement than our stated yearly target of 85%.

91%

At GFH, our business implies responsibility for the communities we are a part of. Since the day of our inception, we have implemented a range of initiatives related to the environmental, social and governance (ESG) of operations and activities aimed at creating a lasting positive impact. To effectively manage and realise the maximum value we can obtain from these initiatives, we are advancing through to implement formalised ESG policies and frameworks.

This ESG section presents an overview of our approach towards sustainability management, including a snapshot of our new ESG framework, along with our 2021 sustainability performance. This information presented covers the activities of the GFH Financial Group and its portfolio.

We will continue to pursue opportunities in resilient sectors including healthcare, education, technology, and infrastructure with ESG issues as a key consideration. These sectors are better positioned to withstand potential economic uncertainties or downturns, are resilient, and create sustainable value for the future.

GFH's ESG Framework

At GFH, we are driven by the vision of discovering, innovating, and realising value potential across our business lines – and we recognize we can only do this by creating value for all of our stakeholders with a robust, sustainable business model.

Globally, we are at a crossroads to address environmental and societal issues such as climate change, poverty, and biodiversity loss as we collectively have to act in the next decades to minimise massive potential negative impacts on communities and natural life.

The ESG Framework we built is aligned with GFH's vision, values, and ESG commitments. We aim to integrate sustainability across our day-to-day activities, operations, and investment decisions.

Through rigorous monitoring, responsible investment decisions and continuously improving our sustainability performance, we strive to create sustained positive impact. This will unlock value realisation for us and help reach the brighter future we envision.

Bahrain Vision 2030	**Environment**	**Society**	**Governance**
GFH's Contributions	We are committed to protecting the Environment	We are dedicated to community & Social development	We adopt best practices & good Governance

Aligning with National Priorities
We have aligned the GFH ESG management process with the national visions of Bahrain by incorporating key components of the Bahrain Vision 2030 which outline a sustainable path for the future. The vision sets out the Kingdom's importance on the global stage while providing insight into its unique challenges, culture, and opportunities.

Our ESG activities are positively contributing towards 13 out of 17 of the United Nation's Sustainability Development Goals

ESG Framework Pillar	SDG Goals we are Pursuing				
We are committed to protecting the **Environment**	Goal No. 06 Clean Water & Sanitation	Goal No. 07 Affordable & Clean Energy	Goal No. 09 Industry, Innovation & Infrastructure	Goal No. 12 Responsible Production & Consumption	Goal No. 13 Climate Action
We are dedicated to community and **Social development**	Goal No. 03 Good Health & Well-being	Goal No. 04 Quality Education	Goal No. 05 Gender Equality	Goal No. 08 Decent Work & Economic Growth	Goal No. 10 Reduced Inequalities
We adopt best practices & good **Governance**	Goal No. 08 Decent Work & Economic Growth	Goal No. 10 Reduced Inequalities	Goal No. 16 Peace, Justice & Strong Institutions		

Contribution to the SDGs

As we expand our horizons to contribute to a more sustainable future, we have taken United Nations Sustainable Development Goals (SDGs) as a guide to our ESG management. To fulfil the ambitions of the SDGs, it is vital that the business world also contributes, and we are fully committed to play our part. In line with the sectors we operate, we have prioritised the SDGs that we can contribute to.

We are committed to protecting the environment

GFH aspires to act in a manner that minimises the detrimental environmental impacts of its operations.

At GFH, we are aware that building a strong and dependable business performance is linked to ensuring the protection of the environment. In line with our vision, we utilise innovative tools to limit the environmental impact of our business activities, which includes minimising energy consumption, water consumption and waste generation.

We strive to manage and continuously improve our environmental footprint systematically, ultimately contributing to preserving the natural environment in places we operate at, and the long-term success of our business.

Environmental Management

We believe that tackling environmental issues, such as climate change, environmental degradation and pollution should be part of every responsible business' agenda. GFH aspires to act in a manner that minimises the detrimental environmental impacts of its operations.

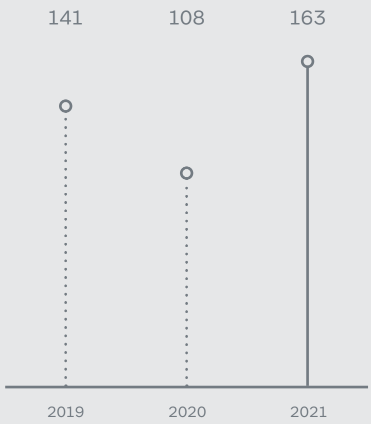
Due to COVID-19's impacts we have decided to respond with an accelerated change in our office operations and processes. With numerous employees working remotely, we altered our internal processes by introducing new paperless ways of working and digitised processes. This includes implementing document management tools, reducing paper flow between us and our stakeholders, encouraging and facilitating paperless collaboration and communication between our department including the introduction of e-signature tools, and the circulating of digital versions of newspapers and magazines. This shift has led to a significant reduction in our paper waste and shifted our operational efficiency.

As part of our investment approach and its indirect impacts, we consider helping minimise the footprint of our investee companies as part of our overall responsibility. Thus, we encourage our investees to manage their environmental impacts in a systematic manner and pursue measures that continuously improve their respective environmental performances. Examples of some of the best practices adopted by GFH investee companies are available on our ESG webpage on the GFH website.

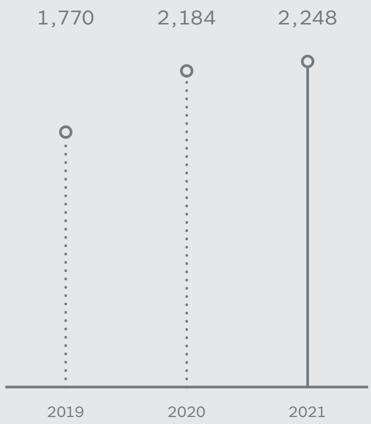
Energy Management

To reduce climate impacts and increase operational efficiency, we regard energy management crucial. We strive to reduce our environmental footprint due to energy consumption by combating energy waste by raising awareness, investing in energy efficiency measures, and continuously tracking our performance. Our efforts in this regard helped us reduce our energy intensity by approximately 4% from 2020 to 2021.

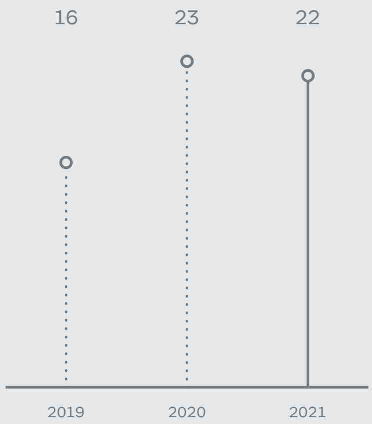
Energy Consumption



Direct energy consumption-operations and vehicles (GJ)



Indirect energy consumption-electricity (GJ)



Energy intensity (GJ/employee)

We strive to reduce our environmental footprint due to energy consumption by combating energy waste, investing in energy efficiency measures, and continuously tracking our performance. Our efforts in this regard helped us reduce our energy intensity approximately by 4% from 2020 to 2021.

2021. Energy Intensity
22 GJ/Employee

(4% Reduction)

2020. Energy Intensity
23 GJ/Employee

We are dedicated to community + social development

GFH's investment decision making is in accordance with our ambition to transform the daily lives of the communities we belong to.

Total Workforce

Workforce Gender

Senior Management

Middle Management

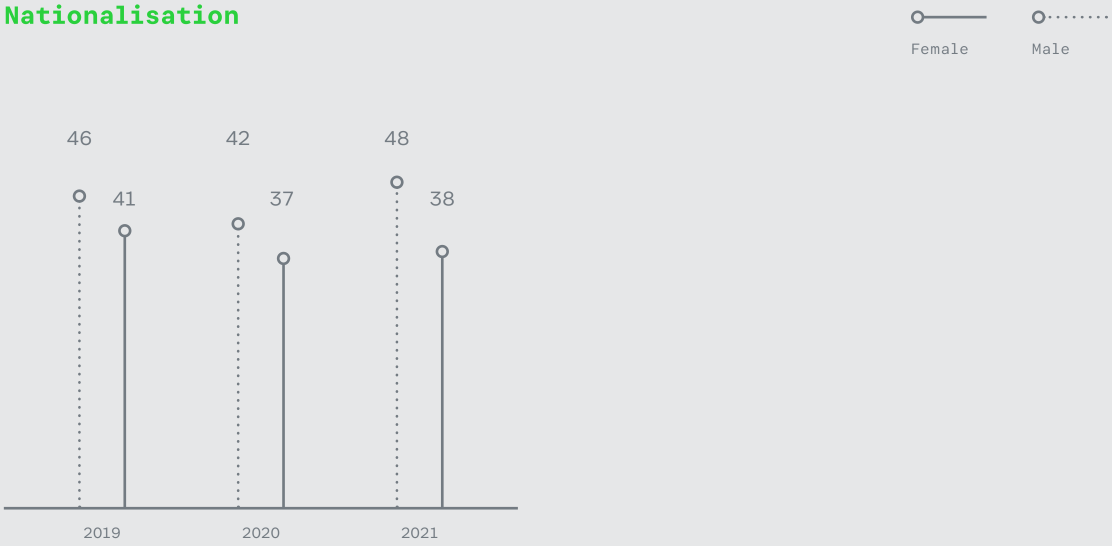
Other Levels

Gender Profile

We are committed to creating sustainable wealth for our stakeholders, primarily our employees, investors, and the communities we serve every day. We regard building a workplace environment that fosters equality, employee wellbeing, development, and satisfaction as a crucial part of this commitment.

In 2021, we achieved a 150% increase in the number of women hired, compared to 2020. In addition to this, the number of employees who left the company was reduced by 42% in the same time frame.

Nationalisation



Nationalisation
In line with national agendas, GFH takes affirmative actions in hiring decisions. Employment decisions are made on merit and many other objective criteria, yet for candidates of similar calibre, this gives Bahraini citizens priority over others when making hiring decisions.

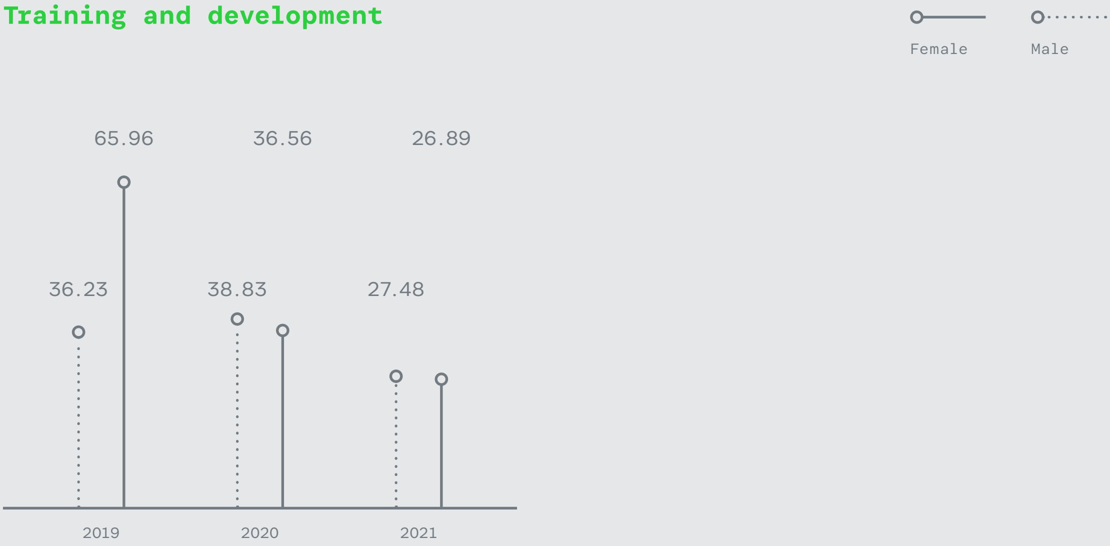
In coordination with the Bahrain Institute of Banking and Finance, we select top Bahraini prospects to undergo a unique learning journey designed to provide selected participants with the necessary tools and learning exposure to launch a successful career, while creating a pool of high-performance future talent.

Diversity and Inclusion
GFH is committed to maintaining an equal opportunity workplace and ensuring diversity and representation across roles and responsibilities. We strive to bridge the gender gap and commend Bahrain's leadership for emphasising the role of women in advancing Bahraini society. As we aim to balance our workforce gender ratio, we are creating more opportunities for female employees each day. In 2021, 43.5% of our new hires were women. We also participate in a number of initiatives and events to raise awareness around gender equality and women empowerment.

In 2021, we participated in Bahrain Bourse's "Ring the Bell for Gender Equality" event, hosted in conjunction with International Women's Day, an international ceremony aimed at raising awareness on gender equality and Bahrain's vital role in its advancement. The event provided female employees an opportunity to participate in a virtual session on "Women Leadership in Finance", organised by the Bahrain Institute of Banking & Finance (BIBF) in collaboration with the CFA Society Bahrain.

In 2021, our education investment arm Britus Education held a high-level roundtable on the "Power of Education on Gender Balance", in partnership with the Bahrain International Federation of Business & Professional Women (BPW) and Finmark Communications, to discuss the critical role that education plays in supporting gender equality and empowering women in all levels of social and professional spheres.

Training and development



Employee Engagement and Wellbeing

At GFH, we care about our employees' satisfaction and wellbeing, as these are crucial indicators of a well-functioning business. We are utilising several tools to drive employee engagement higher and reduce turnover levels. Retaining our talents is among our priorities and in 2021, we have managed to reduce the turnover rate significantly, compared to the previous year.

In 2021, we launched our Career Development Program for all our employees. The objective of the program is to provide greater opportunities for managers to encourage the development of those they supervise. The program focuses on supporting employees in gaining new skills, while fostering excellence and adding value to GFH, and also helps them stay on track and move forward their careers enriched. The Plan is composed of short and long-term employee goals, pertaining to their current and/or future jobs, and a planned sequence of formal and informal experiences to assist them in achieving their goals. These goals are linked to each person's strengths and potential to ensure that their career expectations are ambitious yet realistic. It involves the action plan/learning and development framework for advancing the employee's career. It is a key element of our strategy to secure high levels of employee morale. In 2021, we organised a "Wellness at Office" live fitness session for our employees to raise awareness and promote health and wellness among the workforces.

Training and Development

We are aware that training and upskilling is an essential and continuous process for employees at every level to utilise their potential towards their personal development objectives and GFH's sustained success. Hence, we invest in our employees' career development, which covers providing training, providing funds, time and resources for external training and other opportunities. GFH also provides employees with paid time off for attending training courses, appearing for exams, professional certification programs, and relevant industry conferences and events. All employees are encouraged to pursue career development opportunities. In this respect, it is among line managers' responsibilities to help employees and to ensure all employees receive fair opportunities for career development opportunities.

2021
Female Employees Hired
43.5%

2021
Male Employees Hired
66.5%

As we aim to balance our workforce gender ratio, we are creating more opportunities for female employees each day. In 2021, 43.5% of our new hires were women.

In 2021, our community investments totalled over 740,000 BHD. We target to boost our community investment as a percentage of company revenue to 1%.

Procurement

Health and Safety

We regard presenting a healthy and safe work environment as an indispensable component of a successful business. We take reasonable precautions to promote health and safety in the workplace and create safe working conditions for all employees. This includes providing adequate control of the health and safety risks arising from work activities, especially during the COVID-19 pandemic, maintaining safe equipment and ensuring the safe handling of all equipment. We provide training, instructions, and supervision for all employees in line with our Health and Safety Policy that is applicable to all our employees.

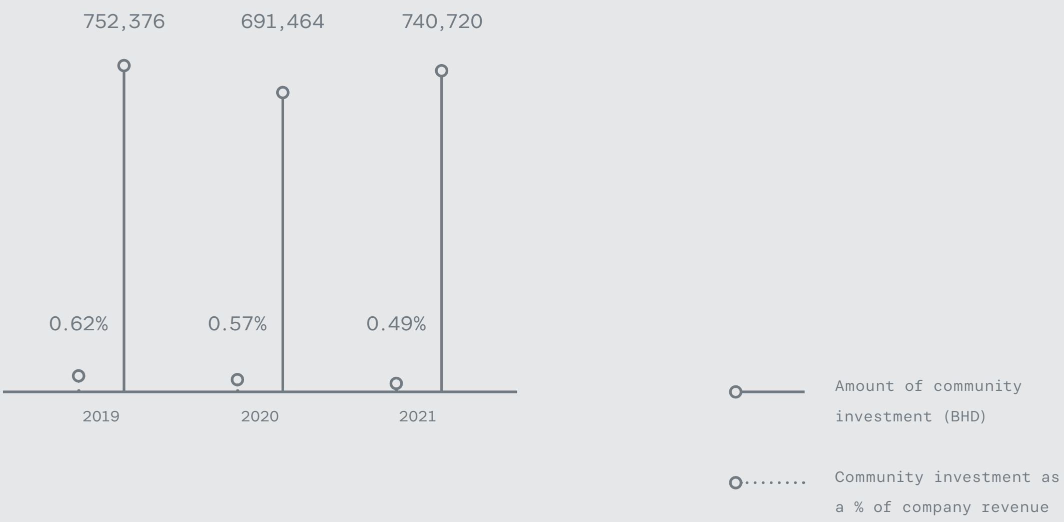
Sustainable Procurement

We are committed to realise value not only in our own activities but also in our supply chain. We support fundamental human rights and avoid participating in business activities that abuse human rights. We endorse responsibility in our procurement practices and choose to work with local suppliers whenever appropriate to support community development and reduce environmental impacts.

Customer Relations

We attach great importance to customer satisfaction, and we always strive to improve our practices in line with their feedback. We partially launched our online portal to enhance customer experience and facilitate the feedback collection process. In 2021, we received no customer complaints. We are also working on an automated satisfaction survey directed at the investors and we aim to activate this initiative in 2022.

Community investment



Community Investment
GFH culture encourages the support of charitable, educational and community service activities. Similar to our responsible investment approach, with our community investments, we aim to transform the daily lives of the communities we serve. We continue to provide support to numerous charitable organisations, causes and other social infrastructure and services providers as part of our responsibilities ranging from educational sponsorships to medical equipment for hospitals and financial support to the financially disadvantaged in an effort to support pay back to the community and improve the services provided to it.

In 2021, we sponsored a floor at the BIBF's new world-class campus at the Bahrain Bay. With BIBF's status as a leading training institute and an institution vital to human capital development in Bahrain's banking and finance sector, the sponsorship is in line with our focus on education to create shared value. It also comes as part of our commitment to support socially impactful initiatives that have a lasting positive effect on the Kingdom of Bahrain.

In 2021, our Group Chief Operating Officer Salah Sharif joined His Excellency Shaikh Mohamed bin Duaij Al Khalifa in signing a partnership agreement between GFH and the Bahrain Paralympic Committee for the Bahrain 2021 Asian Paralympic Games for Youth, under the patronage of His Highness Shaikh Nasser bin Hamad Al Khalifa, Representative of His Majesty the King for Charity Work and Youth Affairs. We are proud to play a substantial role in supporting local athletes and sporting institutions, and in empowering para-athletes to pursue continued success in their chosen fields.

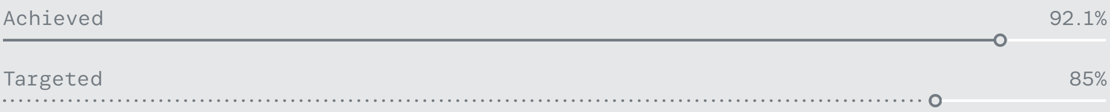
We adopt best practices and good governance

esg

GFH has clear goals for the good governance of the business and is well on track to achieving our stated goals.

We have achieved 92.1% of our 2021 Internal Audit Plan versus our target of 85%. Our Internal Audit Department (IAD) also underwent an external quality assurance review conducted by an independent third party. Under the supervision of the Board, IAD utilised the results to create a detailed action plan.

IAD Goals



Our Workforce

Being open, transparent, and straightforward in every aspect of our business is part of our workplace culture. To operate without any compromise and to continuously improve, we implement and regularly update strategies and policies that are aimed at complying with the Group's regulatory and supervisory responsibilities.

Our ambition to achieve the highest levels of transparency, accountability and management is bolstered by our robust corporate governance framework, which is designed to support us in meeting our strategic objectives, as well as the interests of our key stakeholders. Our Corporate Governance framework is aligned with the applicable regulatory requirements and is focussed on assisting us to successfully meet our strategic objectives, maintain steady growth and ensure we effectively serve our clients' and shareholders' interests. Our Board of Directors has 10 members, out of which six are independent and two are non-executive members. Our Group's control functions all have direct reporting lines to the Board's Audit and Risk Committee to ensure that they carry out their responsibilities with full independence. For more information on our governance systems and relevant boards and committees, please refer to the GFH 2021 Corporate Governance Report which is included on page 110.

Anti-corruption, anti-money laundering and anti-bribery

In line with our corporate culture and values, honesty is of the utmost importance to us. GFH is committed to ensuring regulatory compliance to combat corruption, money laundering and bribery, supporting international and local efforts to eliminate corruption and financial crime. Acting ethically and our dedication in good governance measures is reflected in our Director's Code of Conduct, Conflict-of-Interest Policy, AML, CFT and KYC Policy Statement, Anti-money Laundering (AML) Questionnaire, Whistleblowing Policy, Anti-bribery Corruption Policy and Gift Policy. These policies are publicly available on the GFH website.

We use various tools such as monitoring, due diligence, internal and external audits and comply with AML standards in line with the Financial Action Task Force (FATF) recommendations. With our diversified portfolio continuously expanding, the role of our Risk Management Department evolves and elevates to ensure these risks are effectively managed. GFH also has strictly confidential whistleblowing channels (e-mail, fax, post, courier/manual delivery) for anonymously reporting potential violations of these policies. We guarantee our employees that there will be no retaliation against anyone because he or she, in good faith, reports an ethics or compliance concern.

Anti-discrimination

Our Anti-discrimination Policy assures respect for the personal dignity, privacy, and personal rights of every employee. At GFH, we are committed to maintaining a workplace free from discrimination and harassment. In accordance with this, discrimination on the basis of origin, nationality, religion, race, gender, age, or engagement in any kind of verbal or physical harassment based on any of the above or any other reason is not tolerated. Employees who feel that their workplace does not comply with the above principles are encouraged to raise their concerns with the HR Department. These concerns or occurrences are dealt with in line with our Grievance Policy.

Data privacy

GFH aims to use digital technologies to its fullest extent to capitalise on the endless opportunities they offer. However, we are aware of the security and confidentiality risks these new technologies present.

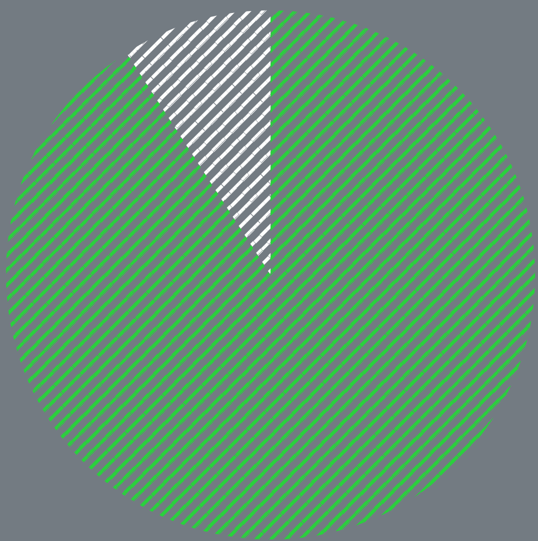
We regard data privacy and security as one of our crucial duties towards our clients and society as a whole for maintaining the trust in our Group, thus for the sustainability of our activities. To manage these risks effectively, we follow a comprehensive privacy framework, the GFH Data Privacy Manual, prepared and updated in accordance with international regulations and standards. This manual outlines the guidance for obtaining the informed consent and for providing the notice for collecting and processing sensitive personal data.

GFH has appointed a Data Protection Officer, who is appointed by the management (subject to Board or Board Committee approval) to oversee our compliance with applicable data protection laws, other pertinent laws, and issuances by the Data Protection Authority on data privacy, and our Manual. For promoting a privacy culture and continuously improving our privacy performance, we provide new and existing employees trainings, set data security related KPIs to monitor compliance with the data privacy requirements for relevant personnel and submit periodic reports to the Management on latest developments in legislation, training, privacy resourcing and funding, violations, and breaches if any, and results of audits on the methods and means of processing.

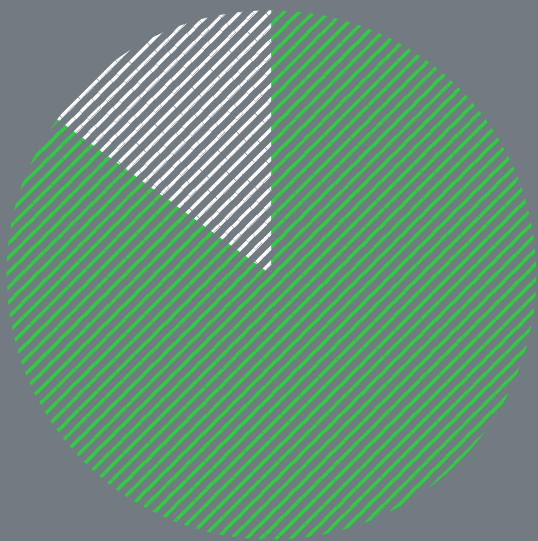
GFH aims to use digital technologies to its fullest extent to capitalise on the endless opportunities they offer. However, we are aware of the security and confidentiality risks these new technologies present.

GFH is committed to achieving its stated ESG goals, not because we seek compliance, but because we seek to be a good corporate citizen, helping to achieve a sustainable future for the generations that follow.

Targeted
~85%



Achieved
>92%



We would like to thank all our stakeholders for their contribution in making our community a better place to live and work.

101110011001101010101010001110010101010101010101000101
1010101010101010101010101010101010101010101010101010
1001001101010100101010101010111001010001010110010100
01001001010010101001001010010100100100101001001001
101110011001101010101010001110010101010101010101000101
1010101010101010101010101010101010101010101010101010
1001001101010100101010101010111001010001010110010100
01001001010010101001001010010100100100101001001001
101110011001101010101010001110010101010101010101000101
1010101010101010101010101010101010101010101010101010
1001001101010100101010101010111001010001010110010100
01001001010010101001001010010100100100101001001001
101110011001101010101010001110010101010101010101000101
1010101010101010101010101010101010101010101010101010
1001001101010100101010101010111001010001010110010100
01001001010010101001001010010100100100101001001001
101110011001101010101010001110010101010101010101000101
1010101010101010101010101010101010101010101010101010
1001001101010100101010101010111001010001010110010100
01001001010010101001001010010100100100101001001001
101110011001101010101010001110010101010101010101000101
1010101010101010101010101010101010101010101010101010
1001001101010100101010101010111001010001010110010100
01001001010010101001001010010100100100101001001001
101110011001101010101010001110010101010101010101000101
1010101010101010101010101010101010101010101010101010
1001001101010100101010101010111001010001010110010100
01001001010010101001001010010100100100101001001001
101110011001101010101010001110010101010101010101000101
1010101010101010101010101010101010101010101010101010
1001001101010100101010101010111001010001010110010100
01001001010010101001001010010100100100101001001001
101110011001101010101010001110010101010101010101000101
1010101010101010101010101010101010101010101010101010
1001001101010100101010101010111001010001010110010100
01001001010010101001001010010100100100101001001001
101110011001101010101010001110010101010101010101000101

People + Performance
Section 02/6

2021 was a year unlike any other in our 22 years of successful operation in Bahrain and beyond. Working together, under the technical guidance of our leaders, we overcame the adversities and lived up to our reputation for being at the cutting edge of regional finance.

02

Our Sharia Supervisory Board //Maintaining our connection

Our group relies on the counsel of our expert Sharia board members for advice and guidance in ensuring Sharia principles compliance across all GFH activities and entities.

The Sharia Supervisory Board reviews the Group's activities and products to ensure that all innovative products and investment transactions comply fully with the rules and principles of Islamic Sharia, provides the Group with pragmatic Sharia opinions, approves the Group's financial statements, and participates with management in the development of suitable investment products and services that support the Group's vision to develop a high-growth, diversified investment and commercial portfolio.

The Sharia Supervisory Board has full access to the Board and management personnel of the Group. This includes access to the Sharia Internal Audit department and Sharia Coordination and Implementation department whom are proactively involved in reviewing and advising on the Sharia compliance of all products and investment projects, auditing the operations of the Group from a Sharia point of view, and producing reports to the Sharia Supervisory Board in order to ensure that the Group's activities are under oversight of Sharia guidelines.

The existence of the Sharia Supervisory Board contributes towards the assurance of our shareholders and investors, and without any doubt, their confidence which is one of the most important success factors for the Group.

Shaikh Abdulla bin Sulaiman Al-Maine
Chairman

Consultant to His Majesty the Custodian of the Two Holy Mosques with the rank of Minister, member of Grand Scholars Panel, Kingdom of Saudi Arabia and an expert of the Islamic Fiqh Academy. He is also a retired judge of the Supreme Court in Makkah Al-Mukarramah in the Kingdom of Saudi Arabia, and a member of the Sharia supervisory boards of a number of Islamic banks and financial institutions.

Dr.Fareed Mohammed Hadi
Executive Member

Dr. Hadi is Assistant Professor at the College of Arts in the Department of Arabic and Islamic Studies at the University of Bahrain. He holds a PhD in Ibn Hazm's Methodology of Jahala from Edinburgh University and a PhD in Al-Bukhari's Methodology from the University of Mohammed V in Morocco. Dr Hadi is also a member of the Sharia supervisory boards of a number of leading Islamic banks.

Shaikh Nidham Mohammed Saleh Yaquby
Member

Sh. Nedham holds a number of memberships on different sharia board of different institutions such as: executive member of Abu Dhabi Islamic Bank, member of Bahrain Islamic Bank, Shamil Bank, a board member of the Dow Jones Islamic Index and a member of a number of other leading Islamic banks.

Dr. Abdulaziz Khalifa Al-Qassar
Member

A Professor at the College of Fiqh and Department of Sharia and Islamic Studies at the University of Kuwait, Dr. Al Qassar holds a PhD in law and Sharia from Al-Azhar University in Cairo. He is also a member of the Fatwa and Sharia supervisory boards of a number of institutions in Kuwait.

Board of Directors //Technical Experience Personal Approaches

60

$ Million

In 2021, $60 million of dividends was distributed to investors at 6.07% at par value.

With decades of experience in a wide range of industry backgrounds, our Board of Directors possess the skills and expertise to guide our Group's long-term growth as we diversify further into more technology-based investments.

Jassim is known for his dynamic & innovative approach, having pioneered several highly profitable investment strategies across the region

Jassim Alseddiqi
Chairman,
Non- Executive Director,
30 Sept 2020

Jassim Alseddiqi is the Group Chief Executive Officer of SHUAA Capital, the leading asset management and investment banking platform with c. $13 billion in assets under management.

Jassim is known for his dynamic and innovative approach, having pioneered many investment strategies across the region. With over 17 years of experience, he is currently the Chairman of GFH Financial Group, Islamic Arab Insurance Company (SALAMA), Eshraq Investments, Khaleeji Commercial Bank and The Entertainer. He also serves on the boards of First Abu Dhabi Bank (FAB), Dana Gas and Abu Dhabi Chamber of Commerce and Industry.

Jassim holds a BSc in Electrical Engineering from the University of Wisconsin-Madison and an MSc in Electrical Engineering from Cornell University. He has also served as a noted lecturer at the Abu Dhabi-based The Petroleum Institute.

Hisham Alrayes
Member & Group CEO, Executive Director,
30 Sept 2020

Hisham Alrayes is leading the Group forward towards its vision of becoming the region's most prominent, diversified financial Group, and one that provides a remarkable platform for delivering superior Wealth Management, Commercial Banking and Asset Management services. With over 23 years of experience, Hisham brings extensive expertise and banking knowledge to the Group and was instrumental in driving the development and execution of the Group's regional and international investment strategy. Hisham currently chairs and holds a number of directorships in financial, Industrial and real estate companies including Esterad Investment Company, Khaleeji Commercial Bank, GFH Capital GBCORP and Infracorp.

Hisham holds a Master's degree with honors in Business Administration from the University of DePaul, Chicago (USA), and a Bachelor's degree in Engineering with honors from the University of Bahrain. In 2021, Hisham was ranked 'One of the top listed CEOs' in CEO Today Middle East Awards, 'Best CEO in Investment Banking Sector-Bahrain 2021' from the Global Economics. And during 2020, Hisham received 'Banker of the Year' in the MEA Finance Awards 2020 in recognition of his role in steering the Group's diversification strategy which has seen the Group expand its business lines and geographic reach, while remaining resilient in the face of unprecedented market conditions. He was also ranked one of the top CEOs in Financial Services & Investments in 2019, and named 'Investment Bank CEO of the Year' at CEO Middle East 2019.

Ghazi Faisal Ebrahim AlHajeri
Member, Independent Director,
30 Sept 2020

Mr. Ghazi Al Hajeri is the CEO of Wafra International Investment Company, a Kuwait-based asset management company with $7BN in AUM. Bringing 22 years of experience to his role, he is in charge of overall corporate direction and proprietary investments, Mr Al Hajeri leads the company's transformational growth strategy. Prior to that, Mr Al Hajeri occupied the role of deputy CEO at Touristic Enterprises Co., an entity owned by the Kuwait Investment Authority and the oldest and largest provider of recreation and entertainment in the State of Kuwait. Mr. Al Hajeri was responsible for the group's facility operations and development.

Mr. Ghazi Al Hajeri held the position of Managing Director for Wafra InterVest Corp. He established Wafra's regional office in 2007 and remained its Regional Director until 2017. Mr. Al Hajeri was responsible for firm's regional business strategy and product development and served as a corporate liaison with the firm's largest clients.

Mr. Ghazi Al Hajeri was responsible for directing the firm's largest client relationships. He devised strategic plans to grow the firm's expansion in assets from $7 billion to $20 billion in a period of 10 years. Mr. Al Hajeri managed complex projects for sovereign wealth and pension clients that included asset allocation, business development and investment planning.

Mr. Al Hajeri was a member of the Alternative Investments Division Investment Committee and responsible for reviewing and monitoring external investment managers while directing departmental strategy at Wafra Investment Advisory Group in New York from 2000 – 2006.

Mr. Al Hajeri holds a Bachelor's degree in Science in Business Administration from the University of Denver.

Rashid Nasser Al Kaabi
Member, Non-Executive Director,
30 Sept 2020

Rashid Nasser Sraiya Al Kaabi is a member of the Board of Directors at Qatar Chamber of Commerce and Industry (QCCI) and Chairman of the industry committee at QCCI.

With over 21 years of experience, Rashid has become one of the most outstanding and youngest Qatari Businessmen to achieve an esteemed reputation both nationally and internationally. His business career started in 1995 and by 2019, he has managed to expand the business well into new horizons. With his keen expertise new businesses have been launched across Qatar, USA, United Kingdom, Germany, Poland, Turkey, UAE and Oman across all 5 sectors of Al Sraiya Holding's engineering, hospitality, industrial, trading, education and general services groups, whereby he serves as the Vice Chairman and CEO.

Rashid believes administrative and legitimate expertise are essential for the success of a business. Smart, reliable, profitable and consistent business decisions are the outcome of Rashid's eye for business opportunities, expertise in negotiations, wealth of knowledge, integrity, values, and a drive for a better future.

As a visionary businessman, Rashid is always on the lookout for future business opportunities that will enlarge the Group's portfolio. As a vivid man of values, the importance of family owned and managed companies is held high as he believes they play a major role in managing private economic enterprises in Qatar, the Gulf region, and beyond. Family owned businesses adhere to the quality of administrative and financial systems compatible with the standards of transparency and responsibility towards society, as a family is towards itself. It is the family company that guarantees survival and sustainability across time because of the shared appreciation of the journey of noble success through dedication, inspiration, innovation, virtue, and wisdom.

Ahmed Abdulhamid AlAhmadi
CFA*- Member, Independent Director,
30 Sept 2020

Ahmed AlAhmadi serves as an Independent Director on the Board of GFH Financial Group and is currently part of Rothschild & Co., a multinational investment bank and financial services company. He is an investment professional with robust analytical skills and a passion for business.

With over 7 years of experience and a strong professional and academic profile that is recognized by the broader regional business community, Ahmed was involved in sourcing global opportunities and partnerships in the financial services space for a renowned sovereign wealth fund in Abu Dhabi. In his previous role under Mergers & Acquisitions, Ahmed applied his talents in executing a number of notable transactions, including the successful recapitalization of a NYSE-listed utilities company, minority acquisition of the leading telecommunication player in India, and successful construction of a diversified public equities portfolio during 2020. He consistently proves to be a fully rounded investment professional with a deep analytical and creative mindset.

Ahmed has also been involved in the energy and power industry in an asset management and advisory capacity. He previously served as a Director on the Board of SHUAA Capital PSC and Integrated Capital.

Ahmed is a CFA charter holder. He holds a First-Class Honours degree in Chemical Engineering (BEng) from University College London, and a Master's degree with Merit in Risk Management and Financial Engineering (MSc) from Imperial College London.

Ali Murad
Member, Independent Director,
30 Sept 2020

Fawaz Talal Al Tamimi
Member, Independent Director,
30 Sept 2020

Mr. Ali Murad is the Managing Director and Co-Founder of Pinnacle W.L.L., Bahrain. He also serves as a board member in several companies including EAT App, Wavepoint Publishing W.L.L and Alareen Holding Company.

Throughout the 20 years of experience in his career, Mr. Murad occupied several positions in the banking sectors before he moved into the private sector. He commenced his banking career at Arab Banking Corporation where he remained for five years. During this time, he held the position of credit analyst of ABC Islamic Bank EC, money market dealer and thereafter, as a deputy manager of the Treasury and Marketable Securities Department. Mr. Murad then joined Unicorn Investment Bank (now, Bank Alkhair) in the Investment Development and Distribution Department and later First Energy Bank as a director in Investment Placement, where he placed numerous financial products and services to high-net-worth individuals, governments and quasi-governmental Organizations, publicly listed and unlisted companies, as well as private banking clients. Mr. Murad was part of the investment team, where he also worked on tailoring customized investment products catering to the tough market conditions at the time. In 2010, Mr. Murad embarked in a career in the private sector and founded Pinnacle W.L.L. as a holding company for stakes in various sectors including technology, music publishing, real estate to name a few. He continues to explore, review and monitor active and potential investments both regionally and internationally.

Mr. Murad holds a Bachelor of Science and Business Administration in Marketing from Suffolk University, Boston, Massachusetts.

Holding a BSc. in Marketing from California State University in Los Angeles, Mr. Fawaz Al Tamimi is the Senior Vice President of Finance and Investment at Tamimi Holding with 11 years of working experience.

Mr. Al Tamimi is a Board member at Tamimi Group, Gulf Islamic Investment Company, Specialized Industrial Casting Company, Kingdom Holding Gulf Union Insurance, and Tamimi Markets, amongst others.

Alia Al Falasi
Member, Independent Director,
30 Sept 2020

Edris Mohammed Rafi AlRafi
Member, Independent Director,
27 Dec 2020

Alia Al Falasi serves as Legal Counsel in the financial investment arm of one of the UAE's leading sovereign wealth funds, with an AUM of over $200bn. With 15 years of working experience, she is responsible for transaction execution and the oversight of investments, from a legal and governance perspective, with a focus on investing in China, France and Russia. Within this geographic focus, Alia has experience investing across a variety of asset classes, including publicly traded equities, private equity, venture capital and real estate, in addition to experience with working across a broad range of industries such as healthcare, TMT, financial services and consumer goods, among others.

In the past years, Alia was a leading member of a team that closed deals with an invested amount greater than $1bn.

Alia has served as an Investment Committee member, responsible for screening opportunities, portfolio management and making strategic and investment decisions within the broader business unit she serves at, overseeing an investment portfolio of more than $20bn.

Alia is admitted as a solicitor in the Senior Courts of England and Wales. She holds a BSc in Management with Law from the University of London, in association with The London School of Economics and Political Science.

Edris Al-Rafi is the Head of Middle East & Africa at Aberdeen Standard Investments and prior to that he served as Chief Executive Officer at Dubai Holding LLC and Chairman of Aurum Leasing Limited. Edris has held various senior leadership roles such as the Chief Commercial Officer at Meraas Holding and the Head of UAE at Goldman Sachs. He joined Goldman Sachs in 2008 to manage Sovereign Wealth Funds, UAE Commercial Banks & large UAE corporate clients including GREs for Investment Banking and Securities businesses. Before that, he served as General Manager at First Gulf Bank and he was also on the Board of Noor Bank PJSC & Emaar Industries & Investments (Pvt) JSC. Mr. Al-Rafi has more than 20 years of experience in investment banking, private equity, hospitality and real estate development. Edris holds a Finance degree from the Higher Colleges of Technology (HCT).

Executive Team
//Technical Experience Personal Approaches

19

Years

Our board's team comprises of esteemed experts and leaders, averaging 19 years of experience from a diverse range of industries and backgrounds.

With over 23 years of experience, CEO Hisham Alrayes brings extensive expertise and banking knowledge to the Group and was instrumental in driving the development and execution of the Group's regional and international investment strategy.

Hisham received 'Banker of the Year' in the MEA Finance Awards 2020 in recognition of his role in steering the Group's diversification strategy

Hisham Alrayes
Chief Executive Officer &
Board Member,GFH Financial Group

Hisham Alrayes is leading the Group forward towards its vision of becoming the region's most prominent, diversified financial Group, and one that provides a remarkable platform for delivering superior Wealth Management, Commercial Banking and Asset Management services. With over 23 years of experience, Hisham brings extensive expertise and banking knowledge to the Group and was instrumental in driving the development and execution of the Group's regional and international investment strategy. Hisham currently chairs and holds a number of directorships in financial, Industrial and real estate companies including Esterad Investment Company, Khaleeji Commercial Bank, GFH Capital, GBCORP and Infracorp.

Hisham holds a Master's degree with honors in Business Administration from the University of DePaul, Chicago (USA), and a Bachelor's degree in Engineering with honors from the University of Bahrain. In 2021, Hisham was ranked 'One of the top listed CEOs' in CEO Today Middle East Awards, 'Best CEO in Investment Banking Sector-Bahrain 2021' from the Global Economics. And during 2020, Hisham received 'Banker of the Year' in the MEA Finance Awards 2020 in recognition of his role in steering the Group's diversification strategy which has seen the Group expand its business lines and geographic reach, while remaining resilient in the face of unprecedented market conditions. He was also ranked one of the top CEOs in Financial Services & Investments in 2019, and named 'Investment Bank CEO of the Year' at CEO Middle East 2019.

Sattam Sulaiman Algosaibi
Chief Executive Officer,
Khaleeji Commercial Bank

Talal Al Mahroos
Acting CEO, GFH Properties

Sattam Algosaibi has over 23 years of banking experience occupying senior posts across several roles and responsibilities. Witnessing changing economic environments and evolving regulatory mindsets. This allowed him to have an in-depth understanding and practical knowledge in Islamic Banking and conventional commercial banking's best practices. Before joining KHCB, Sattam was appointed as Chief Executive Officer for Bahrain Development Bank Group in 2017 and prior to that, he spent over 12 years in Kuwait Finance House Bahrain BSC as an Executive Manager and Head of the Corporate Banking Group.

He holds a number of Board directorships in the banking, industrial and real estate sectors such as; Gulf Holding Company, Locata Corporation, Gulf Real Estate Company, Naseej BSC, Capital Real Estate Company and Al Areen Hotels WLL.

In addition to being a Board Member and Chairman of the Executive Committee of Seef Properties B.S.C. (c), Board Member of Binaa Al Bahrain BSC, Board Member of Lama Real Estate WLL and Board Member of The Bahrain Royal Golf Company.

Sattam sits on the Board of Bahrain Association of Banks and the Board of INJAZ Bahrain, a non-profit organization that aims to prepare and inspire the youth to succeed in the global economy.

He is also a member of the Board of Trustees of Ibn Khuldoon National School.

Sattam holds a Bachelor's degree in Accounting from 'King Fahad University of Petroleum and Minerals' and an MBA degree from 'DePaul University'.

Talal Al Mahroos is currently the Acting Chief Executive Officer of GFH Properties, bringing more than 16 years of experience in Banking, Strategic Investments and Financial experience to the organization. Alongside his current position, he is heading the Infrastructure Investments at GFH Financial Group with a portfolio size of $700 million under management.

Previous to joining the Group, Talal served as the Assistant General Manager of Investments in Khaleeji Commercial Bank (KHCB) where he was responsible for managing investment transactions and restructurings of corporate banking assets. Talal currently holds a number of Board directorships in Industrial and Real Estate companies including balexco, Gulf Holding Company (Kuwait), Falcon Cement Company and Capital Real Estate Projects Company.

Talal holds a Bachelor of Science in Banking and Finance from the University of Bahrain. He also received various executive training in Leadership and Finance from various educational institutes including London Business School (UK), Darden School of Business (USA) and Redcliffe Training Associates (UK).

Salah Sharif
Chief Operating Officer

Majed Abdulla Al-Khan
Chie excecutive officer, Gulf Holding

A key player in the strategic management of the Group's core operational functions, Salah Sharif, Chief Operating Officer of GFH, is also responsible for ensuring the highest standards of operational excellence across the Group and its Special Purpose Vehicles and Project Companies. He has more than 30 years of regional and international exposure to conventional and Islamic banking and finance, with experience across commercial and wholesale banking and in industrial and infrastructure advisory sectors. In addition to his executive role at the Group, Salah also serves on a number of investee company boards. He is the Chairman of Falcon Cement Company, Vice Chairman of Infracorp and Vice Chairman of Gulf Holding Company, and a Board Member of Khaleeji Commercial Bank, GBCorp and CapCorp.

Prior to his current role in GFH, Salah was seconded as the CEO of Cemena Holding Company (CHC), an industrial subsidiary of the Group, one of the largest cement holding companies in the MENA region. Previously, he held a number of senior roles in leading, global financial institutions, including American Express and Standard Chartered Bank where he held key executive positions.

Salah holds an MBA from the University of South Wales, UK. And most recently, he completed the Senior Executive Leadership Program offered by Harvard Business School, Boston, USA.

Majed Al Khan brings to GHC extensive real estate investment and development experience and is an expert financial engineer of Real Estate and Private Equity products with more than 1 million square meter of completed flagship developments under his leadership. Prior to GHC, Majed held senior positions in HSBC Middle East, Capivest Bahrain and Inovest Bahrain (formerly Tameer). Majed has been actively involved in finding and managing a number of prominent real estate ventures in the region, including Tala Island (Bahrain), Falcon Cement B.S.C (c) (Bahrain), Jawad International Fashion B.S.C (c) (Bahrain), Reef Financing Company B.S.C (c) (Bahrain), Bahrain Investment Wharf (Bahrain), Tamcoon Contracting (Bahrain).

Since joining the group Majed assisted in enhancing the financial, legal and investment position of GHC through restructuring the company's debt portfolio of $250 million, negotiating legal settlements exceeding $150 million and achieving milestone exits of the companies nonperforming assets.

Baha Al-Marzooq
Chief Internal Audit

Baha Al-Marzooq, Chief Internal Audit, has more than two decades of auditing and banking experience. He is supporting the Group's strategic success by ensuring a systematic and disciplined approach to internal control, risk management and governance processes; reporting to the Board Audit & Risk Committee to maintain the internal audit function independency from the Group's management.

Prior to joining the Group in year 2006, Baha has worked with Ernst & Young (EY) – Bahrain, one of the 'Big Four' global auditing firms for several years, as Manager in the Assurance Services during which he also served in other regional offices of EY such as Kuwait, Qatar and Houston Texas – USA. During his tenor with EY, Baha was in charge of auditing a number of clients from different sectors namely Islamic Banks, Conventional Banks, Investment funds, Insurance, Oil & Gas, Hospitality and Government sectors.

He holds a B.Sc. in Accounting from Bahrain University and is a Certified Public Accountant (CPA) California, USA in 2001. He holds an Executive MBA from the University of Bahrain in addition to a number of specialized professional qualifications including, Certified Internal Auditor, Chartered Global Management Accountant and has a Certification in Risk Management Assurance. He has also participated in several technical, business and leadership programs and lately completed the Senior Executive Leadership Program from Harvard Business School.

Hammad Younas
Chief Investment Officer – Private Equity

Hammad Younas is the Chief Investment Officer – Private Equity and leads the overall investment business of the Group including Private Equity, Corporate Investment and Asset Management. Hammad has more than 21 years of experience in corporate finance, investment banking, private equity, real estate, and asset management, and throughout his career he has led various regional and cross-border transactions in MENA, US, Europe and South Asia across multiple sectors and asset classes. His transaction experience includes mergers and acquisitions, IPOs, listings, secondary offerings, private placements and debt raising. In addition, he is a growth strategy and business development expert.

Prior to joining GFH in 2016, Hammad was a Partner at Ernst & Young MENA and their Transaction Advisory Leader for Bahrain. He was also the CEO of Ernst & Young Corporate Finance, Bahrain. Hammad spent more than 13 years with Ernst & Young advising a wide range of clients including financial institutions, sovereign wealth funds, private equity and real estate investment firms, governments, family businesses and high net worth individuals on their investment, capital raising, performance improvement, restructuring and strategy.

Hammad is a CFA charter holder from the CFA Institute USA, an ACCA from the Association of Chartered Certified Accountants of the UK, and ACA from the Institute of Chartered Accountants of Pakistan.

Nael Mustafa
Co-Chief Investment Officer – Real Estate

Mohammed Abdulmalik
Group Co-IPT Head – Placement & Relationship Management

Nael Mustafa is Co-Chief Investment Officer – Real Estate. He is responsible for executing the Group's global real estate investment strategy and oversight of its growing portfolio of assets across the Middle East, Europe and the US. Nael has more than 30 years of experience in investment banking with a proven record in regional and international investments. This includes deep expertise in capital markets, corporate finance as well as Sharia compliant alternative investments in North America, Europe and the Middle East.

Prior to joining GFH in October 2020, Nael spent 17 years at Arcapita in a number of senior positions. Most recently, he was Managing Director for Strategic Investments & Business Development, Member of the Global Investment Committee and Board Member on Real Estate Funds and Private Equity. In his role, he focused on expanding the firm's geographic footprint and product offering including managing strategic acquisitions of asset managers and specialised real estate general partners.

During his career tenure, Nael also served as the Head of Corporate Finance at SICO Bank, Bahrain responsible for regional and local transactions in addition to working with BNP Paribas and as a General Manager of TAIB Securities in Bahrain, a capital markets asset manager in Bahrain. Nael is a Charted Financial Analyst and holds a B.Sc in Accounting and Finance from the University of Bahrain and an MBA from Edinburgh Business School.

Mohammed Abdulmalik, Group Co-IPT Head of Placement & Relationship Management, shapes and implements placement strategies and develops business models designed to capitalize on current market dynamics and potentials. In addition to managing the placement function of the Group, he is currently a Board Member of Capital Real Estate Projects and Sheffield Private School.

A well-versed investment banker, Mohammed brings 22 years of industry experience, having held a number of roles both within GFH, where he leveraged his extensive network of HNWI, FI's and Sovereign Wealth Funds to market Group products and services and contribute to the investment placement business. Prior to joining the Group, he held a number of roles in financial control and auditing with Arthur Anderson, Ernst & Young, and HSBC. He holds a B.Sc. in Accounting from the University of Bahrain.

Razi Almerbati
CEO GFH Capital S.A. - Group Co-IPT
Head GFH Financial Group

Razi Almerbati is the CEO of GFH Capital S.A. and the Group Co-IPT Head of Placement & Relationship Management at GFH Financial Group. He brings to his role more than 16 years of experience in the banking and finance sector including a significant track record in Islamic investments and advisory. His areas of expertise include private banking and wealth management as well as private equity. Prior to joining GFH, Razi most recently served as Head of Investment Development & Distribution for the GCC region at The First Investor in Qatar, a subsidiary of Barwa Bank. Prior to that, he was Regional Director of the Investment Advisory Group of Abu Dhabi Investment House.

Razi currently holds Board Memberships in the following Companies:

- Esterad Investment Company
- Global Banking Corporation
- Falcon Cement Company

Dr. Mohamed Abdulsalam
Head of Sharia & Corporate Secretary

Head of Sharia and Corporate Secretary at GFH, Dr. Mohamed Abdulsalam supervises all Group transactions to ensure they are conducted in compliance and in accordance with the teachings of Islamic Sharia. Furthermore, Dr. Abdulsalam assumes the fiduciary duty of maintaining all records, meetings and minutes of GFH's Board and its committees in addition to moderating meetings, and managing all record keeping activities for GFH's project companies. He joined the Group in 2006 with 18 years of Sharia experience. Prior to GFH, Dr. Abdulsalam worked with other Islamic financial institutions in Bahrain. He was a Sharia Auditor at Kuwait Finance House (KFH) and an Internal Auditor at Bahrain Islamic Bank (BisB).

Dr. Abdulsalam obtained his bachelor's degree in Islamic Accounting in 2003 from Al-Imam Mohammed Ibn Saud University. He also holds an MBA in Accounting and Financial Control and a Ph.D. in Accounting from the United States, California. He has also pursued additional qualifications including a Masters of Sharia and Accounting Standards from AAOIFI, courses in Sharia Control Fatwa for Islamic banks as well as successfully completing the third module of the International Arbitration Certificate from Bahrain Chamber for Dispute Resolution (BCDR-AAA) in 2014. Passionate about his field, Dr. Abdulsalam regularly attends specialized courses covering topics such as: Sharia Auditing, Sharia Standards, Sharia Products and many others in order to expand his knowledge of Islamic finance on an ongoing basis.

Abesh Chatterjee
Head of Risk Management

Suryanarayanan Hariharan
Chief Financial Officer

Abesh Chatterjee is the Head of Risk Management at GFH Financial Group. He has over 13 years of experience in Risk management. As Head of Risk Management he is responsible for managing all type of risk including Credit, Market, Liquidity and Operational Risk across the Group and ensuring that the risk framework is effective. He is a part of Management level Committees and works closely with the Group's CEO and other members of the executive management team, while reporting independently to the Chairman of the Board Audit & Risk Committee of GFH.

Abesh began his journey as a risk management professional in India with ICICI Bank, the largest private sector bank in India. Later he shifted to Bahrain and managed the Risk management function of ICICI Bank Bahrain. He also worked as Head of Risk management in International Investment Bank, Bahrain. Besides Risk management, Abesh has also worked on other areas like ERP system development and Engineering during his stint with Infosys Technologies Limited and Larsen & Toubro Limited, two of the most prestigious companies in India. Abesh holds a post graduate diploma in Management from NITIE (India) and a bachelor degree in Mechanical Engineering from Jadavpur University (India). He also completed certification in Financial Risk Manager (FRM) from Global Association of Risk Professionals (GARP).

Suryanarayanan Hariharan, Chief Financial Officer, works closely with the Group's executive management team and is responsible for the accounting, financial planning and analysis, and stakeholder reporting, including regulatory reporting, for the Group and its owned subsidiaries. Surya has more than 16 years' experience in stakeholder reporting, audit services, business process improvement and transition and risk advisory. Prior to his appointment at GFH, he was the Head of Finance for a private equity venture in Abu Dhabi backed by sovereign wealth funds and ultra high net worth individuals. Previous to this he was in audit services and real estate domain at KPMG in both Bahrain and Qatar, and Pricewaterhouse Coopers in India. He holds a bachelor's degree in Commerce from the University of Mumbai, India, and is a Chartered Accountant (CA) from the Institute of Chartered Accountants of India, and a Certified Management Accountant, USA.

Muneera Isa
Head of Human Resources

Ahmed Jamsheer
Head of Treasury & Capital Markets

Muneera Isa, Head of Human Resources (HR), manages employee strategies, recruitment, development and retention, career progression, and performance management. In addition to compliance, policy making and the overall implementation of HR regulations. Muneera is a seasoned HR professional, bringing more than 20 years of experience to the Group having worked with regional and international financial institutions in the Kingdom of Bahrain including Bahrain Mumtalakat Holding Company, Capivest and BNP Paribas.

She holds a Bachelor's Degree in English Literature from the University of Bahrain, a CIPD Level 5 Diploma in Human Resource Management from the Chartered Institute of Personnel and Development (CIPD), and a Master's Certificate in Human Resource Management from the Society for Human Resource Management (SHRM).

Ahmed Jamsheer is the Head of Treasury & Capital Markets, where he is responsible for overseeing the Groups corporate liquidity, investments, cash flow and debt financing. He brings to his role more than 15 years of diverse experience in finance and investments as well as asset management, alternative investments, derivatives, debt financing, private equity and real estate. Prior to joining the Group in 2016, he spent six years at Promoseven Holdings as Head of Investments, Capital Markets & Finance, managing the company with an annual turnover of $1 billion. Previously, he held a senior management role in finance and investment at Fortuna Company. Ahmed holds a Master of Science in Finance with high distinction and a Bachelor of Science in Finance with honours from Bentley University, Waltham, MA, U.S.

Osama Janahi
Head of Information Technology

Mariam Jowhary
Head of Compliance & AML

Osama Janahi is the Head of Information Technology. He has more than 20 years of experience with an exceptional business understanding and excellent project management skills, who provides leadership, vision, direction, and management to the entire IT department including application, development, and infrastructure teams. Responsible for anticipating future needs and delivering enhanced solutions across all departments and subsidiaries. Customer orientated and capable of driving change through tracking, vetting and implementing creative and modern technology solutions that is relevant to the industry, security, efficiency and the business. A strong believer that IT should partner with business to improve productivity and efficiency of the organization.

Mr. Janahi holds a B.Sc. in Computer Science from the University of Bahrain along with other IT technical and non-IT professional certification like CISA, ITIL, Oracle, and others. He has some specific banking business and accounting knowledge which he gained through his work in Al Baraka Bank and Arthur Anderson.

Mariam Jowhary joined the Group in late 2019 as Head of Compliance and AML, responsible for establishing and maintaining a robust and effective compliance and corporate governance framework across the Group that complies with regulatory requirements and industry legislation. She works closely with the CEO and other members of the Group's executive management and reports independently to the Board Audit & Risk Committee.

Mariam is also responsible for ensuring compliance with the rules and regulations of the CBB, the Bahrain Bourse, the Dubai Financial Market, the UAE Securities and Commodities Authority, the Boursa Kuwait and the Kuwaiti Capital Markets Authority. Leveraging 18 years of professional experience, she has significant expertise in the field of compliance and has previously worked with Central Bank of Bahrain for more than 14 years. She holds a B.Sc. in Banking and Finance (with honors degree) from the University of Bahrain, Advanced Islamic Banking Diploma from BIBF, as well as APRM & CIPA Certifications.

Salem Patel
Head of Asset Management

Osama Alharam
Executive Director (Kuwait Market)

Salem Patel is Head of Asset Management for GFH Financial Group. He is responsible for managing the bank's proprietary assets as well as client investments in equity and fixed income funds. Salem is also a member of the bank's Management Investment Committee and ALCO. He brings over 20 years of extensive local and international financial industry experience to the Group having previously worked in the Financial Services Division with Accenture in London and prior to this as a Financial Analyst with LongView Partners, London. Salem began his career working in Equity Research at UBS and Societe Generale.

Salem currently holds a number of Directorships including Falcon Cement Company and Roebuck Asset Management. He graduated from the City University Business School in London with a B.S.C (Hons) in Business Studies specializing in Finance and has obtained a number of certifications including: the Islamic Finance Qualification (IFQ) and the Securities and Futures Authorities Registered Representative (SFA). He has also passed all three levels of the Chartered Financial Analyst (CFA) program and recently completed the Senior Executive Leadership Program at Harvard Business School.

Osama Alharam is an Executive Director, Placement & Relationship Management for GFH, where he is primarily heading the Kuwait market and responsible for bringing the Group's unique investment opportunities and managing ongoing relationships with institutional and high net worth clients in Kuwait. He brings more than 20 years of diverse experience in investments, strategy and management to his role. Prior to joining GFH, he was a Principle for the Kuwait market with Arcapita for over 11 years, managing the firm's placements and relationships.

Previously, he held senior roles Saudi Bahraini Transport Co & Bahrain Limo, AlBassam Group of Companies and PricewaterhouseCoopers, Bahrain & Saudi Arabia.

Osama holds a Bachelor's Degree in Business Administration & Marketing Analysis from Fort Lewis College, Durango, Colorado.

Ebrahim Alshaibeh
Senior Executive Director
(Bahrain & Eastern Province)

Ebrahim Alshaibeh is a Senior Executive Director in the Placement & Relationship Management team, responsible for the Bahrain & Eastern Province markets. Prior to that, he was the Chief Business Development Officer in the Group's subsidiary, GFH Properties.

Alshaibeh also served 5 years in Omniyat, a Dubai based Real Estate Development Company which developed high end offices, residences and hotels in Dubai. In addition, he spent most of his professional career as an Investment Banker with approximately 13 years of experience.

He holds a Diploma in Accounting and Bookkeeping from University of Cambridge, U.K. and Level 1 qualification from Association of Accounting Technicians (AAT). Most recently, he completed two Senior Executive Leadership Programs from Harvard Business School in 2018 and 2019.

Khaled Basri
Executive Director
(UAE & Oman market)

Khaled Basri is an Executive Director in the UAE & Oman market at the GFH Financial Group. He is responsible for implementing the Group's investment relationship management and marketing strategies and the meeting of targets for the sale of the Group's products and services. He focuses primarily on identifying, establishing and maintaining strong relationships with prospective and existing clients. Khaled brings nearly two decades of regional and international experience in finance and investment to the role across both conventional and Islamic markets.

Prior to joining GFH in 2018, Khaled served most recently as an Executive Director and Member of the Investment Committee at ADCORP where he oversaw client relationships and worked in close collaboration with the Investment Department in sourcing, structuring and the analysis of deals. Previously, he was a Senior Vice President, Client Coverage & Investment Banking at ADS Securities and a Senior Manager of Investments at Baniyas Investment & Development Company. Khaled has also held a number of other investment roles at European Islamic Investment Bank Plc and Esterad Investment Company BSC.

Khaled is a Chartered Financial Analyst and holds an Undergraduate (Honours) Degree from Northumbria University, Newcastle in Management (Newcastle Business School).

Yazen AlKhudairy
Managing Director – Financial Institutions & Sovereign Coverage

Yazen AlKhudairy is the Managing Director of Financial Institutions & Sovereign Coverage at the GFH Financial Group, responsible for developing and implementing the Group's strategy in its target regions - with a primary focus on the MENA region - and establishing and maintaining relationships with regional and global banks and asset managers.

In addition to being in-charge of managing the Group's relationships and continuously refining its approach to serving financial institutions, sovereign wealth funds and investment companies, also a Partner and Member of the Board of Advisors for GigaNet, Darvis and AgAu.

As a seasonal investment banker with more than 24 years of experience working across key areas of the industry including Treasury, Investment Banking and Private Equity.

Prior to joining GFH in April 2021, spent seven years as Head of Financial Institutions and Sovereign Coverage for Societe Generale Bank in Saudi Arabia. Previously held several senior roles at regional, international banks and corporates in Saudi Arabia. This includes serving as a Head of Treasury at Deutsche Bank AG and Head of Islamic & Treasury Division at Al Rajhi Bank.

Started the career with roles in the Treasury and Investment Divisions at Saudi British Bank, Saudi French Bank, Saudi Hollandi Bank and STC.

Holder of a BSc in Finance from King Fahad University of Petroleum & Minerals - Dhahran, Saudi Arabia and graduated with Dean's Honours.

Fatema Kamal
Acting Chief Executive Officer - Britus Education - Senior Executive Director, GFH Financial Group

Fatema Kamal is the Acting Chief Executive Officer at Britus Education and is a Senior Executive Director at GFH Financial Group ("GFH or the Group"), leading on the Group's education investments. She has played an instrumental role in the operational transformation of the British School of Bahrain and other education assets in GFH's portfolio.

Fatema has 20 years of working experience and a strong track record of sourcing, structuring, advising and managing private equity. She has in depth field experience in the financial sector specializing in investment structuring, strategic and organizational planning, tax structuring oversight, Sharia product structuring, joint venture negotiation, business development and project management.

Prior to joining GFH, Fatema was holding the position of Senior Executive Director of Investment Banking in Global Banking Corporation BSC. She also worked as an auditor with KPMG Bahrain.

Fatema holds a master's degree with honors in Business Administration from the University of Strathclyde, Glasgow, United Kingdom, and a bachelor's degree in Accounting with honors from the University of Bahrain. Fatema is also a qualified and licensed CPA from The American Institute of Certified Public Accountants, and CIA from The Institute of Internal Auditors.

Hamza Saleem
Acting Head of Legal

Abdulmohsen Al Ashry
Chief Executive Officer- Healthcare Platform

Hamza Saleem is the Acting Head of Legal at the GFH Financial Group. He is responsible for providing the Group and its project companies with legal advice and support across a wide range of general, corporate, commercial, financial and regulatory matters. Hamza comes to the role with over fourteen years of legal experience as it applies to transactions involving mergers, acquisitions and related corporate matters as well as in the provision of regulated financial services and the development of banking products and services.

Prior to joining GFH in 2021, Hamza most recently spent 11 years at Zu'bi & Partners (formerly, Qays H. Zu'bi) as a Senior Associate and has previously worked at two of Pakistan's tier-1 law firms, where he focused on banking, finance and corporate and commercial law.

Hamza is a Solicitor of England and Wales and was previously called to the bar as a Barrister-at-law at the Honourable Society of Lincoln's Inn, having undertaken the BVC from the University of the West of England and an LL.B. (Honours) from the University of London.

Abdulmohsen is the Chief Executive Officer of the Healthcare platform for GFH. He is responsible for the development, operation, and management of GFH's strategic healthcare investment initiatives. Such initiatives involve strategic acquisitions, new product structures, and partnerships. In addition, he is responsible for the overall success and financial performance of the healthcare platform that support GFH's overall objectives and increase value for shareholders.

With over 30 extensive years of experience, Abdulmohsen lead top Healthcare organizations in the Kingdom of Saudi Arabia. Abdulmohsen holds a Bachelor's degree in Business Administration from King Abdulaziz University, Jeddah as well as various professional certification related to Executive Healthcare Management.

Abdulmohsen has held several corporate positions over the years, including but not limited to National Guard Health Affairs and University Hospitals leading total transformation journeys for different hospitals and specialized medical centers, also Abdulmohsen has been one of the leaders at the Council of Corporative Health Insurance (CCHI) responsible to develop all Health Insurance companies' regulations. Furthermore, Abdulmohsen has led National Healthcare mega projects supporting the Saudi Transformation Vision 2030.

In addition to the above, Abdulmohsen has worked in private healthcare businesses with the largest network of hospitals in KSA as well as Affiliation projects in the Healthcare field internationally.

Abdulmohsen has established and was in the Board of Chairmen at the Saudi Scientific Association for Quality Performance & Risk Managements in healthcare sectors (SAQRS) which is one of the greatest national initiatives in Saudi Arabia, as he has led different national healthcare programs across the country.

Abdulmohsen has created a full business infrastructure while acquiring a network of hospitals in different geographical regions, transforming hospitals from traditional to a corporate approach.

Financial Dashboard //Expansion + Growth Across All Our Major Indices

1.9 $ Billion

$1.9 Billion Client Deposits Raised (2021)

15 $ Billion

$15 Billion of Funds Under Management

GFH Financial Group is a highly diversified company with activities spanning spanning Investment Management, Real Estate Development, Commercial Banking and Treasury & Asset Management. We remain one of the most profitable Islamic investment banks in the GCC as we continue our growth story through 2021.

Income contribution by asset class

47%	28%	18%	07%
Treasury & Proprietary	Investment Management	Commercial Banking	Real Estate Development

GFH Financial Group enjoys strong liquidity, capital and asset position, with 61% growth in liquid assets during 2021. Total Assets and Funds under Management of the Group also grew by 25% in 2021 to circa $15 billion. With a 8.7% Return on Equity and 58% Cost to Income Ratio, the company continues to deliver value to investors and shareholders whilst ensuring organizational efficiency.

Turnover Grew 23%

Total Turnover grew from $323.4 Billion (2020) to 398.7 Billion (2021)

Assets Grew 23%

As of 2021, GFH's total Group Assets increased by over 23% from last year to $8,084 million

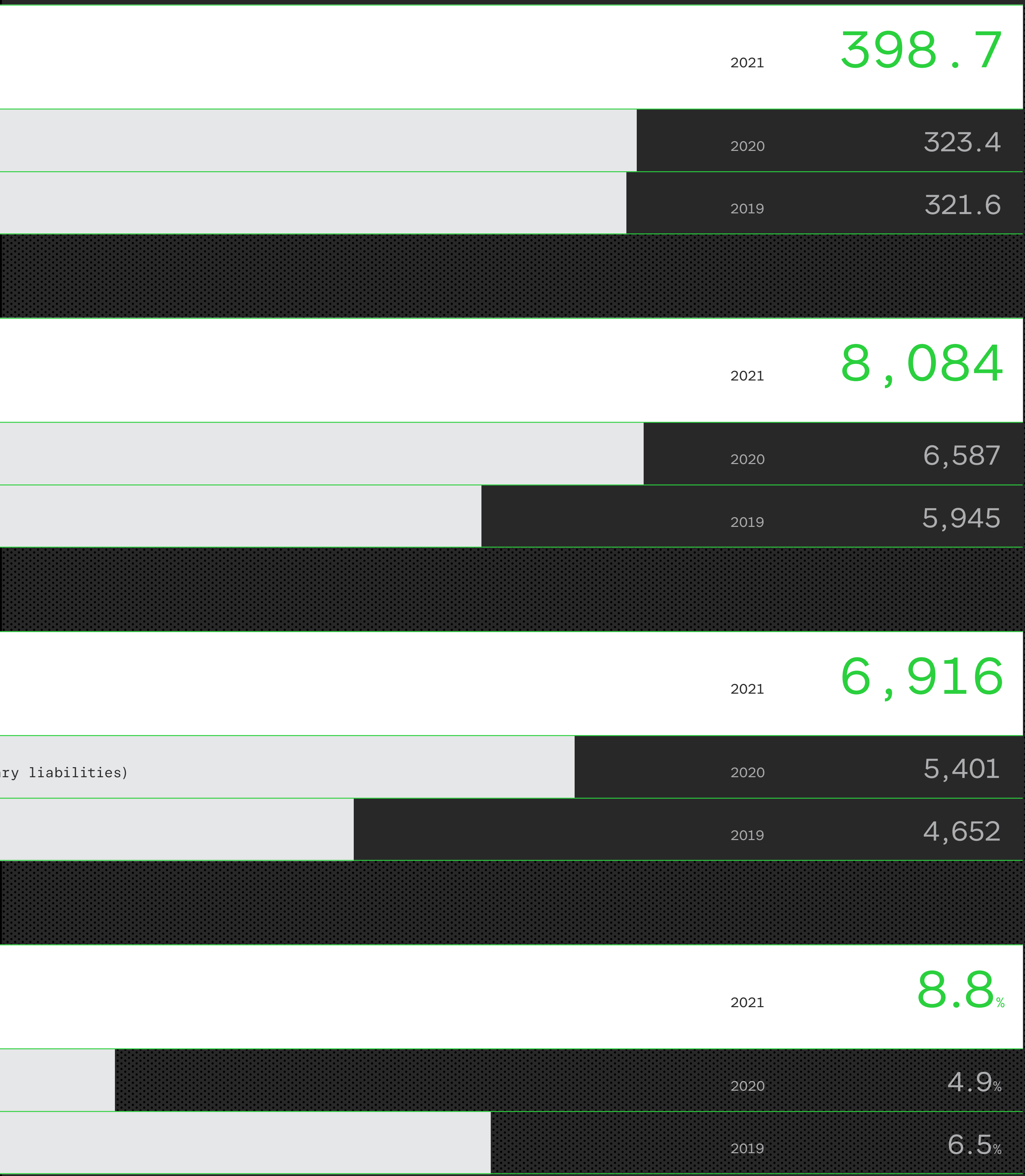
Liabilities Grew 28%

As of 2021, GFH's total Group Liabilities increased by over 28% from last year to $6,916 million (including subsidia

Return on Equity Grew 80%

As of 2021. GFH's total Return to Equity increased by 9% from last year

Despite the challenges and uncertainties facing the wider economy following the end of 2020, the strength of our dynamic investment strategy & the resolve of our experienced team led to significant financial successes and have kept the Group well positioned for future growth.


2021
398.7
2020
323.4
2019
321.6
2021
8,084
2020
6,587
2019
5,945
2021
6,916
ry liabilities)
2020
5,401
2019
4,652
2021
8.8%
2020
4.9%
2019
6.5%

Performance Summary //Key Indices

$3.81 Billion Treasury Portfolio

3.81

In 2021, GFH showcased a robust financial performance, maintaining its impressive track record as one of the region's leading financial groups and continuing to deliver increased value to all shareholders

Levels of Return on Equity
were at 8.75%

8.75%

Capital Adequacy was at 13.5%
compared to 12.5% minimum
regulatory requirement

13.5%

Cost to Income Ratio
came in at 58%

58%

5.1% equivalent to $4.9 Million
is the Proposed Dividend
Distribution for the year

6.07%

Chairman's Report //Strategic Vision Technically Delivered

>13

13.9%

2021 revenues of $368.5 million compared with $323.4 million in 2020, reflecting a year-on-year increase of 13.9%

The continuation of our financial performance and growth, combined with our dividend policy, enabled the Board to recommend total dividend of $60 million at 6.07% on par value, divided into 4.57% cash dividends amounting to $45 million and 1.50% stock dividends of $15 million for our shareholders.

Dear Shareholders

On behalf of the Board of Directors of GFH Financial Group, I am pleased to present the Group's financial results for the fiscal year ended 31 December 2021. While 2021 saw the continuation of the COVID-19 pandemic and its impact across communities and markets globally, it also bore witness to the resilience and innovation that are spurred in the midst of uncertainty. Throughout the pandemic's peaks and troughs, economies began a road to recovery infused with a view towards long-term sustainability, while businesses found ways to adapt that inspired future-proofed strategies and processes.

As for us at GFH, 2021 marked a year in which we made great strides across the Group and delivered remarkable growth in profits and income year-over-year. COVID-19 allowed us to reveal the strength of our diversified business lines, and enabled us to demonstrate the Group's resilience – a trait that has underpinned our growth and successful diversification throughout our 22-year history. We continued to grow our investment banking, commercial banking, asset management and treasury businesses, as well as our investment portfolio and presence in key markets including the GCC, UK, Europe and the US.

Instrumental to our sustained growth despite the pandemic's challenges is our strategy of dynamic diversification and persistent pursuit of value creation. Long before the pandemic, our investment strategy prioritised identifying opportunities across a range of defensive sectors and recession-proof markets. In 2021, this allowed us to continue expanding our geographic reach, the sectors we are active in and the variety of asset classes that we invest in. As a result, we have exponentially grown our global portfolio of income-yielding, high-return investments assets and secured long-term value creation opportunities for our investors and shareholders.

The Group's total consolidated revenue was $368.5 million compared with $323.4 million in 2020, reflecting a year-on-year increase of 13.9%. Achieving this growth is made possible through the continued success of our business lines, and our pursuit of investments and activities that facilitate steady income generation. In addition to investment management, real estate and treasury activities have also recorded particularly positive contributions to our revenues.

Jassim Alseddiqi
Chairman,
Non-Executive Director

Furthermore, we were able to report strong results for 2021 - made possible by our dedicated team's successful execution of the Group's strategy. Through a keen-eyed and responsive evaluation, they identified new income yielding opportunities while building on and extracting value from existing assets. For the year, the Group reported a consolidated net profit of $92.6 million as compared with $49.3 million from the previous year, an increase of 87.8%, and a net profit attributable to shareholders of $84.2 million compared with $45.1 million for the previous year, an increase of 86.7%.

The Group's total assets for the year grew from $6.6 billion in 2020 to $8.1 billion in 2021, an increase of 22.7%. The Group's Total Assets and Funds Under Management (AUM) increased from $12 billion in 2020 to around $15 billion in 2021, marking a year-on-year increase of 25%. The Group also ended the year with a Capital Adequacy Ratio of 13.2% and Return on Equity (ROE) ratio of ~9%, confirming our sustained positive financial performance.

We are pleased to have been recognised for our efforts and significant progress towards improving our model and reducing our overall credit risk profile over the last few years. Despite the challenging market headwinds caused by COVID-19, we have managed to continue to effectively implement our ongoing strategy to transform GFH from a purely Islamic wholesale bank into a fully integrated Sharia'a compliant financial group. Additionally, GFH's outlook has been upgraded to Stable by Capital Intelligence Ratings, which now rates the group's Long-Term Foreign Currency Rating (LT FCR) and Short-Term Foreign Currency Rating (ST FCR) as 'BB-' and 'B', respectively. The improvement reflects the group's sound liquidity, coupled with a sizeable liquid sovereign Sukuk portfolio, increasingly diversified sources of funding and increased share of non-Bahrain assets. The updated corporate ratings are also supported by GFH's extended debt maturity profile following a $500 million five-year Sukuk issue in 2020, low refinancing risk and satisfactory debt service capacity.

We are proud of the tremendous progress we made throughout 2021, which was made possible by the dedication and continued ingenuity of our teams across the Group. While the commercial impact of the pandemic continues to be felt by businesses and markets globally – our Group included – we were still able to achieve sustained positive progress and contributions across our business lines, and maintain investor and market confidence. In the twelve months ended December 2021, the Group successfully raised more than $2.3 billion across its investment banking and treasury business lines. The continuation of our financial performance and growth, combined with our dividend policy, enabled the Board t0 recommend total dividend of $60 million at 6.07% on par value, divided into 4.57% cash dividends amounting to $45 million and 1.50% stock dividends of $15 million for our shareholders. Additional board recommendations were discussed and raised as part of the Group's Ordinary General Meeting (OGM), which successfully concluded on 14 October 2021 with several key ratifications and authorisations received from shareholders. One of these approvals included the continuation of listing the Group's shares on Boursa Kuwait as well as the repurchase of the Group's shares (treasury shares), up to a maximum of 10% of the total issued shares, for a number of purposes, subject to the approval of the Central Bank of Bahrain (CBB) including the acquisition of the shares of Khaleeji Commercial Bank B.S.C. (KHCB), pursuant to an acquisition offer, and strategic expansion in financial and investment institutions. The OGM also saw shareholders authorise the Board of Directors or its designees to take all necessary actions to implement the above activities. Similarly, the EGM saw shareholders approve our recommendation to issue sukuk in the amount of $300 million in the form of Additional Perpetual Tier 1 Capital.

While 2021 saw the continuation of uncertainty across markets and industries globally, our commitment towards pursuing value creation opportunities that generate strong returns for our investors and shareholders has allowed us to achieve a year. The corporate strategies we have established alongside the tireless dedication of our teams across the Group demonstrated our ability to not only persevere in the face of challenges, but to succeed through them – and enable our clients' success as well. In 2021, we identified recession-proof opportunities and expanded our offerings to include a wider range of geographies and defensive subsectors, allowing our clients' investment portfolios to grow more resilient and profitable.

It is important to note here that an investment opportunity's resilience and profitability is increasingly inextricably linked to its sustainability – not only in relation to operational efficiencies and financial soundness, but also in relation to how closely it integrates Environmental, Social & Governance (ESG) principles. To ensure we are able to continue realising value and solid returns for our investors and shareholders, and serving the communities in which we are operating, we are committed towards continually embedding ESG principles into our Group's policies and frameworks.

Building on this promise to deepen the integration of ESG principles across our Group's platforms and subsidiaries, and in recognition of our responsibility towards all our stakeholders – including investors, shareholders, employees and the communities we invest in – we are proud to have announced in January 2022 the establishment of "Infracorp". With over $3 billion of the Group's infrastructure and related assets now under its management, "Infracorp" specialises in investments that are hyper-focused on accelerating the growth and development of sustainable infrastructure assets across the MENA region and global markets.

With that, we have entered 2022 in a stronger position to execute our strategy to deliver solid returns and sustainable value creation opportunities through continued diversification and operational innovation. As we have done long before the onset of the pandemic and since our inception over twenty years ago, we will continue to navigate the challenges ahead and seek out the opportunities that will further accelerate our growth, and enhance value generation opportunities in the years ahead.

On behalf of the Group's Board of Directors, we would like to extend our appreciation to the Central Bank of Bahrain, the Government of the Kingdom of Bahrain and its visionary leadership: His Majesty King Hamad bin Isa Al Khalifa and His Royal Highness Prince Salman bin Hamad Al Khalifa the Crown Prince, Deputy Supreme Commander and Prime Minister for their dedicated leadership and progressive vision that have allowed for Bahrain to become a regional hub for advancement and innovation within the financial sector.

I would also like to take this opportunity to express our appreciation for our investors' and shareholders' continued trust and confidence in the face of ongoing market uncertainties, which have enabled us to persist in our growth throughout the past year. I would like to acknowledge the tireless efforts, ingenuity and commitment of our management team and employees across the GFH Financial Group and its subsidiaries, which allowed the Group to deliver on its promise of value creation through dynamic diversification. I also want to thank our Board of Directors for their ongoing guidance and support in steering the Group towards further growth and success.

As part of the Group's obligation to maintain utmost transparency with our valued shareholders, we are pleased to attach the table below that shows the remuneration of members of the Board of Directors and the Executive Management for the fiscal year ending 31st December 2021.

Despite the challenging market headwinds caused by COVID-19, we have managed to continue to effectively implement our ongoing strategy to transform GFH from a purely Islamic wholesale bank into a fully integrated Sharia compliant financial group.

>4

4.57%

The Board recommends total dividend of $60 million at 6.07% on par value, divided into 4.57% cash dividends amounting to $45 million and 1.50% stock dividends of $15 million for our shareholders

First:

Remuneration of the Board of Directors

Name	Fixed remunerations				
	Remunerations of the Chairman and BOD	Total allowance for attending Board and Committee	Salaries	Others	Total
First: Independent Directors					
Alia Al Falasi	22,500	9,000	-	-	31,500
Ghazi Al Hajer	90,000	5,000	-	-	95,000
Fawaz Al Tamimi	22,500	4,000	-	-	26,500
Ali Murad	67,500	4,000	-	-	71,500
Ahmed Al Ahmadi	67,500	9,000	-	-	76,500
Edris Al Rafi	-	10,000	-	-	10,000
Amro Almenhali*	67,500	-	-	-	67,500
Bashar Al-mutawa*	22,500	-	-	-	22,500
Mazin Alsaeed*	22,500	-	-	-	22,500
Mosabah Almutairi*	67,500	-	-	-	67,500
Second: Non-Executive Directors:					
Jassim Alseddiqi	150,000	4,000	-	-	154,000
Rashed Alkaabi	90,000	5,000	-	-	95,000
Third: Executive Directors:					
Sheikh Ahmed AlKhalifa**	180,000	1,000	-	-	181,000
Hisham Alrayes	90,000	4,000	- (3)	- (3)	94,000
Mustafa Kheriba*	90,000	-	-	-	90,000
Total	**1,050,000**	**55,000**	**-**	**-**	**1,105,000**

Note: *All amounts in $.*

** These directors either resigned or their term ended during the year 2020.*
*** This director resigned during the year 2021.*

Notes:

1. *The Bank does not have any variable remuneration payments, end of service benefits, or expense allowances paid to its non-executive and independent directors.*
2. *Board remuneration represents payments made during the year 2021 based on approval of the Annual General Meeting dated 6th April 2021.*
3. *Salaries and other benefits in their capacity as employees is reported in the second table below.*

Second:

Remuneration for the Top Six Executives

Executive management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/ in-kind remuneration	Aggregate Amount
Remunerations of top 6 executives (including CEO and CFO)	2,762,781	3,430,000	1,473,083	7,665,864

Note: *All amounts in $.*

Notes:

1. *In addition to the paid benefits reported above, the Bank also operates a non-recurring long-term share incentive scheme award that allocates shares awards that vests over a period of 6 years under normal terms and are subject to future performance conditions. During the period, the non-cash accounting charge recognized for vested benefits for 2021 amounted to $5,070,312 determined in accordance with the requirements of IFRS 2.*
2. *The total variable remuneration (including annual bonus / other incentives and share-based awards) included $6,088,247 under deferred payment and delivery terms.*
3. *Remuneration information above exclude any Board remuneration earned by executive management from their role in the board of investee companies or other subsidiaries.*
4. *Refer to the Remuneration related disclosures in Annual Report for a better understanding of the Bank's variable remuneration framework components.*

Jassim AlSeddiqi
Chairman

I would like to acknowledge the tireless efforts, ingenuity and commitment of our management team and employees across the GFH Financial Group and its subsidiaries.

CEO's Message

//Performance Upgrades Across the Operation

45

$ Million

in 2021, $45 million in cash dividends was distributed amongst investors

GFH's new investments and acquisitions are a part of our relentless commitment to identify and deliver income-generating opportunities with high potential to generate strong returns for our investors and shareholders.

2020 saw the global community contend with the tremendous ramifications of the COVID-19 pandemic – economically, socially, healthwise and more. While it was a period marked with unprecedented uncertainty and adversity, it was also an exceptionally inspirational period. Individuals, communities, organisations and governments demonstrated a determination and adaptability that allowed them to persevere through extraordinary hardships.

It was also an opportunity for us to affirm the strength and resilience of our dynamic growth strategy and business continuity planning, which has seen us succeed through the challenges of 2020 and begin 2021 with solid momentum. Building on this momentum, we propelled the Group forward towards realising our diversification strategy, which resulted in a year defined by landmark investments, partnerships and expansions.

Growth Through Continued Diversification

In 2021 alone, we raised and undertaken $2 billion in Total New Assets Under Management and new diversified investments across multiple sectors both regionally and internationally, including healthcare, education, logistics and treasury assets. These new investments and acquisitions are a part of our relentless commitment to identify and deliver income-generating opportunities with high potential to generate strong returns for our investors and shareholders.

We are pleased to see that these investments were in clear alignment with investor demand, as evidenced by their successful placement. We are also grateful that through these investments, we were able to strengthen our Group's profitability and, in turn, be able to distribute $60 million of dividends to our investors at 6.07% at par value including cash dividends of $45 million for 2021.

Hisham Alrayes
Chief Executive Officer & Board Member, GFH Financial Group

The investments also contributed towards increasing our Total Assets and Assets Under Management (AUM) to $15 billion in 2021 compared to $12 billion in 2020, marking a year-on-year increase of 25%. We were also able to maintain our robust financial standing, with our Group ending the year with a Capital Adequacy Ratio of 13.2% and Return on Equity (ROE) ratio of ~9%.

In recognition of our well diversified investment portfolio across assets classes & geographies, GFH has been counted amongst the top 10 in Forbes' "The Middle East's 30 Biggest Asset Managers 2021".

Robust Performance across Business Lines

In line with the solid performance of our Investment Management function, which contributed towards 28% of the Group's income in 2021, we are pleased that we registered strong contributions to our Group's income from each of our business lines.

2021 was a very active year for our Investment Management teams, during which they were able to successfully place three private equity deals and six real estate investment deals, as well as exit three investments. The newly placed deals generated an income of c. $102 million – marking a 35% increase when compared to the previous year – while the exits earned the Group performance fee. With a healthy pipeline of deals across the sectors and geographies our Investment Management teams are active in, we look forward to seeing the continued growth of this function in 2022.

Significant enhancements and milestone completions were trademarks of 2021 for our Real Estate Development function. An example of this is the Harbour Row development, whose notable progress and steady unit sales contributed towards an income of $23 million. We continue to make substantial enhancements to the project to meet our objective of delivering Bahrain's most luxurious, dynamic and sought after residential, retail, and hospitality complex. Additionally, the ongoing handover of the Harbour Heights apartments results in income realisation.

As for our Treasury line, our Treasury portfolio grew at an exponential rate, reaching $3.09 billion by the end of 2021, and contributed significantly to the growth of our Group's assets through investments such as interbank lending, fixed income and alternative investments. As a result, our Treasury portfolio's contribution to the Group's income increased by 19%. Most recently, our Treasury team has also launched and seeded a $100 million sukuk fund, with Credit Suisse signed on to provide attractive financing and fund administration services. The sukuk aims to leverage the GCC's post-pandemic economic recovery and anticipated acceleration of the global sukuk supply to generate substantial returns to the fund through active asset allocation, credit selection and optimal leverage.

Our commercial banking arm, Khaleeji Commercial Bank (KHCB), reported exceptional performance for 2021. Their net profit attributable to the shareholders amounted to $25.37 million, marking a notable increase of 20.81% compared to $21 million in 2020. KHCB also managed to achieve growth in its total assets that was recorded at 14.83%, reaching $3093.33 million, compared to $2693.88 million in 2020. The Bank was also able to achieve growth in its liquid assets, which currently constitute 40.67% of total assets, while capital adequacy has reached 19.31%.

Expanding our Global Footprint

To support further growth and expansion of our Group's international presence and global investment activities, we strengthened our presence in the UK with our strategic partners Roebuck Asset Management, our UK operations will be playing a vital role in solidifying our pipeline of blue-chip investments across key sectors such as real estate and logistics.

We also entered into a strategic partnership with Schroders Capital, the private markets investment division of global asset management giant Schroders. The partnership is primed to significantly bolster our international investment reach, particularly within the private equity space in Europe and the Americas, and enhance our access to a broader pool of attractive downturn resistant opportunities across our defensive sectors of focus. We are pleased with the promising start

2021 awards include: GFH Financial Group 'Best Corporate & Investment Bank 2021' ASIAMONEY, 'Best Investment Bank - Islamic' + 'Best Sukuk Deal of the Year" MEA Finance Awards, plus Harbour Heights 'Best Residential High-rise Development' Africa & Arabia Property Awards and Harbour Row 'Best Development in MENA' Architecture Leaders Awards.

of our partnership, which included a co-investment in a leading global healthcare education provider with an established presence across several European and Latin American countries.

Industry Recognition
The trust and confidence of our clients, shareholders and the key markets we operate in are paramount to our Group's success, and so we are grateful to have been recognised by industry bodies and peers for our performance in 2021. In recognition of our well-diversified investment portfolio across asset classes and geographies, we are proud to be counted among the top 10 in Forbes Middle East's 30 Biggest Asset Managers list, which ranks the region's leading asset managers based on the value of their total assets under management (AUM). We were also awarded the "Best Corporate & Investment Bank 2021" by ASIAMONEY in recognition of our continued effort to drive growth in our investment banking operations, which has allowed us to identify and offer our clients investment opportunities that are downturn resistant with attractive returns. The Group has also won the title of the Middle East and Africa region's "Best Investment Bank- Islamic" at the MEA Finance Awards. The award ceremony, which hosted the industry's most notable names, recognised us for our Group's exceptional products and services, digital readiness, environmental responsiveness and innovative leadership. We were also proud to receive the MEA Finance Award for the "Best Sukuk Deal of the Year".

Similarly, the significant progress made to our real estate developments were also recognised, with our Harbour Heights project named as Bahrain's 'best residential high-rise development' at the Africa & Arabia Property Awards, while our Harbour Row project received the 'Best Development in MENA' award at the Architecture Leaders Awards 2021.

100

$ Million

An income of $104 million was generated in 2021 through successfully placing 3 private equity deals and 6 real estate investments deals

We are approaching 2022 with a cautious optimism that is bolstered by the progress achieved across our Group over the past year...

Advancing Firmly Towards Sustainability

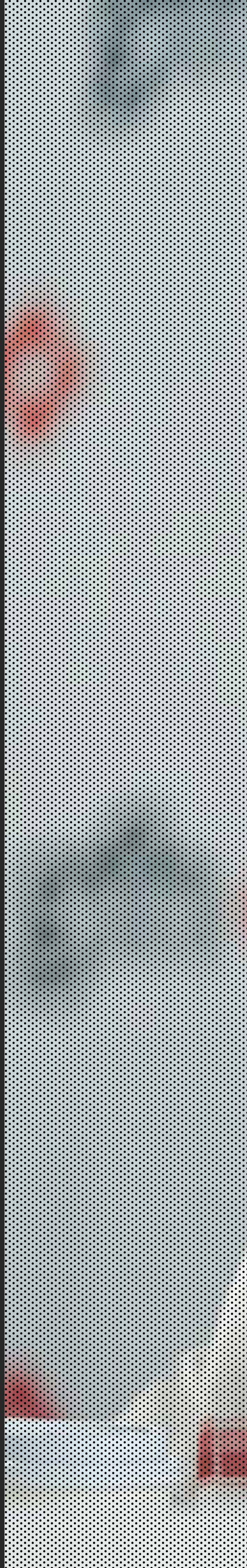
The uncertainty of the COVID-19 healthcare crisis, and its social and economic repercussions, amplified the urgency and importance of investments in social and physical infrastructure that advance society more sustainably and inclusively. In line with this, we have launched “Infracorp”, which sees us spin out our Group’s infrastructure assets into a specialised company that will utilise its capital and expertise to enter into investments that support sustainable growth, enhance community wellbeing and provide returns for all stakeholders. “Infracorp” will also allow our Group to respond to growing investor demand for investments that have the potential to deliver both solid returns and measurable ESG impact.

An Outlook of Growth

For over two decades now, we have steered our Group through turbulent market conditions and unprecedented economic downturns – most recently being the COVID-19 crisis. By firmly placing our investors’ and shareholders’ interests first and foremost, and continually finding ways to innovate through adversity, we were able to face down major market headwinds and achieve solid contributions and growth across each of our business lines in 2021. With that, we are approaching 2022 with a cautious optimism that is bolstered by the progress achieved across our Group over the past year.

I would like to close out this note with a profound thank you to our teams across the Group, whose perseverance, calibre and dedication resulted in our achievements in 2021. I am grateful for the commitment I see across the Group every day, and I am confident in the direction GFH is firmly progressing towards. I believe in our strategic plan, our leadership team, our culture, and the raw talent of our people. Together, we will continue to achieve higher and more sustainable returns for our investors and shareholders.

Hisham Alrayes
Group CEO & Board Member



Performance Review
Section 03/6

Across several parameters, GFH's performance throughout 2021 has been exemplary. Included among the notable milestones of the year are the acquisition of Khaleeji Commercial Bank, an industry leader in Islamic Banking; and the launch of Infracorp, a regional pioneer with aims to invest in & develop sustainable infrastructure projects globally.

03

Diversification Delivered //Business Activities Reviewed + Revised

08

$ Billion

The Group's total assets grew by 22.7%, from $6.6.bn in 2020 to $8.1bn in 2021

GFH is a well-renowned financial group in the GCC region, with a diversified offering and pioneering track record. GFH's innovative approach to Islamic investment banking services has been recognized internationally for over a decade. It has developed a strong and consistent ability to identify, successfully bring to market and capitalize on a wide range of solid investment opportunities in some of the world's most dynamic markets and sectors. GFH's business lines cover key aspects of the financial services value chain; from high-end financial products and investments, to high-street commercial banking operations. Following are the details of GFH's business activities:

Investment Management

The Group continues to undergo an effective transformation that was backed by a strategy of dynamic diversification and the pursuit of value creation. Also, GFH builds its global portfolio of income yielding real estate assets capable of delivering solid returns for the Group and its investors. It has also maximized its value creation potential by tapping into a widened range of asset classes, sectors and markets – pursuing opportunities to expand the Group's portfolio both in home markets in the GCC and beyond.

We have developed a strong & consistent ability to identify, successfully bring to market & capitalize on a wide range of solid investment opportunities in some of the world's most dynamic markets and sectors.

Private Equity

The Private Equity business focuses on a multi-pronged strategy that includes direct investments, co-investments alongside top-tier asset managers, secondaries, strategic GP staking, buyouts and private credit (Sharia'a compliant). GFH has a particular focus on non-cyclical or downturn resistant sectors and deal structures, which limit downside risk for our investors while maximizing their upside. Our direct investments program entails investing in education, healthcare, consumer-driven and late-stage tech and tech-enabled businesses that are benefiting from digitization tailwinds.

Our partnerships with managers that have a stellar track record enable us to bring the best available investment opportunities from across the globe, but mainly in the US, Western Europe and developed Asia, with a focus on secondaries and GP staking that are also gaining significant traction due to their limited J-curve risk and yield potential. A key alliance announced during the year was the partnership with Schroders Capital.

With the aim to invest across industries in both established and growth-oriented businesses, the Private Equity team has continued to identify and invest in opportunities, which are expected to deliver value to our organization, investors and shareholders.

In challenging times of COVID-19, with a disciplined due diligence process, attentive monitoring and hands on management with a value creation approach, GFH's Private Equity team managed to ensure that its existing investments continue to grow or remain stable.

The existing investments currently managed by the PE team are:

- Britus Education Holdings
- Edvest Convertibles Company
- University of Technology Bahrain
- Britus International School for Special Education, Bahrain
- The Entertainer, Dubai
- Marshal FinTech, Dubai
- US & Global Tech Fund I
- Global Tech Opportunities II
- Multi-Specialty Healthcare Partner Holding Ltd.

Real Estate Investment

The real estate investment team continues to focus on capturing market momentum and opportunities in fundamentally stable, defensive sectors with particular emphasis on Logistics, Medical Office Buildings, Multi-Family, Student Housing, Bio/life Sciences Parks and select Trophy Assets in pursuit of resilient income-yielding investments mainly in North America, UK and Europe.

As part of the team's strategy of dynamic diversification, the objective is to structure leveraged real estate investments that generate strong leveraged cash on cash returns capitalizing on favorable market trends and growth, allowing us to deliver value and attractive distributions to our investors while mitigating risk. Diversification is achieved in multiple forms ranging from tenant and lease profiles, sub-markets, asset types as well as underlying demand drivers of each asset.

The investment approach involved partnering with the best-in-class asset and property managers in their respective specialties along with co-investment to ensure alignment of interest with GFH and its investors. GFH partners with multiple asset managers in any given subsector without heavy reliance on any single partner. Furthermore, the firm focuses on asset aggregation strategy in select sectors where such strategy allows for portfolio premium and enhanced returns to investors.

The firm had vast real estate activities in 2021 including the below offerings:

- Logistics portfolio including 19 mission critical facilities leased to Amazon in the US
- Logistics portfolio including 8 built to suit facilities leased to FedEx Ground and General Mills in the US
- Single built to suit logistics facility leased to FedEx in the US
- Regional distribution facility leased to Michelin in the US
- Medical Office Buildings Portfolio comprising twenty-four assets across the US
- Student Housing portfolio comprising two student housing properties adjacent to major universities in the US
- Multif

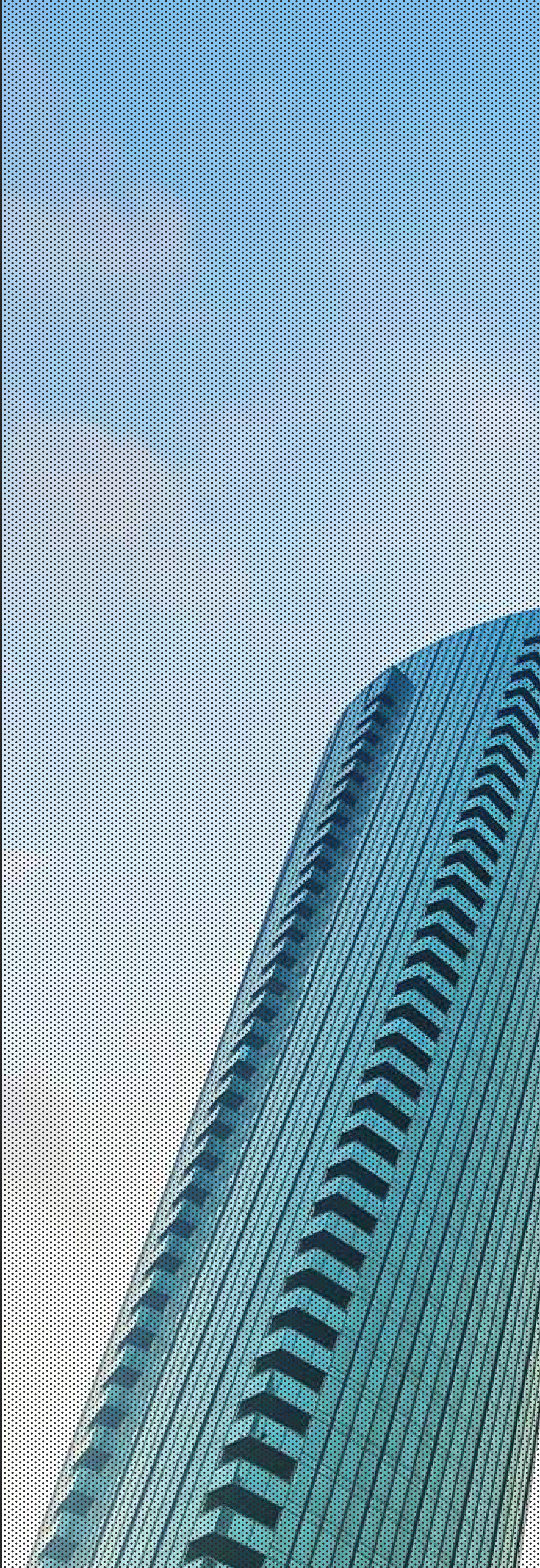
Real Estate Development

The Group is targeting to expand its operations and income from the existing and potential infrastructure developments and leisure designated plots and developing and managing income-generating hospitality assets in the GCC region, North Africa and Asia.

The Group had historically successfully launched several key infrastructure projects across the MENASA region, with a total estimated development value exceeding $20 billion. GFH takes a unique view in the investment world when approaching these large-scale economic infrastructure projects and this has played an instrumental role in encouraging a paradigm change in the economic landscape of the GCC, North Africa and Asia. The GFH approach focuses on delving into the details of an investment, following due diligence, conceptualizing the project, securing land and injecting cash into the project to start the rolling. Some of these projects are coordinated in partnership with various governments and aim to contribute positively to the socio-economic development of countries hosting the Group's initiatives.

Some of the group key projects are

- Bahrain Harbour, Bahrain
- California Village, Dubai
- Reef Marina, Reef Island, Bahrain
- Al Areen, Bahrain



Commercial Banking

Khaleeji Commercial Bank BSC (KHCB) represents the Commercial Banking arm of the GFH Financial Group. KHCB is headquartered in the Kingdom of Bahrain and operates under a Retail Islamic Banking license granted by the Central Bank of Bahrain (CBB). KHCB was established in 2004 by GFH, and it is a Public Bahraini Shareholding Company listed on the Bahrain Bourse. KHCB offers a range of innovative and high-quality products and services to retail clients, high net-worth individuals, corporate entities, and financial institutions. These include retail banking, corporate banking, wealth management, structured investment products and project financing facilities. GFH as of 31 December 2021 owns 69.06% of KHCB, and subsequent to the year end, on 5 January 2022 GFH Financial Group has announced completion of acquisition of KHCB Shares through a buy-back comprising 108,046,105 shares representing 12.11% thereby increasing their shareholding to 81.17%.

Treasury and Proprietary Investments

The Treasury team is responsible for the Groups overall capital markets investments activities, liquidity management and debt capital markets fundraising. The aim is to ensure the Bank has optimal liquidity while maximizing profits which result in alpha to our shareholders. Our proprietary investments consist of a portfolio of various assets across financial services, education, leisure and hospitality.

The Treasury team is responsible for investing the Group's liquidity in various capital market investment instruments, managing the Group's overall liquidity and offering treasury related services. Our Treasury activities have been growing at a remarkable rate, with treasury now contributing $157.80m or 40% of the Group's total income with a portfolio of approximately $3.09 billion.

The Proprietary Investments comprise the Group's strategic and co-investment exposure, including non-banking subsidiaries and equity-accounted investees where the Group has significant influence. Our proprietary investment portfolio consists of various assets across the real estate, investment management and hospitality sectors, which offer diversified value creation opportunities for GFH.

Jun
Sep

Management's Operational Review //How we Performed vs Our Plan

100

$ Million

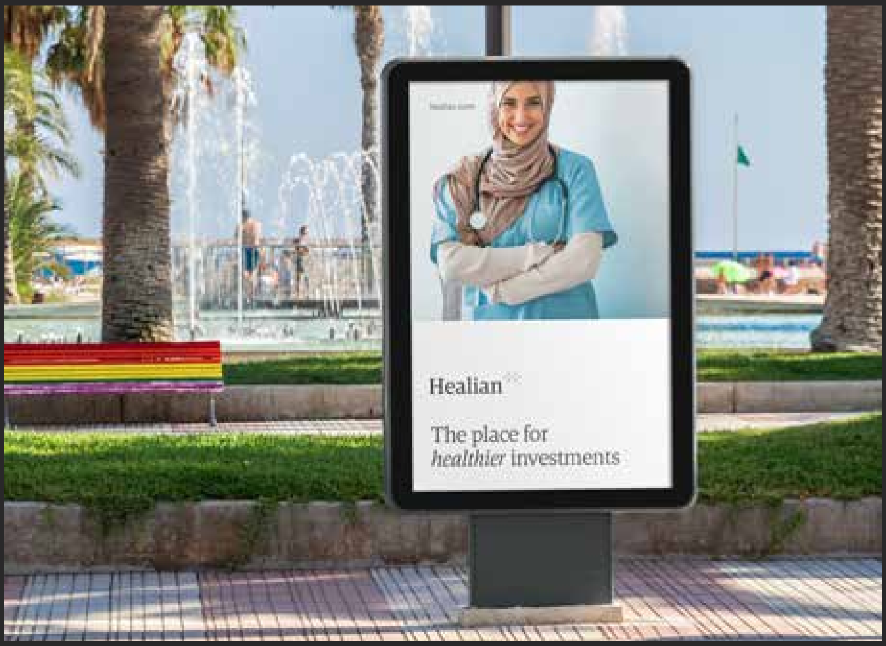
GFH secured a 60% stake in the UAE's leading provider of multi-specialty healthcare, Trust Vision Investment LLC, in a deal value exceeding $100 million.

Banking Activities - Investment Management

Private Equity

Despite the waves of the pandemic, GFH's private equity investments continued to grow, managing to successfully close a number of acquisitions that are well-poised to withstand the economic downturns, and deliver value to the Group and its investors.

With the aim to strengthen GFH's global private equity investments platform, GFH strategically partnered with Schroders Capital having an AUM of $70 billion and is the private markets investment division of Schroders plc, the global asset management group which manages $968 billion of assets on behalf of its clients. As part of this strategic partnership, GFH will invest in select investments alongside Schroders Capital, across a range of defensive and downturn resistant sectors such as healthcare, education, technology and consumer. The key co-investments undertaken so far include a global healthcare education provider and a B2B life science partner specialized in the development, production, and commercialization of ingredients for the pharmaceutical, veterinary and nutraceutical industries.



GFH's private equity investments continued to grow, managing to successfully close a number of acquisitions that are well-poised to withstand economic downturns, and deliver value to the Group and its investors.

Furthermore, building on GFH's healthcare platform "Healian", with a strategy that focuses on buying, building and consolidating healthcare businesses, GFH secured a 60% stake in the UAE's leading provider of multi-specialty healthcare, Trust Vision Investment LLC, in a deal with asset value exceeding $100 million. Operating 19 clinics across the UAE at the time of its acquisition, the provider is positioned for steady growth due to rising demand for multi-specialty healthcare services amid changing demographics in the region. With healthcare a growing high priority investment area for the UAE Government, and the country's rollout of its mandatory health insurance scheme, Trust Vision benefits from a robust regulatory infrastructure and is well placed to further expand its offerings.

Another cornerstone of the Group's investment strategy remains as global technology sector investments. In line with our vision to invest in innovation and growth and to capitalise on secular trends in digital adoption, GFH was able to substantially grow its existing technology portfolio, whereby we have successfully closed our Global Tech Opportunities II offering, comprising investments in a portfolio of pre-IPO stage, high-growth companies that specialise in next-gen technologies.

The companies operate in some of the most disruptive tech sub-sectors that are benefiting from secular trends in digital adoption – such as cloud and enterprise software, cybersecurity, fintech, mental health, e-commerce, and mobile gaming. Our investments in market leaders or emerging leaders and niche spaces align with prevailing interest in global digitalisation. For example, our various investments in Cloud RPA providers are reflective of our focus on a next-gen technology that is quickly becoming the fastest growing vertical in enterprise software.

The Group will continue to pursue opportunities in resilient sectors including healthcare, education, technology and infrastructure with ESG as a key consideration. These sectors are better positioned to withstand potential economic uncertainties or downturns, whilst constantly prioritizing investor returns and capital preservation.

GFH's approach consists of partnering with the best-in-class asset and property managers, in their respective specialties, along with co-investment to ensure alignment of interest with GFH and its investors.

Real Estate Investment

Global commercial real estate investment rebounded to a record annual total of $1.3 trillion in 2021, representing an increase of 55% from 2020. The rebound in real estate activity was driven predominantly by the United States and European markets which witnessed unprecedented levels of demand, particularly for logistics and residential assets by investors, tenants and occupiers alike. This shows favorable growth in the sectors as it accounted for 56% of investment volumes during 2021. As the regulations regarding the pandemic ease up, the market is on track to pre-COVID levels, indicating stabilized and improved activity.

The real estate investment team focuses on opportunities in fundamentally stable, defensive sectors driven by long-term proven trends, with particular emphasis on Logistics, Medical Offices, Multifamily and Student Housing segments; in pursuit of resilient income-yielding investments mainly in the UK, Europe and America (North and Sunbelt focused).

The basis of GFH's real estate investment strategy is the combination of high-occupancy properties with a strong, credit rated tenant base with long-term contracts to secure cash flows and dividend payments over the investment horizon. As well a multi-tenant short-term leases which act as a natural hedge against inflation and provide the diversity that protects against major credit risks. Moreover, GFH's approach consists of partnering with the best-in-class asset and property managers, in their respective specialties, along with co-investment to ensure alignment of interest with GFH and its investors. GFH partners with multiple asset managers in any given subsector without heavy reliance on any single partner. As such, GFH's real estate theme focus in 2021 is focused on the following sectors.

Logistics

This sector remains highly sought after with full-year investment volume increasing from $22 billion in 2020 to $35 billion in 2021. The increased demand for purpose-built mission-critical logistics facilities are supported by the worldwide booming of e-commerce transactions and increased consumer spending habits due to the pandemic, whereby e-commerce sales attributed 20% of total retail sales in 2021 in comparison to the pre-pandemic level of 14% in 2019. The demand for increased online shopping in turn, affects retailers' and wholesalers' demand for warehouses.

The logistics sector persistently witnessed high levels of demand and limited supply, thus escalating rent rates across the US, Europe, and Asia Pacific in Q4 2021, rents alone increased at an annualized rate of 10%. The industrial market continues to thrive with more emphasis and rising value in well-located and well-designed assets. As there is an evident supply / demand imbalance, and as supply and land availability exhibit scarcity, rent rates will remain high until this gap is bridged and additional supply is delivered.

As such, GFH has taken the opportunity to expand its existing portfolio by aggregating quality credit tenants, well positioned mission critical facilities and well-structured leasing arrangements.
Summary of Logistics Platform

- US logistics portfolio including 14 mission critical facilities leased to Amazon, across nine states, at a transaction surpassing $3 billion and a WAULT of 15 years. The Assets are Grade 'A' with tenant S&P Corporate Credit Rating of AA-.
- Logistics portfolio comprising eight (8) built-to-suit income-yielding logistics assets in the United States. There are seven facilities leased to FedEx Ground and one General Mills facility,

across eight states, valued at a transaction surpassing $500 million and a WAULT of 15 years. The Assets are Grade 'A' with credit rating tenants.
- Single built-to-suit logistics facility in the US. The facility is leased to FedEx, with around 10 years WAULT. The Asset is Grade 'A' with tenant S&P Credit Rating of BBB. The transaction is valued at $93 million.
- Regional US distribution facility leased to Michelin, with around seven years WAULT. The Asset is Grade 'A' with tenant S&P Corporate Credit Rating of A-. The transaction is valued at $137 million.

Medical Office Buildings
Medical offices represent another core area of interest for GFH; supported by the aging US population, increased demand of off-campus health care services and the increased geographic concentration in suburban America. The sector offers an attractive constituency of tenants, which include large-scale high-credit anchor tenants and sticky complementary shorter lease medical and healthcare service tenants. As such, the sector maintained a healthy average occupancy 90%+ over the last decade and rent collection rate surpassing 90% during the COVID-19 Pandemic.

GFH focused on this sector in the second half of 2021, where it acquired a portfolio of US Medical Office Buildings comprising 24 assets, with key credit worthy tenants across 11 states, at a total value surpassing $400 million. The portfolio is 97% leased and has 75% high-quality credit tenants with average WAULT of nine years.

Multifamily
Driven by the demographic shifts currently underpinning the US landscape in terms of the growth in populations in what is termed "Sunbelt states", areas in the US below 36 degrees and comprises 15 states, and the general shift towards renting as opposed to buying. The multifamily market witnessed a significant rise in transaction volumes and investor flows with record annual investment volume of $335.3 billion in 2021 which nearly doubles the pre-pandemic level in 2019 which is at $193.1 billion.

GFH, continuing its strategy of Meds & Eds, locations with strong medical centers and education facilities support stable population growth as well as increased demand for renting properties, and partnering with best of breed operators and asset managers in the sectors of choice. For our Multifamily platform we partnered with two named joint venture partners; Carroll, a JV Partner with 700+ employees and 30,000+ units owned and managed by them, and Broadshore Capital Partner, a JV Partner with 150 years of experience and 30+ multifamily investments worth $1.4 billion. We acquired the diversified portfolio of Multifamily assets, comprising two garden-style assets in Las Vegas and one high-rise asset in central Baltimore, at a transaction value exceeding $270 million.

Student Housing
Amid the increased demand on off-campus purpose-built student housing properties accompanied by the growing population of the US and the increased demand for higher education, this witnessed resiliency and recovery post the COVID-19 Pandemic. As of September 2021, occupancy rates were approximately 94% compared to September 2020's occupancy rates of 88% and September 2019's rate of 93%. As a result of vaccination rollout and relaxed enrollment requirements, fall 2021 occupancy rates are at record-high levels.

GFH successfully exited investments before end of holding period, including an early exit of Amazon Last Mile Logistics Warehouses, US Industrial Portfolios I & II and US Tech Offices Portfolio.

Student housing demand will continue to rise as the world population of college-age students also increases, and middle-class families invest more of their income in pursuing higher education for their children. The combination of a growing college-age population alongside higher enrollment rates led to a steady increase in college enrollment levels over the last decade.

Student housing rent has continued to grow at a rate of 1.64% even during the pandemic and rents are projected to grow at a rate of 2.13% during academic year 21-22, highlighting the relative supply and demand imbalance, as well as resilience of the market despite COVID concerns. In order to mitigate for COVID-19 risks, GFH is now focusing on universities that are non-dependent on remote learning nor on solely international students to avoid enrollment risks.

Moreover, our strategy is focused on the top 150 US universities, targeting markets which offer the greatest opportunity for NOI growth and faster population growth. It has been noted for multiple decades that demographic movement in the US is towards Sunbelt markets, which support both a strong student enrollment (student base / enrollment growth of 20,000+ students with strong enrollment growth forecasts), as well as a state tax base for public universities. Keeping this in mind, target universities also enjoy strong athletic programs that are either Tier 1, Division 1 or Power Five universities.

In this sector, we have acquired a portfolio totaling approximately $114 million comprising two assets adjacent to Florida State University and University of Arkansas. The Assets are newly built, less than 0.5 miles from campus and enjoy an occupancy of 90%+ per building.

GFH is actively managing the portfolio and taking necessary corrective and primitive measures to minimize COVID's impact on the overall portfolio and mitigate risks as a result. The real estate team work closely and diligently by taking the necessary measures either by exploring various exit options, if required, or taking operational corrective measures by constantly monitoring market and competition rental rates with the aim to push rates higher.

GFH successfully exited investments before end of holding period, including an early exit of Amazon Last Mile Logistics Warehouses, US Industrial Portfolios I & II and US Tech Offices Portfolio, which reiterates our capabilities.

Commercial Banking

Khaleeji Commercial Bank has achieved a net profit of BD 10.85 million attributable to the Bank's shareholders for the fiscal year ended 31st December 2021, compared to a net profit of BD 7.99 million for the same period of the previous year, an increase of 35.90%. The increase in net profit is mainly attributed to the Bank's reporting of an increase in total income to reach BD 26.9 million, compared to BD 22.6 million in 2020, an increase of 18.75 %. Profit before impairment allowances has increased by 27.37% to BD 15.6 million, compared to BD 12.2 million in 2020.

Total shareholders' equity has increased by 3.19% to BD 146.3 million in 31 December 2021, in comparison with BD 141.8 million in 31 December 2020. Meanwhile, the total growth in the Bank's assets was recorded at 14.83%, reaching BD 1,166.2 million, compared to BD 1,015.6 million in 2020, the Bank was also able to achieve growth in its liquid assets, which currently constitute 27.6% of total assets, while capital adequacy has reached 19.31%.

Additionally, the Bank maintains a healthy liquidity coverage ratio of 177.58% and a net stable funding ratio of 105.28% for the fiscal year ending 31st December 2021. Income attributed to shareholders has reached 7.53% and the income attributed to assets reached 1%, allowing the Bank to invest in liquidity through distinguished investments in 'Sukuk' that are characterised by high income and low risks. These investments resulted in a noticeable increase in the 'Sukuk' portfolio, reaching BD 323.8 million in 2021, compared to BD 261.1 million in 2020, with a growth rate of 24%. Moreover, total deposits increased by 17.65% to reach BD 911.55 million, compared to BD 774.81 million last year.

The Bank has succeeded in establishing a solid infrastructure to launch towards broader horizons of excellence and success, based on an effective strategy aimed at maximizing the outstanding and tangible achievements that contributed to strengthening its distinguished position among Islamic banks in the Kingdom.

Khaleeji Commercial Bank continues to live up to the aspirations and expectations of its valued clients, in order to ensure a tailored and customized experience that is client-centric, by utilising the latest innovative technologies in the field to deliver a more innovative self-service and data driven client experience.

Real Estate Development

Project Progress:
The Harbour Row

Aiming to provide a global destination that combines the best of business, residential, trendy retail and leisure, The Harbour Row provides world-class residences for people with the desire to live an urban lifestyle. With design influences from New York to Dubai, the vision behind the creation of The Harbour Row has always been to create one of the world's greatest waterside developments. Mixing superlative residential and retail components, The Harbour Row is positioned in Bahrain's most exclusive waterside/seafront address. The Harbour Row nestles directly in front of the centrally-located Bahrain Financial Harbour ("Bahrain Harbour"), a short distance away from Bahrain's main business and entertainment centers. The Harbour Row project has six distinctive buildings, including hotel, serviced apartment, residences, retail and Marina across its West Wing and East Wing.

A new brand of serviced branded residences of "The Charthouse", The Harbour Row has reached another milestone in its progress towards becoming a new world-class hospitality and lifestyle destination in Bahrain. Both openings are scheduled before the end of 2022.

The Harbour Row's luxury apartments are handed over to unit owners. The value of the project is $200mn upon completion.

In 2021, Dividends amounting to $53 million were paid across all our managed investments to our investors.

Harbour Heights

Harbour Heights is Bahrain's most advanced mixed used residential, retail, hospitality and leisure complex spread over 35,900 sqm at the heart of Bahrain Financial Harbour featuring a total built-up area of more than 137,000 sqm. A district of luxury, uniqueness and distinctiveness that will bring a new waterfront lifestyle experience to the Kingdom.

Harbour Heights includes main elements, namely The Three Twisting Towers, Lifestyle Apartments, Terraced Villas, Terraced Podium, Waterfront Retail concept and Sky Villas. Featuring the most sophisticated engineering and architectural designs, Harbour Heights consist of one to five- bedroom apartments / penthouses. Key facilities include a super penthouse, health club and spa, swimming pools, manicured gardens and several recreational amenities. Harbour Heights will complement the Riviera lifestyle it aspires to offer its residents and visitors by offering an elite shopping and dining experience combined with global hospitality brands.

Having secured all the certifications from various government agencies for completion, residential middle tower is fully completed and functional, while over 150 one to three-bedroom units have been handed over to local, regional and international buyers. The value of the project is $700mn upon completion.

Al Areen

Al Areen Development is a substantial mixed-use development project located in the southern region of the Kingdom of Bahrain. The development offers a whole new town over 2 million sqm of land which can accommodate up to approximately 25,000 people. The development as a whole is made up of 14 major clusters which include commercial offices, retail units, a shopping mall, The Lost Paradise of Dilmun waterpark, a number of restaurants and hotels, leisure and entertainment centers, health facilities and a range of residential accommodations.

Al Areen masterplan infrastructure works are complete. Raffles Hotel & Resorts has taken over the Al Areen Palace & Spa and the first phase of the renovation is expected to be completed by 2022. Upon competition, the value of Al Areen Palace & Spa is circa $145mn.

California Village, Dubailand

California Village is located at Dubailand, forecasted to be one of the major growth corridors in Dubai. It is strategically located to the South of Mohammed Bin Rashid City. The project is in close proximity to the Mall of Arabia and the IMG Worlds of Adventure Theme Park. The project is creating a new residential community that is attractive, vibrant, healthy, and provides a highly desirable living experience. The project features modern facilities with a full range of services and amenities within a pedestrian oriented environment that is focused on interaction and usability for the construction.

It is worth noting that California Village is at the verge of Phase 1 completion with villas, infrastructure, road networks alongside the landscaping for the project, while Phase 2 will see the continuation of high-end mixed-use development of apartments and a gated villa community, facilities and other amenities with more than 200 private villas and 150 serviced apartments.

Distribution to Fund Investors

Throughout 2021, GFH delivered distributions and dividend payments to investors in line with the Group's progressive dividend policy. Dividends amounting to $54 million were paid across all our managed investments to our investors.

Debts and liabilities

The confidence that our clients and counterparties have placed in GFH was reinforced in 2021 as the Group was able to raise in excess of $3.4 billion in deposits, which has significantly boosted our liquidity position.

Additionally, mainly due to the Group's continued efforts in reshaping its business model towards reoccurring income and fee-generation, Fitch Ratings, the international credit rating agency, have assigned GFH with a rating of Long-and Short-Term Issuer Default Rating (IDR) at 'B' with the Outlook on the Long-Term IDR as 'Stable'.

700

$ Million

Upon its completion as Bahrain's most advanced mixed-used residential, retail, hospitality & leisure complex, Harbour Heights will be valued at $700 million.

Treasury & Capital Markets //Delivering even greater returns

In line with GFH's efforts to build on its positive track record through the diversification of its activities, Treasury & Capital Markets business line played a fundamental role in boosting the Group's profitability in 2021 and in making it a transformative year for GFH. The department's significant impact comes as a result of its performance in 2021 in generating robust revenue streams, while strengthening its foundations and sustaining a resilient presence within local and global markets.

In 2021, Treasury activities for the Group contributed $107.16m or 26.87% of the Groups total income with positive contributions from investments such as interbank lending, fixed income and alternative investments.

Treasury and Capital Markets mainly focuses on:
- Optimizing the level of liquidity available by providing the necessary funding to the Group
- Deploying the Group's liquidity while diligently analyzing risk and return trade-offs
- Engaging in proprietary book management and trading in regional and international opportunities to capitalize on market opportunities

Treasury and Capital Markets' main lines of investment are:
- Interbank Commodities Murabaha and Wakala
- Sukuk
- Alternative Investments

Institutional Financial Services:
- Establishing key partnerships with international financial institutions to provide the Group with access to a range of products and services across all key asset classes
- Providing professional services to all financial institutions engaged in business transactions with the Group

The department's significant impact comes as a result of its performance in 2021 in generating robust revenue streams, while strengthening its foundations and sustaining a resilient presence within local and global market.

Treasury Contribution amounted to $107.16 Million in 2021

107

Treasury activities accounted for 26.87% of the Group's total income

26.9%

Corporate Governance
Section 04/6

GFH remains committed to achieving high standards of governance, designed to protect the long term interests of all shareholders and stakeholders, while promoting a focus of improvement in our corporate performance through integrity, transparency and accountability.

04

Corporate Governance //Managed with technical precision

500

$ Million

In 2020, GFH issued Sukuk of up to $500 million which are listed on London Stock Exchange and NASDAQ Dubai.

Our corporate governance policy reflects our commitment to comply with local regulations and meet international accepted standards for transparent practices that serve the best interest of our stakeholders.

GFH Financial Group BSC ("GFH" or the "Bank") is an Islamic Wholesale bank that was established in 1999 in the Kingdom of Bahrain. GFH's business activities are carried in accordance with the principles of Islamic Sharia which includes financial services, investment and commercial transactions, negotiable financial instruments, real estate infrastructure, in addition to structured finance, securities and liquidity management designed to achieve profitable returns for investors.

In 2004, GFH Financial Group was converted from a closed shareholding company to a public shareholding company. Its shares are currently listed on the Bahrain Bourse, Boursa Kuwait and Dubai Financial Market. Furthermore, in 2020 GFH issued Sukuk of up to $500 million which are listed on London Stock Exchange and NASDAQ Dubai.

As a Public Shareholding Company, GFH's corporate governance framework is based on the guidelines issued by Ministry of Industry, Commerce and Tourism (MOICT) under the Commercial Companies Law promulgated by Decree No. (21) for the year 2001 ("Companies Law") and the amendments thereto, the regulations of MOICT's Corporate Governance Code of 2018 promulgated by Decree No. (19) for 2018, the High-Level Controls Module ("HC Module") issued by the Central Bank of Bahrain (CBB) under its Rulebook - Volume 2 and the amendments thereto and the Listing Rules approved by the Board of Directors of Bahrain Bourse in its meeting (4/2019) dated 08/10/2019 and the amendments thereto.

GFH's Corporate Governance Philosophy

The corporate governance framework is focused on assisting GFH to successfully meet its strategic objectives and maintain steady growth whilst remaining fully cognisant of our clients' and shareholders' interests.

GFH believes that compliance with corporate governance principles enhances its value through providing a suitable framework for the Board, Board Committees and Management to perform their duties in a manner that serves the interests of the bank and its shareholders. For this reason, GFH strives to achieve the highest levels of transparency and accountability by adopting and executing strategies, goals and policies which are aimed to comply with the regulatory requirements.

The Board of Directors are accountable to shareholders for the creation and delivery of strong sustainable financial performance and long-term shareholder value. To achieve this, the Board implement and monitors the Bank's strategy and performance, within a framework of sound corporate governance. The Chairman of the Board is responsible for leading the Board, ensuring its effectiveness, monitoring the performance of the CEO and maintaining a dialogue with the bank's stakeholders. The control functions such as Internal Audit, Risk Management and Compliance & AML report directly to the Board Audit and Risk Committee.

Compliance with Regulations (High Level Control Module - CBB Rulebook, Volume 2)

In 2021, GFH continued the implementation of the Corporate Governance rules and the requirements of 'High Level Control Module of the CBB Rulebook Volume 2 (HC Module)'.

As per rule HC-A.1.8 and HC-8.2.1 (c) of the HC Module with reference to the disclosure of the non-compliance events (Comply or Explain Principle), which stipulates the need to elucidate the non-compliance cases and provide clarification on the same in event non-compliance with the rules and guidelines of the HC Module, GFH wishes to clarify the following:

- The Chairman of the board is a Non-Executive director which is not in line with guidance note HC-1.4.6 of the CBB Rulebook Volume 2, which recommends the Chairman to be Independent.

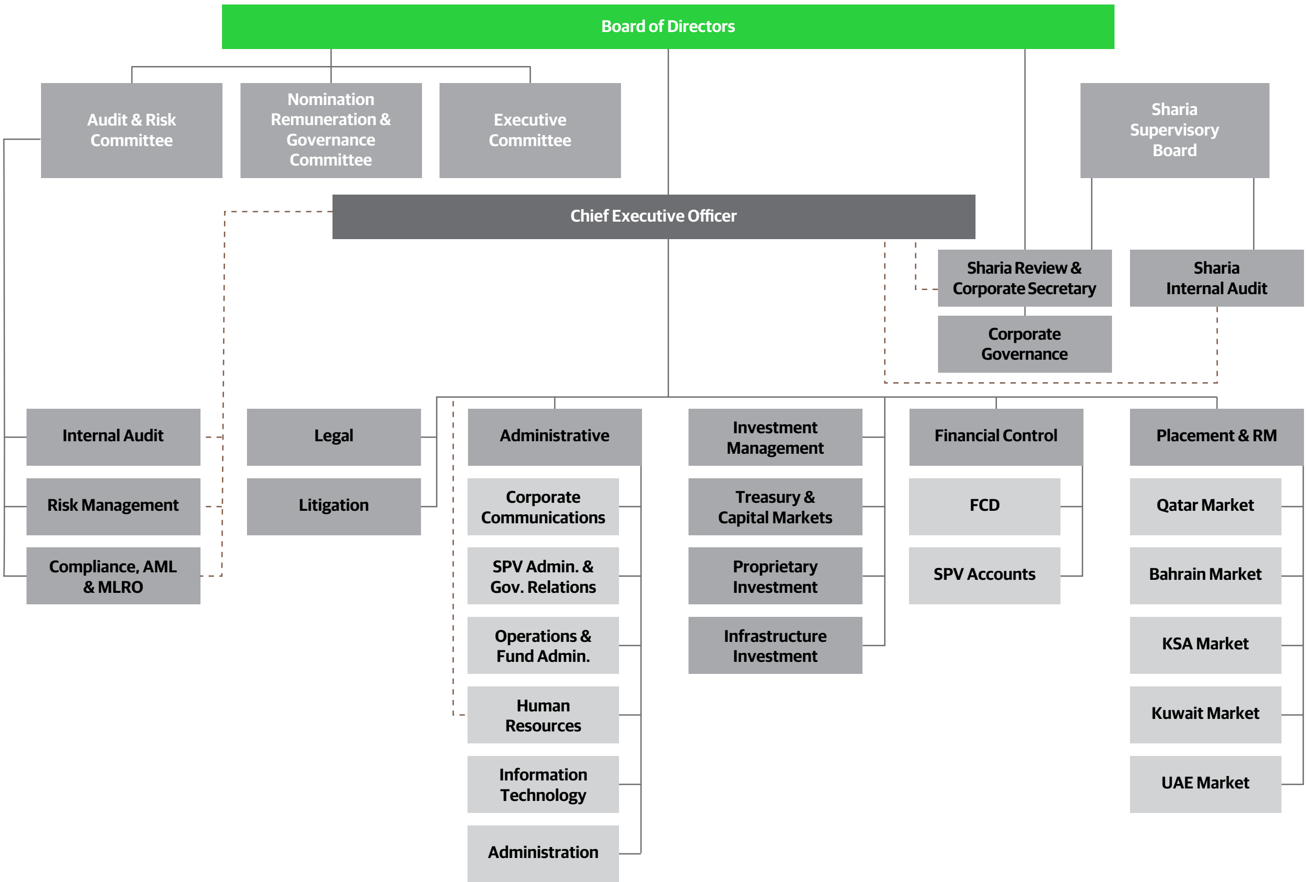
- The NRGC met one time during the year which is not in line with the Guidelines of Appendix A and B of Module HC of the CBB Rulebook Volume 2, which recommends the committee to meet at least two times a year.

- The NRGC committee does not include a Sharia Scholar (a member of Sharia Supervisory Board) as recommended under guidance note HC-9.2.4 (b).

- Contrary to guidance note HC-7.2.2 which recommends all Board Members to attend the shareholders' meeting, the shareholders' meetings held on 6th April 2021 and 14th October 2021 were attended only by the CEO (also a Board Member) and the Chairmen of the Board ARC.

Organisational Structure

As of 31st December 2021



GFH's Corporate Governance framework

GFH's Corporate Governance framework remains in line with the applicable regulatory requirements and is comprised of GFH's Board of Directors' Charter, Code of Conduct for the Directors, Conflict of Interest Policy, Gift Policy, Whistle Blowing Policy, Public Disclosures & Communication Policy, Client Charter, and Code of Business Ethics & Conduct for the Management & staff members.

Furthermore, the Mechanism of Performance Evaluation of Board of Directors, Board Committees and Individual Board members, as well as the other internal policies of the Bank are in line with the regulations and guidelines issued by the CBB and international best practices.

As part of the disclosure requirements indicated in HC Module, GFH presents the following facts:

A. Ownership of shares

A.1. Distribution of shareholdings according to nationality

As at 31st December 2021, the shareholders Register shows that there are 8,163 shareholders who own 3,775,990,064 shares at a nominal value of $0.265 per share, as follows:

Nationality	No. of Shareholders	No. of Shares	% of outstanding shares
Bahraini	611	482,108,985	12.7678%
Kuwaiti	4,066	1,044,998,022	27.6748%
Omani	42	15,886,507	0.4207%
Qatari	76	47,390,993	1.2551%
Saudi	273	224,718,927	5.9513%
Emirati	1,632	1,578,906,201	41.8144%
Others	1,463	381,980,429	10.1160%
Total	**8,163**	**3,775,990,064**	**100%**

A.2. Distribution of ownership according to the percentage of shareholding

The below table shows the distribution of ownership according to the percentage of shareholding as at 31st December 2021:

Particulars	No. of Shareholders	No. of Shares	% of outstanding shares
Less than 1%	8,144	2,309,656,533	61.1669%
1% to less than 5%	19	1,466,333,531	38.8331%
5% to less than 10%	0	0	0%
10% to less than 20%	0	0	0%
20% to less than 50%	0	0	0%
Total	**8,163**	**3,775,990,064**	**100%**

A.3. Names of shareholders who own 5% or more

As of 31st December 2021, the total direct and indirect ownership of KeyPoint Trust was 7.7% (290,735,668) and the total direct and indirect ownership of Shuaa Capital and their related entities' were 5.94% (224,601,390 shares) of the total outstanding shares of GFH.

B. GFH Board of Directors and the Executive Management

B.1. Formation of the Board of Directors

The Board of GFH is composed of nine (9) members as at 31st December 2021. The current Board of GFH will complete its term in March 2023 (i.e., shareholder meeting for financial year-end 2022).

i.	Mr. Jassim Mohammed AlSeddiqi	Chairman (Non-Executive Director)
ii.	Mr. Ghazi A lHajeri*	Vice Chairman (Independent Director)
iii.	Mr. Hisham Ahmed Alrayes	Member (Executive Director)
iv.	Ms. Alia Al Falasi	Member (Independent Director)
v.	Mr. Rashid Al Kaabi	Member (Non-Executive Director)
vi.	Mr. Ali Murad	Member (Independent Director)
vii.	Mr. Ahmed Al Ahmadi	Member (Independent Director)
viii.	Mr. Fawaz Al Tamimi	Member (Independent Director)
ix.	Mr. Edris Alrafi	Member (Independent Director)
	*Mr. Ghazi was appointed as vice chairman effective	7th July 2021
	Sh. Ahmed Khalifa Salman Al Khalifa	Resigned effective 25th February 2021

In compliance with the CBB requirements, which mandates at least one third of the members of the Board of Directors to be Independent Directors; as of 31st December 2021 the Board was comprised of Six Independent Directors which includes the Chairman of the Audit and Risk Committee and the Chairman of the Nomination, Remuneration and Governance Committee.

B.2. Separation between the position of Chairman/Deputy Chairman and Chief Executive Officer

In compliance with the CBB requirements, the position of the Chairman/Deputy Chairman and that of the Chief Executive Officer are segregated and there is no amalgamation of responsibilities in these two positions.

B.3. Function of BOD and responsibilities of the Board Members

The Articles of Association of GFH Financial Group stipulate the responsibilities of the Chairman and members of the BOD as well as the guidelines of corporate governance with respect to the distribution of responsibilities between the Board of Directors and executive management. The BOD oversees all the business activities in consultation with the executive management team. The BOD also discusses and agrees GFH Financial Group's business strategy. Additionally, the BOD is responsible for risk management and the preparation of consolidated financial statements in accordance with AAOIFI standards as modified by the CBB and corporate governance issues. The matters which require the approval of the Board includes long term strategic and annual business plan, matters pertaining to corporate governance, acquisition and disposal of investments, exit of projects. This is along with the main role of the Board which is to ensure adherence to the values of GFH Financial Group, including the values set forth in its internal regulations.

When appointed, Board members are provided with the necessary detailed information to enable them to effectively perform their main role of overseeing the strategic, operational, financial, and compliance affairs as well as corporate governance controls in GFH Financial Group. The corporate governance framework allows a member of the BOD to seek independent advice when necessary.

With respect to the channels of communication between the BOD and executive management, the Board members can contact and request information from the executive management at all times.

B.4. Independence of Board Members
Independent members represent the majority of board members. To ensure independence of members, all Board members are required to inform the Board of Directors about any changes or additions that occur on their positions and executive functions that may affect the assessment of their independence by the BOD. They should also ensure that their membership of the Board of Directors is not in conflict with any of their other interests and enable them to devote time and attention to the BOD. Before starting any Board meeting, the Chairman of the BOD instructs the Board members not to participate in the vote on the resolutions that may involve a conflict of interest; this is in addition to the annual disclosure submitted by the Board members in compliance with the conflict of interest policy.

The Nomination, Remuneration and Governance Committee of the BOD is responsible, along with its role in the identification, assessment and selection of candidates for membership of the Board of Directors, for the verification of the independence of members through the controls established by the regulations in this regard. In the selection process, the Committee ensures that the executive and non-executive candidates have a wide expertise in different fields of business and support services. Independent members are chosen from different sectors to ensure diversity of views and experiences in the BOD, as the current independent members come from financial, commercial and government sectors.

The following table shows the classification of members of the BOD as at 31st December 2021:

Classification of members	No.	% of Representation
Independent	6	66.67%
Non-Executive	2	22.22%
Executive	1	11.11%
Total	**9**	**100%**

B.5. Letter of Appointment of Board Members
Upon appointment, the Board Members are required to sign a written agreement (letter of appointment) with GFH. The agreement contains details of the responsibilities and powers of the member as well as the information required by the regulations. Upon appointment, Board members are presented with a comprehensive official introduction specifically designed for this purpose. It includes, among other things, review of the BOD's role in general and the duties and roles of the Board members in particular, in addition to meeting with the executive management, presentation of GFH's strategy, financial performance, risks and legal issues and other related matters.

During the term of membership, a member of the BOD must be fully aware of all aspects of the business, including the Bank's policies relating to corporate governance.

B.6. The Right of Shareholders to appoint Members of the Board
Under Article 175 of the Commercial Companies Law of 2001 (CCL-2001) and the amendments thereto and Article 27 of GFH's Amended and Restated Articles of Association ('AOA') of the Bank, each shareholder who owns 10% or more of the capital is entitled to appoint his representative in the BOD in proportion to the number of members of the BOD. However, as at 31st December 2021, no single shareholder was holding 10% or more of GFH's total outstanding shares.

B.7. System for Election and Termination of Directors
The system for the election and termination of Directors is governed by Article 176 – 179 of the CCL-2001 and the amendments thereto and Articles 24 - 28 of AOA.

As per the contract signed with the Directors, GFH may terminate the Director's appointment with immediate effect if the Director has:
1) committed any serious or repeated breach or non-observance of his obligations to GFH (which includes an obligation not to breach any fiduciary duties) including those arising under this agreement; or
2) been guilty of any fraud or dishonesty or acted in any manner which, in the opinion of GFH, brings or is likely to bring the Director or GFH into disrepute or is materially adverse to the interests of GFH; or
3) been declared bankrupt or have made an arrangement with or for the benefit of his creditors, or any similar or analogous act or event; or
4) been disqualified from acting as a director for any reason; or
5) been absent without a valid reason for more than four (4) consecutive board meetings; or

Furthermore, in line with the Article 179 of CCL-2001 and Articles 29 and 31 of AOA, in case of vacancy for one or more Board members, the Board shall elect by a secret ballot or otherwise, a substitute amongst certain number of candidates, proposed by at least two Board members until the first General Meeting is held.

B.8. GFH Board Members and their other memberships

The table below shows the composition of the BOD, the other memberships of the Board member and membership of committees as at 31st December 2021:

Name and position of Board member	Date of first appointment in BOD/ Re-appointment	Independent/ Non-Executive/ Executive	Representation	Date of resignation/ Term completed	Number of memberships in other boards of Directors	Number of memberships in other boards of Directors in Bahrain	Number of memberships in other boards of Directors of banks in Bahrain	Number of memberships in Board Committees
Jassim Mohammed Alseddiqi	April 2016/ Sep 2020	Non-Executive	NA	NA	10	1	1	1
Hisham Ahmed AlRayes	April 2016/ Sep 2020	Executive	NA	NA	11	7	1	1
Rashid Al Kaabi	Mar 2017/ Sep 2020	Non-Executive	NA	NA	8	0	–	1
Ghazi Al Hajeri	Mar 2017/ Sep 2020	Independent	NA	NA	2	–	–	1
Ali Murad	March 2020/ Sep 2020	Independent	NA	NA	5	2	–	1
Ahmed Al Ahmadi	March 2020/ Sep 2020	Independent	NA	NA	–	–	–	1
Alia Al Falasi	Sep 2020	Independent	NA	NA	–	–	–	1
Fawaz Al Tamimi	Sep 2020	Independent	NA	NA	12	–	–	1
Edris Alrafi	Sep 2020	Independent	NA	NA	1	–	–	1

B.9. Ownership of the Members of the Board in GFH shares

The table below shows the change in the ownership of members of the Board of Directors of the shares of GFH Financial Group, as at 31st December 2021 compared to that of 31st December 2020:

Member's name	Shares owned as at 31st December 2020	Shares owned as at 31st December 2021	Percentage of ownership as at 31st December 2021
Hisham Ahmed AlRayes	55,402,872	126,188,670	3.3419%
Jassim Mohammed Alseddiqi	52,987	54,344	0.0014%
Sh. Ahmed Khalifa Al Khalifa	–	–	0.0000%
Rashid Al Kaabi	–	–	0.0000%
Ghazi Al Hajeri	–	–	0.0000%
Ali Murad	–	–	0.0000%
Ahmed Al Ahmadi	212,000	–	0.0000%
Alia Al Falasi	–	–	0.0000%
Fawaz Al Tamimi	–	–	0.0000%
Edris Alrafi	–	–	0.0000%
Total	**55,667,859**	**126,243,014**	**3.3433%**

B.10. Directors' and Senior Managers' trading of the Bank's shares and distribution of ownership on an individual basis during the year 2021

Name of Board Member	Total no. of shares held as at 31st Dec 2020	Transactions - within the period 1st Jan - 31st Dec 2021		Total no. of shares held as at 31st Dec 2021	% of ownership
		Sold	Additional Position		
Hisham Ahmed AlRayes	55,402,872	(2,000,000)	72,785,798	126,188,670	3.3419%
Jassim Mohammed Alseddiqi	52,987	–	1,357	54,344	0.0014%
Sh. Ahmed Khalifa Al Khalifa	–	–	–	–	0.0000%
Rashid Al Kaabi	–	–	–	–	0.0000%
Ghazi Al Hajeri	–	–	–	–	0.0000%
Ali Murad	–	–	–	–	0.0000%
Ahmed Al Ahmadi	212,000	212,000	–	–	0.0000%
Alia Al Falasi	–	–	–	–	0.0000%
Fawaz Al Tamimi	–	–	–	–	0.0000%

Name of Management & Approved Persons	Total no. of shares held as at 31st Dec 2020	Transactions - within the period 1st Jan - 31st Dec 2021		Net total no. of shares held as at 31st Dec 2021	% of ownership
		Sold	Additional Position *		
Hisham Ahmed Alrayes - Group CEO and Board Member	55,402,872	(2,000,000)	72,785,798	126,188,670	3.3419%
Salah Sharif – Chief Operations Officer	1,972,090	(676,277)	1,205,382	2,501,195	0.0662%
Baha Al Marzooq – Chief Internal Audit	1,285,229	(756,102)	674,493	1,203,620	0.0319%
Hammad Younus – Chief Investment Officer	3,455,405	(1,072,321)	37,878	2,420,962	0.0641%
Nael Al Kujok – Co-Chief Investment Officer	–	–	–	–	0.0000%
Suryanarayanan Hariharan – Chief Finance Officer	1,523,419	(125,799)	2,311,353	3,708,973	0.0982%%
Mohammed Abdulmalik – Head of Placement	2,657,037	(682,938)	1,402,672	3,376,771	0.0894%
Dr. Mohamed Abdulsalam Head of Sharia'a & Corporate Secretary	613,464	(318,720)	657,279	952,023	0.0252%
Muneera Isa – Head of Human Resources	638,582	(305,420)	471,212	804,374	0.0213%
Ahmed Jamsheer – Head of Treasury	520,426	(177,920)	1,689,192	2,031,698	0.0538%
Osama Janahi – Head of Information Technology	442,222	(145,401)	408,183	705,004	0.0187%
Mariam Jowhary – Head of Compliance & AML	–	–	251,378	251,378	0.0067%
Abesh Chaterjee – Head of Risk Management	289,080	(126,784)	344,947	507,243	0.0134%
Salem Patel – Head of Asset Management	3,224,582	–	1,272,064	4,496,646	0.1191%
Yazen Al Khudairy – Head of Financial Institutions	–	–	–	–	0.0000%
Abdulrahman Al Asoomi – Money Laundering Reporting Officer	–	–	–	–	0.0000%
Hamza Saleem – Acting Head of Legal	–	–	–	–	0.0000%

**Includes the shares bought directly from market or/and the shares awarded under Employee Shares Scheme or/and the stock dividend received during the year.*

B.11. Meetings of the Board of Director during the year 2021

The meetings of the Board of Directors and the Board committees are held whenever the need arises, but under the regulations, the BOD should meet at least four times during a single fiscal year. The BOD held four (4) meetings during 2021. The shareholders meetings were held on 6th April 2021 and 14th October 2021.

In addition to official meetings, a number of urgent resolutions were also passed by circulation in 2021 through e-mails to Board members.

As for the agenda of the meetings of the BOD, it is sent to the members at a suitable time before the date of the meeting, to provide the members with all the necessary information, reports and documents for their information and review. The BOD is also notified of all the topics and key events that arise and need approvals. The executive management is responsible for informing the BOD on the performance of GFH in each meeting.

Dates of Board meetings held during the fiscal year 2021 are as follows:
i. 14th February 2021
ii. 11th May 2021
iii. 12th August 2021
iv. 11th November 2021

Date & location of meeting	Names of Directors present	Names of Directors who participated by phone/video link	Names of Directors not present
Date: 14th February 2021 1st Meeting **Location:** Video Call Conference		1. Mr. Jassim Mohammed Alseddiqi 2. Sh. Ahmed Khalifa Al Khalifa 3. Mr. Ali Murad 4. Mr. Idris Alrafi 5. Mr. Ghazi Al Hajeri 6. Mr. Rashid Al Kaabi 7. Mr. Fawaz Altamimi 8. Ms. Alia Alfalasi 9. Mr. Ahmed Al Ahmadi 10. Mr. Hisham Alrayes	
Date: 11th May 2021 2nd Meeting **Location:** Video Call Conference		1. Mr. Jassim Mohammed Alseddiqi 2. Mr. Ali Murad 3. Mr. Idris Alrafi 4. Mr. Ghazi Al Hajeri 5. Mr. Rashid Al Kaabi 6. Mr. Fawaz Altamimi 7. Ms. Alia Alfalasi 8. Mr. Ahmed Al Ahmadi 9. Mr. Hisham Alrayes	
Date: 12th August 2021 3rd Meeting **Location:** Video Call Conference		1. Mr. Jassim Mohammed Alseddiqi 2. Mr. Ali Murad 3. Mr. Idris Alrafi 4. Mr. Ghazi Al Hajeri 5. Mr. Rashid Al Kaabi 6. Mr. Fawaz Altamimi 7. Ms. Alia Alfalasi 8. Mr. Hisham Alrayes	Mr. Ahmed Al Ahmadi
Date: 11th November 2021 4th Meeting **Location:** Video Call Conference		1. Mr. Jassim Mohammed Alseddiqi 2. Mr. Ali Murad 3. Mr. Idris Alrafi 4. Mr. Ghazi Al Hajeri 5. Mr. Rashid Al Kaabi 6. Ms. Alia Alfalasi 7. Mr. Ahmed Al Ahmadi 8. Mr. Hisham Alrayes	Mr. Fawaz Altamimi

B.12. Quorum required for adoption of Board resolutions

The required quorum for the meetings of the BOD and AGM shall be in accordance with the provisions of the Articles of Association of GFH. The BOD may pass its resolutions by post, e-mail, fax, conference calls, video calls or any other means of audio or video communication pursuant to the provisions of Article 33-e of the Articles of Association of the Bank.

C. Board Committees

The BOD has established three subordinate committees and has delegated specific powers to each committee as follows:

C.1. The Audit and Risk Committee

The Audit and Risk Committee (ARC) is responsible for following up on the internal and external audit, risk management as well as compliance and anti-money laundering matters.

During the fiscal year 2021, the Committee held six meetings which took place on 20th January, 11th & 14th February, 9th May, 11th August, 10th November, and 2nd December 2021 respectively.

ARC meeting date & Location	ARC members present	ARC members who participated by phone/video link	ARC members not present
Date: 20th January 2021 1st Meeting **Location:** Video Call Conference		1. Mr. Ahmed Al Ahmadi 2. Ms. Alia Alfalasi 3. Mr. Idris Alrafi	
Date: 11th & 14th February 2021 2nd Meeting **Location:** Video Call Conference		1. Mr. Ahmed Al Ahmadi 2. Ms. Alia Alfalasi 3. Mr. Idris Alrafi	
Date: 9th May 2021 3rd Meeting **Location:** Video Call Conference		1. Mr. Ahmed Al Ahmadi 2. Ms. Alia Alfalasi 3. Mr. Idris Alrafi	
Date: 11th August 2021 4th Meeting **Location:** Video Call Conference		1. Mr. Ahmed Al Ahmadi 2. Ms. Alia Alfalasi 3. Mr. Idris Alrafi	
Date: 10th November 2021 5th Meeting **Location:** Video Call Conference		1. Mr. Ahmed Al Ahmadi 2. Mr. Idris Alrafi	Ms. Alia Alfalasi
Date: 2nd December 2021 6th Meeting **Location:** Video Call Conference		1. Mr. Ahmed Al Ahmadi 2. Ms. Alia Alfalasi 3. Mr. Idris Alrafi	

C.2. Nomination, Remuneration & Governance Committee

The Nomination, Remuneration & Governance Committee ("NRGC") is responsible for recruitment, rewards, incentive compensation of employees and the preparation of internal policies to manage human resources and other administrative matters. It is also responsible for overseeing the governance framework of GFH Financial Group.

The Committee met one time during the fiscal year 2021 i.e. 14th February 2021.

NRGC Meeting date & location	NRGC members present	NRGC members who participated by phone/ video link	NRGC members not present
Date: 14th February 2021 1st Meeting **Location:** Video Call Conference		1. Mr. Ghazi Al Hajeri 2. Mr. Rashed Al Kaabi 3. Mr. Fawaz Altamimi	

C.3. Board Investment Committee

The Board Investment Committee ("BIC") is a Board's sub-committee appointed to assist the board in formulating the bank's investment policy and make investment transaction decisions. The BIC will meet as events and decision making require.

D. Audit fees and other services provided by the external auditor

During the Annual General Meeting held on 6th April 2021, the shareholders approved the re-appointment of KPMG as external auditors for the year ending 31st December 2021 and authorized the Board of Directors to determine their remuneration. The audit fees charged and non-audit services provided by the external auditors shall be available to the shareholders as and when requested through formal requests provided that these disclosures would not negatively impact the Audit firm's interest and its competition in the market.

E. Other topics

E.1 Remuneration of the Board of Directors and Executive Management

Remuneration of the Board of Directors is recommended to the Board of Directors by the Nomination, Remuneration & Governance Committee and the Board of Directors then makes the recommendation to the shareholders at the annual general meeting.

The Board of Directors' remuneration takes into consideration the performance of the Bank as well as an assessment of compliance of individual members with their performance agreement and individual responsibilities. During the year 2021, the Board was paid fees as stated in note 25 of consolidated financial statements.

Executive Management is entitled to a fixed remuneration as per their contractual agreements, and any other performance- related incentives/ bonuses must be approved by the Board.

Refer to the Chairman's report and note 25 (Key management personnel) of the consolidated financial statements for details of the remuneration to Board of Directors and Executive Management.

During 2021, the total remuneration paid to Sharia Supervisory Board was $370,000.

E.2 Continuous development of the Board and Board Committees

The Charter of the Board of Directors serves as a reference point for the Board activities. The Charter outlines the demarcation of the roles, functions, responsibilities and powers of the Board, various Board committees of GFH and matters reserved for final decision-making or pre approval by the Board and the policies and practices of the Board in respect of matters such as conflicts of interest and convening of Board meetings.

The Board Charter sets up a detailed Board Training guide which provides a framework for induction/orientation of new Board members. The new Board of Directors are provided with a presentation pack containing overview/highlights of GFH.

All the members of the Board at the time of appointment should sign a Directors contract, which contains the terms of the appointment, duties and responsibilities of the members, membership and time commitment, conflicts of interest, resignation and termination, confidentiality of information, requirement for the completion of professional development trainings and other details which the members have to abide by during their tenure of being member of the Board.

Furthermore, all Board members are required to attend a minimum of fifteen (15) hours of continuous professional development training annually in line with the requirements of the Training and Competency Module of the CBB Rulebook Volume 2.

E.3 Board's Performance Evaluation

At GFH, a comprehensive Board Performance Evaluation Pack (framework for the annual self-assessment process by the Board, the Board Committees and Individual Directors) is in place which is in line with the CBB guidelines (HC Module).

The evaluation is to be used to assess Board effectiveness and support in identifying the need for:
- A revised mix of skills/experience on the Board.
- Board training and/or professional support
- Replacement of Individual Directors whose contribution is deemed inadequate.

The Board Performance Evaluation Framework is based on the following - Principles:
- The Board shall, through the Nomination, Remuneration and Governance Committee (NRGC), undertake a formal and rigorous annual evaluation of its own performance and that of its Committees and Individual Directors.
- The Chairman will act on the results of the performance evaluation by recognising the strengths and addressing the weaknesses of the Board. The Chairman of the NRGC will be responsible for the performance evaluation of the Chairman, taking into account the views of other Board Members.
- The evaluation process will be used constructively as a mechanism to improve Board effectiveness, maximise strengths and tackle weaknesses.
- The results of Board evaluation will be shared with the Board as a whole whilst the results of individual assessments will remain confidential between the Chairman and the Director concerned.
- Key results indicators, derived from the strategic plans and objectives, should be used to measure the Board's performance.

The Board Performance Evaluation Framework is based on the following - Methodology:
1) Each Board Member is required to complete the 'Board Performance Evaluation Form' and the "Individual Director's Self Evaluation Form".
2) The Chairman of the Board will also individually evaluate each of the Board Members.
3) NRGC will collate the ratings of the Board (Board Performance Evaluation Form) done by each of the Board Member accordingly; in order to arrive to mean results.
4) Each Committee Members will also perform rating of their respective committee(s).
5) Similarly, NRGC will collate the ratings of each of the Committee (NRGC/BIC/ARC); in order to arrive to mean results of that specific committee.

E.4. Transactions Requiring Board Approval

As part of their central leadership and designated authority, the Board of Directors discuss and approve matters pertaining to Strategic Planning, Business Plan, Policies and Procedures, Annual Report, Financial Statements, Appointment of External Auditors and Strategic Partnerships. Furthermore, other matters such as strategic decisions, investment fund proposals, provisions and write-off limits or credit and exposure limits may require the Board's approval as per the internal designated authority limits.

E.5. Transactions with Related Parties

Details of transactions with related parties are indicated in detail in Note 25 of the consolidated financial statements for the fiscal year ended 31st December, 2021. All related party transactions are approved by the Board of Directors and disclosed to the shareholders in the Annual General Meeting.

E.6. Approval process for Connected Counter Party Transactions

All connected counterparty exposures (within the CBB defined limits) will be approved by the appropriate approving authority as per the Delegate Authority Limit (DAL). Where the approving authority as per DAL is connected / interested, the approval authority shall move to the next level.

In determining whether to approve a Connected Counterparty Transaction, the requesting and approving authority will consider, among other factors, the following factors to the extent relevant to the Connected Counterparty Transaction:
- Exposures to connected counterparties may be justified only when undertaken for the clear commercial advantage of the bank, when negotiated and agreed on an arm's length basis, and when included in the policy statement agreed with the Central Bank.
- No Islamic facilities provided by a bank to its own external auditors shall be permitted (External auditors include firm/ partnership, the partners, the directors and managers of the audit firm). In addition, unless provided for in the contract, off-balance sheet restricted investment accounts will not be permitted to participate in on-balance sheet corporate funding and vice versa and movement within restricted investment accounts is not permitted unless specifically permitted under a valid contract between the bank and the relevant client.
- Whether the terms of the Connected Counterparty Transaction are fair to the Bank and on the same basis as would apply if the transaction did not involve a Connected Counterparty;
- Whether there are business reasons for the Bank to enter into the Connected Counterparty Transaction;
- Whether the Connected Counterparty Transaction would impair the independence of an outside director and;
- Whether the Connected Counterparty Transaction would present an improper conflict of interests for any director or executive officer of the Bank, taking into account the size of the transaction, the overall financial position of the director, executive officer or Connected Counter Party, the direct or indirect nature of the director's, executive officer's or Connected Party's interest in the transaction and the ongoing nature of any proposed relationship, and any other factors the ARC deems relevant.

- The bank must not undertake exposures to controllers as defined under Chapter GR-5 or to subsidiaries of such, however, smaller shareholders will be subject to normal exposure limits outlined under CM-4.4.5. Directors who are also controllers (or the appointed board representatives of such controllers) are subject to a 0% limit.
- The Central Bank's prior written consent should be obtained for any credit facilities provided to an employee where the amount of such facility, either singly or when added to an existing facility/existing facilities outstanding to that employee at that date, would be equal to or in excess of BD 100,000 (Bahrain Dinars One Hundred Thousand), or its equivalent in foreign currency. Banks must notify the Central Bank in writing of any senior employee who fails to discharge his repayment obligations.
- Reciprocal cross-holdings of capital between a bank and its "controllers", which artificially inflate the capital of licensee concerned, are not permitted. Any cross-holdings that occur due to acquisitions or takeovers must be deducted from the concerned bank's capital. Any member of the Board who has an interest in the transaction under discussion will abstain from voting on the approval of the Connected Counterparty Transaction.

E.7. Ownership of shares by Government entities

Authority Name	Government	Shares Owned	% of Shares Owned
General Pension And Social Security Authority	UAE	30,923,070	0.82%
Civil Service Employees Pension Fund	Oman	652,220	0.02%
Diwan Of Royal Court Pension Fund	Oman	6,005,852	0.16%
The Public Authority For Minors Affairs	Kuwait	4,961,659	0.13%
Naimah E. Alessa-Public of Minors Affairs	Kuwait	1,301,207	0.03%
Utah State Retirement System	Utah, USA	243,987	0.01%
Beit Alquran	Bahrain	8,391	0.00%

E.8. Review of internal control and processes

Internal control is a process affected by the Board of Directors, senior management and all levels of personnel. It is not solely a procedure or policy that is performed at a certain point in time, but rather it is continually operating at all levels within the Bank. The Board of Directors and senior management are responsible for establishing the appropriate culture to facilitate an effective internal control process and for monitoring its effectiveness on an ongoing basis; however, each individual within an organisation must participate in the process.

The main objectives of the internal control process can be categorised as follows:
1. Efficiency and effectiveness of activities (performance objectives);
2. Reliability, completeness and timeliness of financial and management information (information objectives); and
3. Compliance with applicable laws and regulations (compliance objectives).

Also, the internal control system of the Bank consists of five (5) interrelated elements:
i. Management oversight and the control culture;
ii. Risk recognition and assessment;
iii. Control activities and segregation of duties;
iv. Information and communication; and
v. Monitoring activities and correcting deficiencies.

E.9. GFH's Client Charter

In line with the CBB requirements, GFH has developed a client's charter which outlines the commitments made by GFH in respect of the quality of services and products delivered to its clients and shareholders. The client's charter, which is available on the bank's website, is an assurance that services provided by the Bank will comply with quality standards. Generally, quality standards are standards that will fulfill clients' and shareholders' needs and expectations.

The client charter also incorporates GFH's Complaints handling procedures and encourages the clients and its shareholders to report any alleged wrongful conduct, malpractice or an improper/ unethical behavior of an employee of the bank.

E.9.1 Dealing with Complaints

GFH is committed to providing its clients with the highest standard of service. However, should a client complain because he/she feels GFH has failed to deliver what it has promised, GFH will do everything possible to ensure that such a complaint is dealt with fairly, promptly and effectively. The information provided here will show you how to:

i. Make a complaint.
ii. Escalate if you are not satisfied with the response provided by GFH in response to your complaint.
iii. Take further action if you are still dissatisfied with the outcome.

- *Mechanism for submitting Complaints:*
  The complaint must be in writing and should be addressed to the Investors' Relations Department and must be marked to the GFH's Compliance Department.

  In compliance with the directives of the Central Bank of Bahrain, GFH has appointed a Complaints Handling Officer, who is responsible for ensuring that the client complaint is acknowledged, properly investigated, and that the Bank's response is adequately communicated to the client.

- *Options for submitting Complaint:*
  a) Hand delivery to GFH's Office (reception) located at 28th Floor, East Tower, Bahrain Financial Harbour, Manama
  b) Via Fax to the following number +973 17 540006
  c) Courier or post to the following address:

     Complaint Handling Officer
     GFH Financial Group B.S.C. 28th Floor, East Tower Bahrain Financial Harbour,
     PO Box 10006, Manama, Kingdom of Bahrain

  d) Or scan and email the written complaint to: iservice@gfh.com

- *What happens once your complaint is submitted?*
  a) Once a client complaint has been submitted, we will acknowledge within five (5) working days.
  b) The client complaint will be referred to the concerned person/department which will investigate it thoroughly and a written response detailing the outcome of our investigation and our decision shall be provided within four (4) weeks of receiving the complaint.
  c) In the unlikely event that the complaint is not answered within the timeframe mentioned in point (b), we will write the reasons why there has been a delay and the additional action that we will take including when we anticipate to have concluded our investigation.
  d) In an event that the complaint is not resolved or that the client is not satisfied with the solution provided by us, he/she has the right to escalate the complaint to the 'Head of Compliance' of GFH. The escalation will be acknowledged as per (a) above and a written answer shall be provided within four (4) weeks from the date of escalation.
  e) After receiving the final response to the escalated complaint, and if the client is still not satisfied, he/she can write directly to the Compliance Directorate of the Central Bank of Bahrain or he/she can submit the case through the "Complaint form" available on the Central Bank of Bahrain website www.cbb.gov.bh, within 30 calendar days from the date of receipt of our final response.
  f) All correspondences in relation to the complaint and records must be retained by GFH for a period of five (5) years from the date of receipt of the complaint.

E.9.2. Whistle-blowing

- *Report an Incident*
  If the client have observed any alleged wrongful conduct, malpractice or an improper/unethical behavior of an employee of the bank, he/she is encouraged to report the incident to the Bank through the following means:

  Report to 'Head of Compliance' or 'Head of Internal Audit' by sending an email at whistleblow@gfh.com; alternatively, send a letter by post at the below address:

  Head of Compliance / Head of Internal Audit
  GFH Financial Group B.S.C, 30th Floor, East Tower Bahrain Financial Harbour,
  P.O. Box 10006, Manama, Kingdom of Bahrain

- *Protection Rights for Whistleblowers*
  a) GFH is committed to the protection of Whistleblowers against potential actions that may be taken in reprisal for making the protected disclosure.
  b) The Whistleblower's identity, the nature of the report, and the suspected person's identity are strictly confidential.
  c) Retaliation against an individual, who in good faith, had made a complaint, disclosed information relating to a complaint or otherwise participated in an investigation relating to a complaint is prohibited regardless of the outcome of the investigation.
  d) The Board Audit & Risk Committee of the bank will be responsible to assess the incident reported and will decide the course of action.

E.10. Details of penalties paid
GFH Financial Group has successfully completed the year with 'zero' penalties.

E.11. Systems and controls for compliance with Sharia and AAOIFI standards
In pursuance with the provisions of its Articles of Association, GFH Financial Group has always carried out its banking activities in compliance with Islamic Sharia principles that constitute an integral part of the entire policies of the Bank. Tasks managed by Sharia Department of GFH include the followings:

1. Ensuring that the necessary approvals of the SSB have been obtained for each project.
2. Ensuring compliance of projects with the Sharia provisions indicated in the Prospectus and the approved structure of the project.
3. Reviewing the financial statements and other issues related to the projects and ensuring that they are in compliance with the Sharia principles.
4. Ensuring that the projects are in compliance with Fatwas and recommendations of the SSB of GFH and the other Sharia Boards, if any.
5. Ensuring that the approval of the SSB is obtained for each financial instrument (such as sale transactions, financing, currency conversion, Sukuks, deposits, etc.), including the approved and concluded contracts and agreements.
6. Reviewing the financial statement to ensure full compliance with the Sharia principles and the requirements and provisions of the Accounting & Auditing Organisation for Islamic Financial Institutions (AAOIFI) as modified by the CBB.
7. Ensuring that all the products and the structures thereof are in compliance with AAOIFI's standards.

For earnings prohibited by Sharia, please refer note 4(z) and note 29 of the consolidated financial statements for the fiscal year ended 31st December 2021.

E.12. Board Code of Conduct
The Board has approved a code of conduct for all staff of the Bank and the Board members. The Code includes guidance on dealing with conflict of interests, insider trading, key person dealing, receiving gifts, system & controls framework, confidentiality etc. It also binds the Directors, Executive Management and staff to the highest standard of professionalism and diligence on discharging their duties. All Board members and senior management of the Bank have affirmed compliance with the Code of Conduct. Board members are excluded from dealings in matters related to an external entity where they hold a position. Any breach of the code is reported to the Board NRGC by the Corporate Secretary, Head of Compliance or the Head of Human Resources. The Board NRGC is responsible to take the necessary action.

E.13. Board Conflict of Interest
Any conflict of interest that might arise from the Board members is governed by the Board Conflict of Interest Policy. Each Board member is required to annually disclose any potential conflict of interest that might arise during the term of their membership. Any transaction that has occurred during their term as a Board member must be disclosed to the Board through the Conflict of Interest Reporting Form. Any conflict of interest arising from any Board member must be ratified by the Board, and the respective Board member will be refrained from voting on that matter.

E.14. Employment of Relatives
The Group maintains Employment of Relatives policy to prevent any potential for favoritism and conflict of interest in decision-making due to factors of kinship in relationships among employees within the Group under the same organization/business entity regardless of difference in department and reporting line. The Group does not permit the employment of relatives (direct family of the employee up to fourth degree and up to the second degree for the employee's spouse) of current Employees. This restriction is not limited to the recruitment and selection only but is also applicable on existing employee of the group in case he/she marries another employee of the group.

All Departmental Head are required to promptly report to Head of Human Resource any changes in status of their respective team-members. Also, all employees are urged, if in doubt, to consult with their respective supervisors and the Human Resource department.

E.15. Remuneration related disclosures
GFH's total compensation approach, which includes the variable remuneration policy, sets out GFH's policy on remuneration for Directors and senior management and the key factors that are taken into account in setting the policy.

The key features of the proposed remuneration framework are summarised below.

Remuneration strategy
It is GFH's basic compensation philosophy to provide a competitive level of total compensation to attract and retain qualified and competent employees. GFH's variable remuneration policy will be driven primarily by a performance- based culture that aligns employee interests with those of the shareholders of GFH. The variable remuneration policy helps ensure effective alignment of remuneration with prudent risk-taking by senior management in the conduct of business.

A robust and effective governance framework ensures that GFH operates within clear parameters of its compensation strategy and policy. All compensation matters, and overall compliance with regulatory requirements, are overseen by the CEO and the Nomination and Remuneration Committee of the Board (NRGC).

The quality and long-term commitment of all our employees is fundamental to our success. We therefore aim to attract, retain and motivate the very best people who are committed to maintaining a career with GFH, and who will perform their role in the long-term interests of our shareholders. GFH's reward package is comprised of the following key elements:

1. Fixed pay;
2. Benefits;
3. Annual performance bonus;
4. Commission for sales staff;
5. Remuneration for senior management from participation in boards of investee entities; and
6. The long-term performance incentive plan

GFH's remuneration policy in particular, considers the role of each employee and has set guidance on whether an employee is a Material Risk Taker and/or an Approved Person in a business line, control or support function. An Approved Person is an employee whose appointment requires prior regulatory approval because of the significance of the role within GFH and an employee is considered a Material Risk Taker if they are the Head of a significant business line or any individuals within their control who has a material impact on GFH's risk profile.

In order to ensure alignment between what we pay our people and our business strategy, we assess individual performance against annual and long-term financial and non-financial objectives summarised in our performance management system. This assessment also takes into account adherence to GFH's values, risks and compliance measures and above all integrity. Altogether, performance is therefore judged not only on what is achieved over the short and long-term but also importantly on how it is achieved, as the NRGC believes the latter contributes to the long-term sustainability of the business.

NRGC role and focus

The NRGC has oversight of all reward policies for GFH's employees. The NRGC is the supervisory and governing body for compensation policy, practices and plans. It is responsible for determining, reviewing and proposing variable remuneration policy for approval by the Board. It is responsible for setting the principles and governance framework for all compensation decisions. The NRGC ensures that all persons must be remunerated fairly and responsibly. The remuneration policy is reviewed on a periodic basis to reflect changes in market practices, compliance with regulations, the business plan, long term objectives and risk profile of GFH.

The responsibilities of the NRGC with regards to GFH's variable remuneration policy, as stated in its mandate, include but are not limited to, the following:

Review, monitor and approve the remuneration policies for the approved persons and material risk-takers, which must be consistent with GFH's corporate values and strategy to ensure that they operate as intended.

a) The committee should be responsible for retaining and overseeing outside consultants or firms for the purpose of reviewing the remuneration of approved persons and material risk-takers, administering remuneration plans, or related matters.
b) Ensure that the remuneration of approved persons and material risk-takers is sufficient enough to attracts and retain persons of the quality needed to run GFH successfully, but that bank avoids paying more than is necessary for that purpose.
c) Approve the individual remuneration amounts, packages and total compensation for each approved person and material risk-taker and make recommendations to the Board of the total variable remuneration (bonus pool) to be distributed, taking account the total remuneration, including salaries, fees, expenses, bonuses and other employee benefits.
d) Evaluate the performance of approved persons and material risk-takers in light of GFH's corporate goals, agreed strategy, objectives and business plans.
e) The committee shall be responsible to the Board for the overview of any employee benefit trust (EBT) or similar arrangements adopted for the purpose of administering the deferred incentive arrangements (including share schemes) of GFH.
f) Ensure that variable remuneration for material risk-takers forms a substantial part of the total remuneration of approved persons and material risk-takers (other than the risk management, internal audit, operations, financial controls, internal Shari'a review/audit, AML and compliance functions personnel.
g) Ensure that for approved persons in risk management, internal audit, operations, financial controls, internal Shari'a review/audit, AML and compliance functions the mix of fixed and variable remuneration is weighted in favour of fixed remuneration.
h) Ensure that the system includes effective controls including stress testing and back testing results of the remuneration policy and that the system's practical operation is regularly reviewed for compliance with regulations, internal policies and bank procedures.
i) Review remuneration outcomes, risk measurements and risk outcomes regularly for consistency with the Board's approved risk appetite, for submission for the Board for its review.
j) Review cases where any ex-ante risk adjustments are to be used to take into account severe but plausible scenarios to the variable remuneration as per GFH's variable remuneration policy.
k) Review cases where the bonus is diminished by exercise of Malus and Clawback adjustments.
l) Question payouts for income that cannot be realised or whose likelihood of realisation remains uncertain at the time of payout.
m) Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves to not using personal hedging strategies or remuneration-and liability-related insurance to undermine the risk alignment affects embedded in their remuneration arrangements.

As outlined in the Corporate Governance section of the Annual Report, the Board is satisfied that all non-executive Directors are independent including the NRGC members. The NRGC comprises of the following members:

NRGC Member Name	Appointment date	Resignation / Restructured date	Number of meetings attended 2021	2020
Mr. Ghazi AlHajeri	25th April 2017	–	1 out of 1	2 out of 2
Mr. Fawaz Al Tamimi	29th December 2020	–	1 out of 1	N/A
Mr. Rashid Al Kaabi	29th December 2020	–	1 out of 1	N/A

The aggregate remuneration paid to NRGC members during the year in the form of sitting fees amounted to $3K (2020: $6K).

Use of consultants:

GFH engaged external consultants to benchmark pay and grading structure to bring it in line with market practices. A consultant was also engaged to develop a framework for introduction of a Long Term Incentive Plan (LTIP) which has been discussed and approved by the Board's NRCG committee and the Board of Directors end of 2019 for implementation effective performance year 2019.

Scope of application of the remuneration policy

The principles of this remuneration policy apply on a group-wide basis. However, application of deferral requirements and issue of non-cash instruments for each subsidiary of GFH will be determined by applicable local regulations and market norms. Currently, deferral arrangements are applicable only to Bahrain domiciled banking entities within the Group.

Board remuneration

GFH will determine board remuneration in line with the provisions of Article 188 of the Commercial Companies Law, 2001. The Board of Directors' remuneration will be capped so that variable remuneration in any financial year (sitting fees is not part of variable remuneration) does not exceed 10% of GFH's net profit, after all required deductions outlined in Article 188 have been made. Remuneration of non-executive directors will not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits. Board remuneration is subject to approval of the shareholders in the annual general meeting.

Variable remuneration for staff

Variable remuneration is performance related and consists primarily of the annual performance bonus award. As part of our staff's variable remuneration, the annual bonus rewards delivery of operational and financial targets set each year, the individual performance of the employees in achieving those targets, and their contribution to delivering GFH's strategic objectives.

GFH has adopted a Board approved framework to develop a transparent link between variable remuneration and performance. The framework is designed on the basis of meeting both satisfactory financial performance targets and the achievement of other non-financial factors, that will, all other things being equal, deliver a target bonus pool for employees, prior to consideration of any allocation to business lines and employees individually. In the framework adopted for determining the variable remuneration pool, the NRGC aims to balance the distribution of GFH's profits between shareholders and employees.

Key performance metrics at GFH level include a combination of short-term and long-term measures and include profitability, solvency, liquidity, risk diversification, strategy implementation and growth indicators. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

In determining the quantum of variable remuneration, GFH has implemented a hybrid model by defining a Top Down (profit based) bonus pool funding for control and support staff and bottom-up (maximum earning opportunity based) pools for Risk Takers. The total bonus pool is capped at a percentage of profit before being assessed for risk. This approach is a starting position and the NRGC may choose to implement a discretionary award for a given year based on affordability for GFH and its assessment of GFH's current and future resource requirements. The bonus pool is adjusted to take account of risk via the use of risk-adjusted measures (including forward-looking considerations), subject to the final discretion of the NRGC.

Under the variable remuneration policy of GFH, placement fees, sales commission or incentives for sales staff is not considered to be part of the variable remuneration (subject to deferral) as it is an integral part of the overall pay structure of the sales and placement staff. Further, these payments are not considered variable remuneration as they are not directly or indirectly linked to GFH-wide performance and are considered activity-based payments.

The NRGC carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. NRGC demonstrates that its decisions are consistent with an assessment of GFH's financial condition and future prospects. A special pool is also considered for recoveries made against any legacy investments and legal cases and is approved on a case-by-case basis by the Board of Directors.

GFH uses a formalised and transparent process to adjust the bonus pool for quality of earnings. If the quality of earnings is not strong, the profit base could be adjusted based on the discretion of the NRGC.

For the overall Bank to have any funding for distribution of a bonus pool, threshold financial targets have to be achieved. The performance measures ensure that total variable remuneration is generally, considerably contracted where subdued or negative financial performance of GFH occurs. Furthermore, the target bonus pool as determined above is subject to risk adjustments in line with the risk assessment and linkage framework.

Remuneration of control and support functions

The remuneration level of staff in the control and support functions allows GFH to employ qualified and experienced personnel in these functions. GFH ensures that the mix of fixed and variable remuneration for control and support function personnel is weighted in favor of fixed remuneration. In exceptional cases, the approval of the NRGC shall be obtained. The variable remuneration of control functions is to be based on function-specific objectives and is not be determined by the financial performance of the business areas they monitor to avoids conflict of interests related to the business unit they are overseeing.

GFH's performance management system plays a major role in deciding the performance of the support and control units on the basis of the objectives set for them. Such objectives are more focused on non-financial targets that include risk, control, compliance and ethical considerations as well as the market and regulatory environment apart from value adding tasks which are specific to each unit.

Variable compensation for business units

The variable remuneration of the business units is primarily determined by key performance objectives set through the performance management system of GFH. Such objectives contain financial and non-financial targets, including risk control, compliance and ethical considerations as well as market and regulatory requirements. The consideration of risk assessments in the performance evaluation of individuals ensures that any two employees who generate the same short- run profits but take different amounts of risk on behalf of GFH are treated differently by the remuneration system.

Risk assessment framework

The purpose of risk linkages to the reward framework is to align variable remuneration to the risk profile of GFH. In its endeavor to do so, GFH considers both quantitative measures and qualitative measures in the risk assessment process. Both quantitative measures and human judgment play a role in determining any risk adjustments. The risk assessment process encompasses the need to ensure that the remuneration policy as designed reduces employees' incentives to take excessive and undue risks, is symmetrical with risk outcomes and delivers an appropriate mix of remuneration that is risk aligned.

GFH's NRGC considers whether the variable remuneration policy is in line with GFH's risk profile and ensures that through GFH's ex-ante and ex-post risk assessment framework and processes, remuneration practices where potential future revenues whose timing and likelihood remain uncertain are carefully evaluated.

Risk adjustments take into account for all types of risk, including intangible and other risks such as reputation risk, liquidity risk, the cost of capital and the strategic measures. GFH undertakes risk assessments to review financial and operational performance against business strategy and risk performance prior to distribution of the annual bonus. GFH ensures that total variable remuneration does not limit its ability to strengthen its capital base.

The bonus pool takes into account the performance of GFH which is considered within the context of GFH's risk management framework. This ensures that the variable pay pool is shaped by risk considerations and Bank-wide notable events. The size of the variable remuneration pool and its allocation within GFH takes into account the full range of current and potential risks, including:

a) The cost and quantity of capital required to support the risks taken;
b) The cost and quantity of the liquidity risk assumed in the conduct of business; and
c) Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

The NRGC keeps itself abreast of GFH's performance against the risk management framework. The NRGC will use this information when considering remuneration to ensure returns, risks and remuneration are aligned. Since 2021 has been an unusual year effected by the global pandemic and consequential market impact, the NRGC has adopted a more qualitative approach in their assessment of performance and rewards.

Risk adjustments

GFH has an ex-post risk assessment framework which is a qualitative assessment to back-test actual performance against prior risk assumptions.

In years where GFH suffers material losses in its financial performance, the risk adjustment framework will consider the following:

- Need for a considerable contraction of GFH's total variable remuneration.
- At an individual level, poor performance by GFH will mean individual KPIs are not met and hence employee performance ratings may be lower
- Reduction in the distribution of amounts previously earned, through increased deferred compensation, which may be paid once GFH's performance improves
- Reduction in the value of deferred shares or awards
- Possible changes in vesting periods and additional deferral applied to unvested rewards
- Lastly, if the qualitative and quantitative impact of a loss incident is considered significant, a malus or clawback of previous variable awards may be considered.

The NRGC, with the Board's approval, can rationalise and make the following discretionary decisions:
- Take no action
- Increase/reduce the ex-ante adjustment
- Consider additional deferrals or increase in the quantum of non-cash awards
- Recovery through malus and clawback arrangements

Malus and Clawback framework
GFH's malus and clawback provisions allow GFH's Board of Directors to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited/ adjusted or the delivered variable remuneration recovered in certain situations. The intention is to allow GFH to respond appropriately if the performance factors on which reward decisions were based turn out not to reflect the corresponding performance in the longer term. All deferred compensation awards contain provisions that enable GFH to reduce or cancel the awards of employees whose individual behavior has had a materially detrimental impact on GFH during the concerned performance year.

Any decision to take back an individual's awards can only be taken by GFH's NRGC. GFH's NRGC takes into account the advice of the CEO, Risk, Finance and HR Departments as appropriate.

GFH's malus and clawback provisions allow GFH's Board to determine that, if appropriate, vested/unvested elements under the deferred bonus plan can be adjusted/cancelled in certain situations. These events include, but not limited to, the following:
- Reasonable evidence of misbehavior or material error by the employee causing harm to GFH's reputation or where his/her/their actions have amounted to misconduct, incompetence or negligence
- The employee's business unit suffers a material downturn in its financial performance or a material restatement of the financial statements of GFH
- The employee's business unit suffers a material risk management failure
- An employee deliberately misled the market and/or shareholders in relation to the financial performance of GFH
- A significant deterioration in the financial health of GFH

Clawback can be used if the malus adjustment on the unvested portion is insufficient given the nature and magnitude of the issue.

Macro-economic impacts (such as COVID-19 related disruptions) that are specific or idiosyncratic to GFH are not considered as basis for malus or clawback.

Components of Variable remuneration
GFH's variable remuneration framework provides for the following key components:

Upfront cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred Cash	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a period of minimum three years.
Upfront share awards	The portion of variable compensation that is awarded and issued in the form of shares on conclusion of the performance evaluation process for each year, but released after a retention period of six months.
Deferred annual bonus (DAB) share awards	The portion of variable compensation that is awarded and paid in the form of shares on a pro-rata basis over a period of minimum three years and an additional retention period of six months once vested. DAB shares are not subject to any additional performance conditions.
Future performance awards (FPA)	The portion of variable compensation which is awarded to selected employees for future performance conditions. The awards are contingent on the delivery of set performance targets for GFH as well as service conditions on part of employees. These awards comprise individually or a combination of the following: • **Long-term Incentive Plan** (LTIP) Shares, where the employees are compensated in form of shares as a percentage on achievement of some pre-determined performance conditions • **Profit share,** where the employees are compensated based on a specified percentage of targeted profit for a transaction, distributable on achievement of targeted return. • **Carried Interest,** where the employees are compensated a specified percentage of fair value gain on investments once it achieves a specified hurdle rate on realisation. • **Co-investment,** wherein as portion of variable remuneration is awarded in the form of an investment made by GFH which is encashable by employee on Bank's exit from the investment. • **Sales/recovery incentive,** where the employee or a team is compensated on the basis of a specified percentage of a sales value of an investment on successful exit or recovery of an asset.

LTIP awards

By end of 2019, GFH has introduced an LTIP scheme which sets performance and service conditions and has a ratable vesting schedule over a period of six years, including an upfront tranche that vested in 2020. In early 2021, the NRC has changed the performance and vesting terms of the LTIP giving due consideration to the effect of LTIP on performance measures and external environment. The new terms affect vesting of future unvested tranches only.

Employee Share Ownership Loan Scheme

GFH may also implement an employee share ownership loan scheme (ESOL Scheme) from time to time to be implemented under any of the Share Incentive Scheme it develops. Such ESOL Scheme, if implemented, shall allow employees to increase their participation in GFH Shares through the utilisation of financing advanced by GFH and the right to acquire GFH shares at the pricing determined in accordance with the applicable ESOL Scheme. The ESOL Scheme is designed to enable eligible participants to increase their holdings of GFH shares on favourable terms but under the funding of the participants themselves.

Establishment of the Trust Instrument

GFH has established a GFH Employee Benefit Trust instrument to hold and manage its deferred staff benefits related to the Variable Remuneration policy. The Trustees shall undertake all of the duties set out in the Bahrain Trust Law and the Trust Instrument.

Deferred compensation

All approved persons and material risk-takers earning over BHD 100,000 in total compensation are subject to deferral of variable remuneration as follows:

Element of variable remuneration	CEO, his deputies and other 5 most highly paid business line employees	Other covered staff	Deferral period	Retention	Malus	Clawback
Upfront cash	40%	50%	immediate	–	–	Yes
Upfront shares	–	10%	immediate	6 months	Yes	Yes
Deferred cash	10%	–	Over 3 years	–	Yes	Yes
Deferred share awards	0%-50%	0%-50%	Over 3 years	6 months	Yes	Yes
Other Non-Cash Awards or FPA	0%-60%	0%-50%	Performance linked	6 months	Yes	Yes

The NRGC, based on its assessment of role profile and risk taken by an employee could increase the coverage of employees that will be subject to deferral arrangements. For the purpose of calculation of benefits, the value of employee benefit on date of the issuance of the award (and to be recognized in the P&L) is considered for the purposes of calculation of total variable compensation and all other measures under the variable remuneration policy.

All deferred and future performance awards are subject to malus provisions. All share awards and related dividends are released to the benefit of the employee after a six-month retention period from the date of vesting. The number of equity share awards is linked to GFH's share price as per the rules of GFH's Share Incentive Scheme.

Details of remuneration paid

(a) Board of Directors

$000's

	2021	2020
Sitting fees	54	81
Remuneration	2,400	1,050
Total	**2,454**	1,131

These above disclosures pertain to information related to the remuneration paid by GFH Financial Group BSC only and excludes any remuneration paid by subsidiaries which are governed by applicable laws for each entity.

Name	Fixed remunerations				Variable remunerations						
	Remunerations of the Chairman and BOD#	Total allowance for attending Board and committee	Others*	Total	Remunerations of the Chairman and BOD#	Incentive plans	Others**	Total	End-of-service award	aggregate amount (Does not include expense allowance)	Expenses Allowance
Independent Directors (Independent and non-exevutive)											
Alia Al Falasi	266,667	9,000	-	275,667	-	-	-	-	-	275,667	-
Ghazi Al Hajer	266,667	5,000	-	271,667	-	-	-	-	-	271,667	-
Fawaz Al Tamimi	266,667	4,000	-	270,667	-	-	-	-	-	270,667	-
Ali Murad	266,667	4,000	-	270,667	-	-	-	-	-	270,667	-
Ahmed Al Ahmadi	266,667	9,000	-	275,667	-	-	-	-	-	275,667	-
Edris Al Rafi	266,667	10,000	-	276,667	-	-	-	-	-	276,667	-
Non-Executive Directors (not independent)											
Jassim Alseddiqi	266,667	4,000	-	270,667	-	-	-	-	-	270,667	-
Rashed Alkaabi	266,667	5,000	-	271,667	-	-	-	-	-	271,667	-
Executive Directors:											
Hisham Alrayes	266,667	4,000	-	270,667	-	-	-	-	-	270,667	-
Total	**2,400,000**	**54,000**	**-**	**2,454,000**	**-**	**-**	**-**	**-**	**-**	**2,454,000**	**-**

 # Represents allocation of the proposed board remuneration for the year 2021.

** No in kind benefits were provided to board members as part of the fixed remuneration.*

*** Board members do not have share of the profits-arrangement of receive any share grants in their capacity as board members.*

(b) Employee remuneration

Executive Management Remuneration Details for Top 6 Executives:

Executive management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/ in kind remuneration for 2021	Aggregate Amount
Remunerations of top 6 executives, including CEO and CFO	2,762,781	3,430,000	1,473,083	7,665,864

Note: *All amounts in $.*

Notes:

1. *In addition to the paid benefits reported above, the Bank also operates a non-recurring long-term share incentive scheme award that allocates shares awards that vests over a period of 6 years under normal terms and are subject to future performance conditions. During the period, the non-cash accounting charge recognized for vested benefits for 2021 amounted to $5,070,312 determined in accordance with the requirements of IFRS 2.*
2. *The total variable remuneration (including annual bonus / other incentives and share-based awards) included $6,088,247 under deferred payment and delivery terms.*
3. *Remuneration information above exclude any Board remuneration earned by executive management from their role in the board of investee companies or other subsidiaries.*
4. *Refer to the Remuneration related disclosures in Annual Report for a better understanding of the Bank's variable remuneration framework components.*

2021 [1,2]

Type of employees	Number of staff	Fixed remuneration: Salaries and Wages	Fixed remuneration: Other Benefits/ Allowances	Fixed remuneration: Total
Members of the Board	9	-	3,654,000	3,654,000
Approved Persons (not included in 1,3 &7)	9	4,194,000	-	4,194,000
Approved Persons in risk management, internal audit, operations, financial controls, AML and compliance functions	9	2,343,289	-	2,343,289
Employees engaged in risk taking activities (business areas)	31	4,358,594	-	4,358,594
Employees other than approved persons engaged in functions under 3	14	1,314,854	-	1,314,854
Other Employees	40	2,763,236	-	2,763,236
Outsourced Empl/Service providers (engaged in risk taking activities)	0	-	-	-
	112	**14,973,973**	**3,654,000**	**18,627,973**

Notes:

1. *The above disclosures exclude remuneration details of Khaleeji Commercial Bank BSC (KHCB) and Projects of GFH (India, Tunis and Morocco, Al Areen Hotel etc) that are consolidated and only include staff of GFH Capital (UAE & KSA) and GFH Properties SPC, which are integral to the business of GFH. Information pertaining to KHCB is separately available within their annual report.*
2. *The financial information is presented based on final approvals by the NRGC and Board of Directors and awards communicated to employees subsequent to the issue of the consolidated financial statements.*
3. *The amounts attributed to share awards are based on the final allocation of bonus pool to deferred share awards after the issue of the financial statements. Additional accounting charge arising due to fair value adjustments on share awards will be reflected in the subsequent accounting periods. Accordingly, the information reported in the table above may not necessarily match with the accounting charge reflected for the financial year. GFH has also announced a Long Term Incentive Plan (LTIP) in 2020 which includes an upfront vested tranche, which has been considered above as performance bonuses in shares for the purpose of deferral calculations. The LTIP benefit has been measured equivalent to the accounting expense and as the effective grant date is in 2020, the cost of LTIP will be recognised ratably over the vesting period of up to 6 years. Subsequent to the year end, in 2021, the NRGC has amended the terms of the remaining LTIP tranches to reflect the impact of COVID-19. The 2020 variable remuneration considers the actual amount of benefit arising from the performance based accelerated vested tranche for performance year 2020 (released in 2021).*
4. *In addition to the compensation reported above, severance payments made during the year amounted to $1,131 (2019: $4,250) of which the highest paid to a single person amounted to $167.04 (2019: $2,052).*

2020 [1,2]

Type of employees	Number of staff	Fixed remuneration	Variable remuneration: Upfront: Cash	Upfront: Shares[3]	Upfront: Commission	Deferred: Cash	Deferred: Shares[3]	Total
Approved Persons: Business lines	8	3,548	3,863	143	216	309	5,870	13,949
Approved Persons: Control & support	8	1,985	611	-	-	-	534	3,816
Other material risk takers	25	4,785	611	71	853	-	-	6,320
Other Employees: Bahrain Operations	50	4,077	928	-	-	-	25	5,030
Other Employees: Other Subsidiaries[1]	39	4,167	770	-	143	-	-	5,080
	130	18,562	6,783	214	1,212	309	6,424	33,509

Variable remuneration						
Performance Bonus in Cash	Performance Bonus in Shares[3]	Other Performance Linked Incentives	Deferred Compensation on Paid During the Period	Others	Total	Total
-	-	-	-	-	3,654,000	3,654,000
6,730,000	7,901,800	850,000	2,709,284	-	18,191,084	22,385,084
1,099,867	969,867	-	766,897	-	2,836,631	5,179,920
1,392,997	79,337	2,749,920	261,167	-	4,483,421	3,333,450
641,989	-	-	140,371	-	782,360	2,097,214
1,037,506	-	-	-	-	1,037,506	3,800,742
	-	-	-	-	-	
10,902,359	**8,951,004**	**3,599,920**	**3,877,719**	-	**30,985,002**	**40,450,410**

(c) Deferred awards

$000's

		Shares		
2021	**Cash**	**Number**	**$**	**Total**
Opening balance	2,077	195,154,192	17,082	**19,159**
Awarded during the period	941	32,211,032	8,951	**9,892**
Paid out / released during the period #	(818)	(118,150,886)	(10,873)	**(11,691)**
Service, performance, modification and risk adjustments	-	(1,369,114)	(84)	**(84)**
Bonus share and other corporate events	-	6,249,484	-	**-**
Closing balance	**2,200**	**114,094,708**	**15,076**	**17,276**

** Includes vested LTIP tranche for the performance year 2021 (to be released in 2022)*
 # Includes upfront tranche of LTIP shares issued in 2022 for performance year 2021.

$000's

		Shares		
2020	Cash	Number	$	Total
Opening balance	2,781	302,740,023	29,763	32,544
Awarded during the period	309	42,087,569	6,643	6,952
Paid out / released during the period *	(1,013)	(147,496,526)	(9,898)	(10,911)
Service, performance, modification and risk adjustments	-	(2,176,874)	(9,426)	(9,426)
Bonus share and other corporate events	-		-	-
Closing balance	2,077	195,154,192	17,082	19,159

** Includes vested LTIP tranche for the performance year 2020 (to be released in 2021)*
 # Includes upfront tranche of LTIP shares issued in 2021 for performance year 2020.

Notes:
The total number of shares include additional employee participation through ESOL approved by the NRGC. However, the value reported above only reflects the fair value benefit that has accrued to the benefit of the employee on award/ modification dates. These are not necessarily reflective of issue price of share awards.

These above disclosures exclude information related to KHCB which is available separately in their annual report.

Risk & Capital Management
Section 05/6

We are committed to taking a responsible approach to risk management to ensure the continuation of positive long-term growth for all stakeholders

05

Risk & Capital Management//
Risk reduced, management refined

08

$ Billion

The Group's total risk weighted assets as of 31 December 2021 amounted to $8.214916 billion.

GFH's risk and management framework adopts international best practices to deliver the highest level of corporate practice, governance & transparency

1. EXECUTIVE SUMMARY

This report contains a description of the Bank's risk management and capital adequacy practices and processes, including detailed information on the capital adequacy process. The report is prepared in accordance with Pillar III disclosure requirements prescribed by the Central Bank of Bahrain, herein referred to as "CBB". CBB's Basel III capital rules and guidelines became effective on 1st January 2015 as the common framework for the implementation of the Basel Committee on Banking Supervision's (Basel Committee) Basel III capital adequacy framework for banks incorporated in the Kingdom of Bahrain.

The disclosures in this report are in addition to or in some cases, serve to clarify the disclosures set out in the consolidated financial statements for the year ended 31 December 2021, presented in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

To avoid any duplication, information required under PD module but already disclosed in other sections of Annual Report has not been reproduced. These disclosures should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2021.

As at 31 December 2021, the Group's total capital ratio stood at a healthy ratio of 13.59%.

The Bank's Tier I and total capital adequacy ratios comply with the minimum capital requirements under the CBB's Basel III / IFSB for Islamic financial institutions framework.

The Group's total risk weighted assets as at 31 December 2021 amounted to $8,214,916 thousand. Credit risk accounted for 91.6 percent, operational risk 7.9 percent, and market risk 0.5 percent of the total risk weighted assets respectively. Tier I and total regulatory capital were $1,063,391 thousand and $1,116,708 thousand respectively, as at 31 December 2021.

At 31 December 2021, Group's CET1 and T1 capital adequacy ratios were at 12.94% and total capital adequacy ratios was at 13.59%.

2. INTRODUCTION

The Basel III framework consists of three mutually reinforcing pillars:

i. Pillar I: Minimum capital requirements for credit risk, market risk and operational risk.

ii. Pillar II: Supervisory review of capital adequacy including Internal Capital Adequacy Assessment process (ICAAP)

iii. Pillar III: Market discipline including rules for disclosure of risk management and capital adequacy.

2.1 Pillar I

Pillar I prescribes the basis for the calculation of the regulatory capital adequacy ratio. Pillar I defines the regulatory minimum capital requirements for each bank to cover the credit risk, market risk and operational risk inherent in its business model.

It also defines the methodology for measurement of these risks and the various elements of qualifying capital. The capital adequacy ratio is calculated by dividing the regulatory capital base by the total Risk Weighted Assets (RWAs).

The resultant ratio is to be maintained above a predetermined and communicated level. The CBB also requires banks incorporated in Bahrain to maintain a 12.5% minimum Total Adequacy Ratio including the above Capital Conservation Buffer (CCB) requirement of 2.5%.

In the event that the capital adequacy ratio falls below 12.5 per cent (consolidated), additional prudential reporting requirements apply, and a formal action plan setting out the measures to be taken to restore the ratio above the target level is to be formulated and submitted to the CBB. Consequently, the CBB requires GFH to maintain a minimum capital adequacy ratio of 12.5 per cent (consolidated).

The table below summarizes the Pillar I risks and the approaches used by the Bank to calculating the RWAs in accordance with the CBB's Basel II capital adequacy framework.

Risk Type	Approach used by GFH
Credit risk	Standardised Approach
Market risk	Standardised Approach
Operational risk	Basic Indicator Approach

2.2 Pillar II

Pillar II deals with the Supervisory Review and Evaluation Process (SREP). It also addresses the Internal Capital Adequacy Assessment Process (ICAAP) to be followed by Banks to assess the overall capital requirements to cover all relevant risks (including those covered under Pillar I).

The ICAAP enables the bank to review the capital impact of assessed Pillar I and Pillar II risks as well as to examine new risk dimensions coming out of existing and new businesses / products. It acts as a mechanism for the evaluation of the long-term strategic growth plans and the short-term annual business plans based on projected risk profile and capital under both expected and adverse scenarios.

The Bank has decided to adopt a Pillar I + Pillar II approach for capital estimation as recommended under CBB guidelines and Basel framework. Under this approach, the banking institutions calculate the Pillar I capital or minimum regulatory capital requirements in accordance to CBB's CAR guidelines under the Basel III framework. Secondly, additional capital or pillar II capital requirement is calculated separately based on an "add-on" approach, where the additional capital requirements are added onto the calculated Pillar I capital requirements, to arrive at the Bank's internal capital requirements.

GFH conducts stress testing of its portfolio as part of the ICAAP process. GFH's objective of stress testing for its ICAAP is to ensure that the Bank can meet its capital requirements at all times in a forward looking manner, including throughout a reasonably severe economic recession or other scenarios specific to the Bank's portfolio and risk profile. The results of the stress tests assist the Bank in ascertaining whether it has sufficient capital in periods of stress.

2.3 Pillar 3

In the CBB's Basel II framework, the Pillar III prescribes how, when, and at what level information should be publicly disclosed about an institution's risk management, governance and capital adequacy practices. The disclosures comprise detailed qualitative and quantitative information. The purpose of the Pillar III disclosure requirements is to complement the first two Pillars and the associated supervisory review process. The disclosures are designed to enable stakeholders and market participants to assess an institution's risk appetite and risk exposures and to encourage all banks, via market pressures, to move towards more advanced forms of risk management.

The current regulations require partial disclosure consisting mainly of quantitative analysis during half year reporting and fuller disclosure during year end to coincide with the financial year-end reporting.

3 OVERALL RISK AND CAPITAL MANAGEMENT

3.1 Risk management framework

GFH perceives strong risk management capabilities to be the foundation in delivering results to customers, investors and shareholders. The Bank will continue to enhance its existing framework and adopt international best practices of risk management, corporate governance and the highest level of market discipline.

The primary objectives of the risk management framework of the Bank are to:

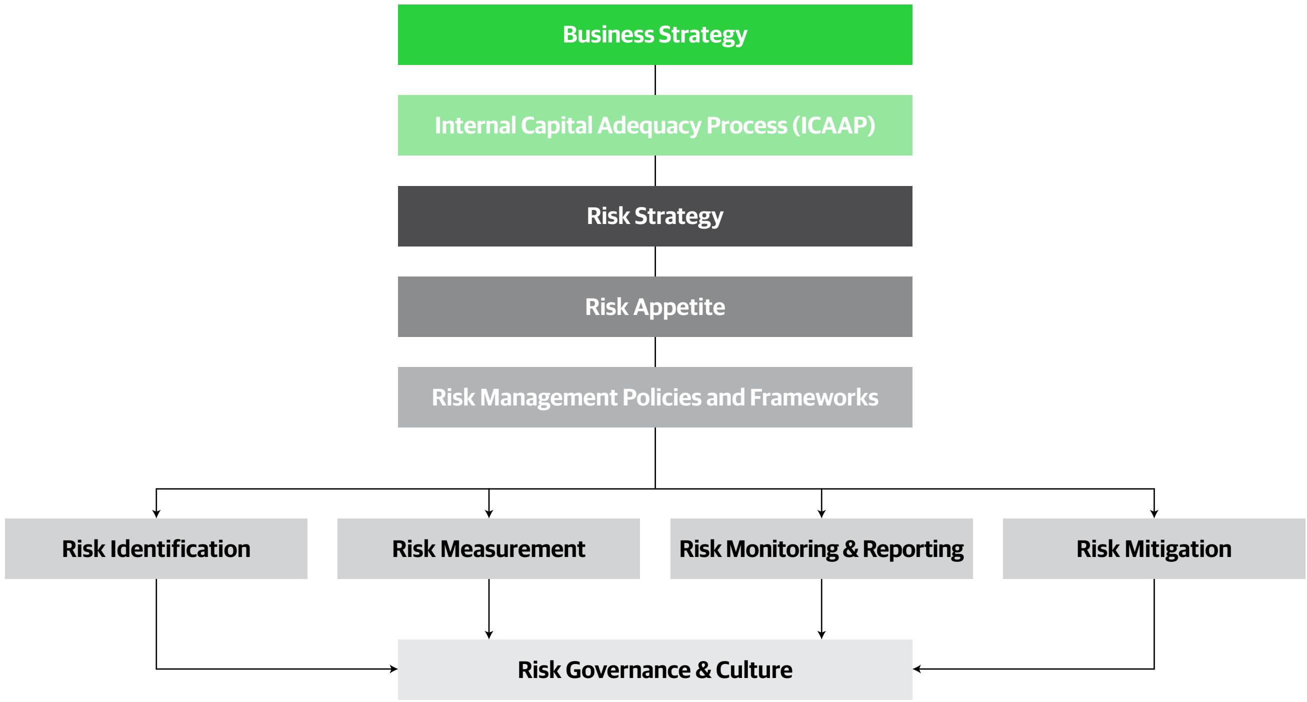
- Manage risks inherent in the Bank's activities in line with the risk appetite of the Bank;
- Strengthen the Bank's risk management practices to reflect the industry best practices; and
- Align internal capital requirements with risk materiality.

The risk strategy is articulated through the limit structures and targets for individual risks. These limits are based on the Bank's business plans, its risk appetite and guided by regulatory requirements and guidance in this regard. The risk limits reflects the level of risk that GFH is prepared to take in order to achieve its objectives. The Bank reviews and realigns its risk limits as per the evolving business plan of the Bank with changing economic and market scenarios. The Bank also assesses its tolerance for specific risk categories and its strategy to manage these risks. The limits outlines the Bank's risk exposures and defines its tolerance levels towards accepting or rejecting these risks. Tolerance levels are reflected in the limits defined by the Bank for each risk area.

Building Blocks of Risk Management Framework

Board of Directors has overall responsibility for establishing risk culture and ensuring that an effective risk management framework is in place.

The diagram below represents the Bank's overall risk management framework and its components:



The risk management framework of the Bank encapsulates the spirit of the following key principles for Risk Management as articulated by Basel and CBB:

- Active Board and senior management oversight and control;
- Independent Risk Management function;
- Board driven sound risk management culture and ownership;
- Appropriate policy, procedures and limits;
- Risk recognition and assessment;
- Control activities and segregation of duties;
- Information and communication;
- Monitoring Risk Management activities and correcting deficiencies;
- Comprehensive and timely identification, measurement, mitigation, controlling, monitoring and reporting of risks;
- Appropriate MIS at a business and Bank-wide level; and
- Comprehensive internal controls.

3.2 Risk governance structure

The Risk Governance structure of the Bank is depicted by the following diagram:

Level 1	Board of Directors Sharia Supervisory Board	Internal Audit
Level 2	Board Committees • Board Nominations, Remuneration and Governance Committee (NRGC) • Board Investment Committee • Board Audit & Risk Committee (ARC)	
Level 3	Senior Management Committees • Management Committee (MANCOM) • Management Investment Committee • Assets Liability Management Committee (ALCO) • Real Estate Committee	
Level 4	Risk Management Department • Credit & Investment Risk • Market Risk • Liquidity Risk • Operational Risk	
Level 5	Desktop level procedures, systems and controls in day to day business	

Our Board of Directors has overall responsibility for establishing our risk culture and ensuring that an effective risk management framework is in place. The Board of Directors approves and periodically reviews our risk management policies and strategies. The Board Audit & Risk Committee ('ARC') is responsible for providing an independent assurance to the Board about the effectiveness of risk management, internal controls, the accounting policies, financial reporting and disclosure practices of the Bank by organizing and managing the internal and external audits and examination of the entire spectrum of the Bank's activities and reporting the findings of such audits and examination to the Board.

The key element of our risk management philosophy is for the Risk Management Department ('RMD') to provide independent monitoring and control while working closely with the business units which ultimately own the risks. The Head of Risk Management reports to Board Audit & Risk Committee and administratively to the CEO.

The RMD plays a pivotal role in monitoring the risks associated with various activities of the Bank. The principal responsibilities of the department are:

- Monitoring The Bank's risks against the Board approved risk appetite.
- Developing and reviewing risk management policies in accordance with the risk management guidelines issued by the CBB, Basel Guidelines, IFSB and international best practices.
- Implementation of risk policies and ensuring that risk policies and practices are adequately built in Business Unit's departmental policies.
- Identifying and recommending risk analysis tools and techniques as required under guidelines issued by Basel, CBB and IFSB and in accordance with best business practices.
- Reviewing the adequacy of the risk limits and providing feed back to the relevant authorities.
- Preparing quarterly risk reports and other risk items and MIS reports for review by various Board and senior management level committees.
- Supports the business units in identification and day-to-day management of risks.
- Developing systems and resources to review the key risk exposures of the Bank and communicating the planned/ executed corrective actions to various Board and senior management level Committees.

3.3 Capital management

The Bank's policy is to maintain a strong capital base and meet the capital requirements imposed by the regulator (CBB), so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The allocation of capital is primarily driven by regulatory requirements. The Bank seeks to maximise return on capital while satisfying all the regulatory requirements.

The Bank has put in place a comprehensive Internal Capital Adequacy Assessment Process (ICAAP) that includes Board and senior management oversight, monitoring, reporting and internal control reviews, to identify and measure the various risks that are not covered under Pillar I risks and to regularly assess the overall capital adequacy considering the risks and the Bank's planned business strategies. The non-Pillar I risks covered under the ICAAP process include concentration risk, liquidity risk, profit rate risk in the banking book and other miscellaneous risks.

The Group does not have a trading book. The Group aims to maintain strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. The Central Bank of Bahrain (CBB) sets and monitors capital requirements for the Bank and the group as a whole. In implementing current capital requirements CBB requires the Bank and the Group to maintain a prescribed ratio of total capital to total risk-weighted assets.

The Bank's regulatory capital is analysed into two tiers:

- **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:**
  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 Tier 2, asset revaluation reserve from revaluation of fixed assets and instruments purposes and 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 2021. The regulations prescribe higher risk weights for certain exposures that exceeds 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.

Risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

3.4 Risk types

The Bank is exposed to various types of risk.

Risks in Pillar 1	• Credit risk • Market risk • Operational risk
Risks in Pillar 2	• Liquidity risk • Concentration risk • Profit rate risk in banking book • Reputational risk • Other risks – including strategic risk, pillar 1 residual risks etc.

The details of components of risks and how they are managed are discussed in the following sections of this document.

3.5 Monitoring and reporting

The RMD, together with the Internal Audit, provide independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board of Directors. The monitoring and reporting frequency depends on the severity and volatility of the risk factor as set out in the respective policies. Risk reports are regularly presented to the senior management committees, ARC and Board as per the reporting requirements set in the risk policies. In addition, the RMD submits a quarterly Risk Overview Report (ROR) to the Board Audit & Risk Committee. The ROR describes the potential issues for a wide range of risk categories and classifies the risks. The ROR also provides management comments as to how risk factors are being addressed and mitigated by the Bank. The Bank has established an adequate system for monitoring and reporting risk exposures and capital adequacy requirements. These reports aim to provide the senior management and Board level committees with an up-to-date view of the risk profile of the Bank.

4 GROUP STRUCTURE

The consolidated financial statements for the year comprise of the financial statements of the Bank and its subsidiaries (together referred to as "the Group") as at 31 December 2021. The Group's financial statements are prepared and published on a full consolidation basis, with all material subsidiaries being consolidated in accordance with AAOIFI. Please refer to notes 4 in the consolidated financial statements for more details on the accounting policies for investments, including subsidiaries and associates of the Bank.

The principal subsidiaries and associates as at 31 December 2021 and their treatment for capital adequacy purposes are as follows:

Subsidiaries	Entity classification as per PCD Module for consolidated capital adequacy	Treatment by the Bank	
		Consolidated	Solo basis
Khaleeji Commercial Bank BSC ('KHCB')	Banking subsidiary	Full consolidation	Full deduction from capital
GBCORP BSC (c) ('GBCorp') **	Banking subsidiary	Full consolidation	Full deduction from capital
GFH Sukuk Limited	Financial entity	Full consolidation	No impact as no direct investment by the Bank and the entity is a securitisation vehicle.
GFH Capital Limited	Financial entity	Full consolidation	Full deduction from capital
GFH Capital Limited KSA	Financial entity	Full consolidation	Full deduction from capital
Morocco Gateway Investment Company	Commercial entity	Risk weighted (look through approach) approved by the CBB on 24 August 2020.[i]	
Tunis Bay Investment Company	Commercial entity		
Gulf Holding Company KSC (c)	Commercial entity	Risk weighting of investment exposure	
KHCB Asset Company		Full consolidation	No impact as no direct investment by the Bank and the entity is a securitisation vehicle.
Delmon Lost Paradise Project Company 1 SPC	Commercial entities	Risk weighting (look through approach) approved by the CBB on 12 June 2019.[i]	
Delmon Lost Paradise Project Company 2 SPC			
Harbour North 1 Real Estate SPC			
Harbour North 2A Real Estate SPC			
Harbour North 2B Real Estate SPC			
Harbour North 3 Real Estate SPC			
Harbour Row 3 Real Estate SPC			
Harbour Row 4 Real Estate SPC			
Harbour Row 2 Real Estate SPC	Commercial entity	Risk weighting of investment exposure	
Falcon Cement Company BSC (c)	Commercial entity	Risk weighting of investment exposure	
GFH Properties SPC	Commercial entity	Risk weighting of investment exposure	
Residential South Real Estate Development SPC	Commercial entity	Risk weighting (look through approach) approved by the CBB. [i]	
Energy City Navi Mumbai Investment Company & Mumbai IT & Telecom Technology Investment Company (together "India Projects")	Commercial entity	Risk weighted (look through approach) approved by the CBB on 24 August 2020.[i]	
Energy City Navi Mumbai Investment Company & Mumbai IT & Telecom Technology Investment Company (together "India Projects")	Commercial entity	Risk weighted (look through approach) approved by the CBB on 24 August 2020.[i]	
Roebuck Asset Management	Commercial entity	Risk weighting of investment exposure	
Athena Private School for Special Education ("Athena")	Commercial entity	Risk weighting of investment exposure	

** The above list does not include subsidiaries and other SPE holding companies of the Bank set up to supplement the activities of the Bank.*

*** The classification and risk weighting of GB Corp's assets is based on management's judgement as GB Corp is not required to submit Form PIRI to CBB in accordance with Volume 2 requirements.*

Associates	Entity classification as per PCD Module for consolidated capital adequacy	Treatment by the Bank for consolidated and solo basis
Bahrain Aluminium Extrusion Company BSC	Commercial entity	Risk weighting of investment exposure
Enshaa Development Real Estate BSC (c)	Commercial entity	Risk weighting of investment exposure
Capital Real Estate Projects BSC	Commercial entity	Risk weighting of investment exposure
Al Areen Hotel S.P.C	Commercial entity	Risk weighting of investment exposure

[i] These are pass-through entities and hence the underlying investments are risk weighted.

The investments in subsidiaries and associates are subject to large exposure and connected counter party limits and guidelines set by the CBB. Significant investment in banking subsidiaries and financial entities that exceed the threshold for deduction from capital, the excess should be deducted from the capital of the Group.

The Central Bank of Bahrain, vide its letter dated 6 July 2021, has continued the exemption granted to GFH Financial Group from including the assets acquired via recovery and via the shares swap as part of the Large Exposure and Connected Counterparty limits. The same will be reassessed by Central Bank of Bahrain on an annual basis.

The Central Bank of Bahrain vide its email dated 24 August 2020, has granted exemption to GFH Financial Group to apply the look-through treatment on Bank's equity ownership in subsidiaries/projects in India, Tunis and Morocco. KHCB, a banking subsidiary of the Bank, is a locally incorporated commercial bank and the specific quantitative and qualitative disclosures pertaining to all the risks of KHCB have been disclosed in the Risk Management Disclosures of KHCB as at 31 December 2021, which can be accessed through the Annual report of KHCB. This document provides the risk and capital management disclosures of the Bank. The KHCB specific disclosures and requirements are disclosed in the annual report of KHCB and are not reproduced in this document.

This document intends to combine the risk and capital management disclosures of the Bank and its involvement with its subsidiaries and associates. The quantitative disclosures in these documents provide further details of the exposures used for capital calculation purposes (where some entities are consolidated and some may be risk weighted) and accordingly will not match with the consolidated financial statements of the Group.

There are no restrictions for transfer of capital other than those applicable to licensed financial entities and process of commercial companies' law of respective jurisdictions.

5 COMPOSITION OF CAPITAL

5.1 Three steps approach to reconciliation between balance sheet in published financial statements and the composition of capital disclosure template

Statement of financial position under the regulatory scope of consolidation and reconciliation of published financial statements to regulatory reporting as at 31 December 2021

The table below shows the link between the statement of financial position in the published financial statements (accounting statement of financial position) and the regulatory statement of financial position.

$000's

As at 31 December 2021	Consolidated Statement of Financial Position as in published financial statements	Consolidated Statement of Financial Position as per Regulatory Reporting	Reference
ASSETS			
Cash and bank balance	722,471	722,496	
Of which Expected Credit Losses (ECL) resulting from adoption of FAS 30	(23)	–	A
Treasury portfolio	3,089,925	3,099,043	
Of which Expected Credit Losses (ECL) as per FAS 30	(9,161)	–	A
Financing assets	1,311,002	1,341,986	
Of which Expected Credit Losses (ECL) as per FAS 30	(28,808)	–	A
Real estate investments	1,905,598	526,203	
Proprietary investments	211,638	211,638	
Of which non-significant investments in financial entities	–	7,722	B
Of which significant investments in the common stock of financial entity	–	4,270	C
Co-investments	171,877	171,877	
Receivables and prepayments	531,488	1,909,057	
Of which Expected Credit Losses (ECL) as per FAS 30	(10,675)	–	A
Property and equipment	139,687	139,687	
Total assets	**8,083,686**	**8,121,987**	

As at 31 December 2021	Consolidated Statement of Financial Position as in published financial statements	Consolidated Statement of Financial Position as per Regulatory Reporting	Reference
LIABILITIES			
Clients' fund	216,762	216,762	
Placements from financial institutions, non-financials and individuals	3,052,092	3,052,092	
Customer current accounts	133,046	133,046	
Term financing	1,750,667	1,750,667	
Other liabilities	404,654	404,654	
Total liabilities	**5,557,221**	**5,557,221**	
Equity of investment account holders	**1,358,344**	**1,358,344**	
OWNERS' EQUITY			
Share capital	1,000,638	1,000,638	D
Treasury shares	(48,498)	(48,498)	E
Statutory reserve	27,970	27,970	F
Fair value reserve	(28,561)	(28,561)	G
Retained earnings	81,811	81,811	H
Foreign currency translation reserve	(70,266)	(70,266)	
Share grant reserve	–	–	I
Total equity attributable to shareholders of the Bank	**963,094**	**963,094**	
ECL (Stage 1 & 2)	**-**	**38,301**	**A**
Non-controlling interests	205,027	205,027	
Of which Total minority interest in banking subsidiaries given recognition in CET1 capital	–	30,031	J
Total owners' equity	**1,168,121**	**1,206,422**	
Total liabilities, equity of investment account holders and owners' equity	**8,083,686**	**8,121,987**	

The table below shows the total assets and shareholders' equity of the Bank's subsidiaries as at 31 December 2021 which are unconsolidated for capital adequacy calculation purposes. For principal activities of these subsidiaries refer Note 1 of the consolidated financial statements as at 31 December 2021.

$000's

Entity name	Principal activities	Total Assets *	Total Shareholders' equity *
Morocco Gateway Investment Company	Real estate development	153,869	102,273
India Project	Real estate development	565,696	440,995
Tunis Bay Investment Company	Real estate development	134,143	66,350
Gulf Holding Company	Real estate development	41,855	31,035
Residential South Real Estate Development Company (RSRED)	Real estate development	317,627	59,515
Roebuck A M LLP ("RAM")	Property asset management Company	4,144	4,012
Harbour House	Real Estate leased property	19,623	(648)
Falcon Cement Company	Industrial services	102,698	52,155
Athena School	Educational services	31,605	(2,923)

**The numbers disclosed are before considering acquisition accounting adjustments and intercompany eliminations.*

5 COMPOSITION OF CAPITAL (contd.)

Composition of Regulatory Capital as at 31 December 2021

$000's

	Component of regulatory capital reported by bank	Source based on reference letters of the statement of financial position under the regulatory scope of consolidation
Common Equity Tier 1 capital: instruments and reserves		
Directly issued qualifying common share capital plus related stock surplus	1,000,638	D
Retained earnings	81,811	H
Accumulated other comprehensive income (and other reserves)	(591)	F+G+I
Not applicable		
Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	30,031	J
Common Equity Tier 1 capital before regulatory adjustments	**1,111,889**	
Common Equity Tier 1 capital: regulatory adjustments		
Prudential valuation adjustments	–	
Goodwill (net of related tax liability)	–	
Other intangibles other than mortgage-servicing rights (net of related tax liability)	–	
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	–	
Cash-flow hedge reserve	–	
Shortfall of provisions to expected losses	–	
Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	–	
Not applicable		
Defined-benefit pension fund net assets	–	
Investments in own shares	(48,498)	E
Reciprocal cross-holdings in common equity	–	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	–	
Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	–	
Mortgage servicing rights (amount above 10% threshold)	–	
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	–	
Amount exceeding the 15% threshold	–	
of which: significant investments in the common stock of financials	–	
of which: mortgage servicing rights	–	
of which: deferred tax assets arising from temporary differences	–	
CBB specific regulatory adjustments	–	
Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	–	
Total regulatory adjustments to Common equity Tier 1	–	
Common Equity Tier 1 capital (CET1)	**1,063,391**	

	Component of regulatory capital reported by bank	Source based on reference letters of the statement of financial position under the regulatory scope of consolidation
Additional Tier 1 capital: instruments		
Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	
of which: classified as equity under applicable accounting standards	-	
of which: classified as liabilities under applicable accounting standards	-	
Directly issued capital instruments subject to phase out from Additional Tier 1	-	
Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-	
of which: instruments issued by subsidiaries subject to phase out	-	
Additional Tier 1 capital before regulatory adjustments	-	
Additional Tier 1 capital: regulatory adjustments		
Investments in own Additional Tier 1 instruments	-	
Reciprocal cross-holdings in Additional Tier 1 instruments	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	
Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
CBB specific regulatory adjustments	-	
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
Total regulatory adjustments to Additional Tier 1 capital	**-**	
Additional Tier 1 capital (AT1)	**-**	
Tier 1 capital (T1 = CET1 + AT1)	**1,063,391**	
Tier 2 capital: instruments and provisions		
Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
Directly issued capital instruments subject to phase out from Tier 2	-	
Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	15,016	
of which: instruments issued by subsidiaries subject to phase out	-	
Provisions	38,301	A
Tier 2 capital before regulatory adjustments	**53,317**	
Tier 2 capital: regulatory adjustments		
Investments in own Tier 2 instruments	-	
Reciprocal cross-holdings in Tier 2 instruments	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	
Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
National specific regulatory adjustments	-	
Total regulatory adjustments to Tier 2 capital	**-**	
Tier 2 capital (T2)	**53,317**	
Total capital (TC = T1 + T2)	**1,116,708**	
Total risk weighted assets	**8,214,916**	

5 COMPOSITION OF CAPITAL (contd.)

Composition of Regulatory Capital as at 31 December 2021

	Component of regulatory capital reported by bank	Source based on reference letters of the statement of financial position under the regulatory scope of consolidation
Capital ratios and buffers		
Common Equity Tier 1 (as a percentage of risk weighted assets)	12.94%	
Tier 1 (as a percentage of risk weighted assets)	12.94%	
Total capital (as a percentage of risk weighted assets)	13.59%	
Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk weighted assets)	N/A	
of which: capital conservation buffer requirement	N/A	
of which: bank specific countercyclical buffer requirement	N/A	
of which: D-SIB buffer requirement	N/A	
Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	12.94%	
National minima including CCB (where different from Basel III)		
CBB Common Equity Tier 1 minimum ratio	9.0%	
CBB Tier 1 minimum ratio	10.5%	
CBB total capital minimum ratio	12.5%	
Amounts below the thresholds for deduction (before risk weighting)		
Non-significant investments in the capital of other financials	7,722	B
Significant investments in the common stock of financials	4,270	C
Mortgage servicing rights (net of related tax liability)	-	
Deferred tax assets arising from temporary differences (net of related tax liability)	-	
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	38,301	A
Cap on inclusion of provisions in Tier 2 under standardized approach	-	
N/A	-	
N/A	-	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2019 and 1 Jan 2023)		
Current cap on CET1 instruments subject to phase out arrangements	NA	
Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	NA	
Current cap on AT1 instruments subject to phase out arrangements	NA	
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	NA	
Current cap on T2 instruments subject to phase out arrangements	NA	
Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	NA	

Disclosure template for main features of regulatory capital instrument

Issuer	GFH Financial Group B.S.C
Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	GFH (DFM), GFH (BHB), GFH (KSE)
Governing law(s) of the instrument Regulatory treatment	All applicable laws and regulations in the Kingdom of Bahrain.
Regulatory treatment	
Transitional CBB rules	Common Equity Tier 1
Post-transitional CBB rules	Common Equity Tier 1
Eligible at solo/group/group & solo	Group and solo
Instrument type (types to be specified by each jurisdiction)	Common equity shares
Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date)	$1 billion
Par value of instrument	$0.265
Accounting classification	Shareholders' equity
Original date of issuance	1999
Perpetual or dated	Not applicable
Original maturity date	Not applicable
Issuer call subject to prior supervisory approval	Not applicable
Optional call date, contingent call dates and redemption amount	Not applicable
Subsequent call dates, if applicable Coupons / dividends	Not applicable
Dividends	Dividends as decided by the shareholders
Coupon rate and any related index	Not applicable
Existence of a dividend stopper	Not applicable
Fully discretionary, partially discretionary or mandatory	Fully discretionary
Existence of step up or other incentive to redeem	Not applicable
Noncumulative or cumulative	Not applicable
Convertible or non-convertible	Not applicable
If convertible, conversion trigger (s)	Not applicable
If convertible, fully or partially	Not applicable
If convertible, conversion rate	Not applicable
If convertible, mandatory or optional conversion	Not applicable
If convertible, specify instrument type convertible into	Not applicable
If convertible, specify issuer of instrument it converts into	Not applicable
Write-down feature	Not applicable
If write-down, write-down trigger(s)	Not applicable
If write-down, full or partial	Not applicable
If write-down, permanent or temporary	Not applicable
If temporary write-down, description of write-up mechanism	Not applicable
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not applicable
Non-compliant transitioned features	Not applicable
If yes, specify non-compliant features	Not applicable

6 CAPITAL STRUCTURE AND CAPITAL ADEQUACY RATIO

6.1 Capital adequacy

The Bank's regulator CBB sets and monitors capital requirements for the Bank as a whole (i.e. at a consolidated level). The banks are required to maintain minimum capital adequacy ratio of 12.5% on a consolidated basis [i.e. CET1 – 6.5%, AT1-1.5%, Tier 2 – 2% and CCB – 2.5%] and a capital adequacy ratio of 8% on a solo basis [i.e. CET1 – 4.5%, AT1 – 1.5% and Tier 2– 2%]. Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Bank's policy is to maintain strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

The Bank has adopted the standardised approach to credit and market risk and basic indicator approach for operational risk management under the revised framework.

The Group's regulatory capital position at 31 December 2021 was as follows:

$'000s

Total Capital	31 December 2021
Common Equity Tier 1 (CET 1)	
Issue and fully paid ordinary shares	1,000,638
Less: Treasury shares	(48,498)
Statutory reserve	27,970
Retained earnings	(10,806)
Current interim cumulative net profit	92,617
Other reserves	(28,561)
Total CET1 capital before minority interest	**1,033,360**
Total minority interest in banking subsidiaries given recognition in CET1 capital	30,031
Total CET1 capital prior to the regulatory adjustments	**1,063,391**
Less: Investment in own shares	–
Total CET1 capital after to the regulatory adjustments	**1,063,391**
Other capital - Additional Tier 1 (AT1) & Tier 2 (T2) capital Instruments issued by banking subsidiaries to third parties	
– AT1	–
– T2	15,016
General financing loss provisions	
– T2	38,301
Total Available AT1 & T2 capital	**53,317**
Total Capital	**1,116,708**

Risk-weighted exposures	31 December 2021
Credit risk	7,521,407
Market risk	38,475
Operational risk	655,034
Total Risk Weighted Exposures	**8,214,916**

CET1 ratio	12.94%
T1 ratio	12.94%
Total Capital Adequacy ratio (Total Capital)	**13.59%**

Total and Tier 1 Capital ratios of Khaleeji Commercial Bank BSC (c) (significant banking subsidiary of GFH) are as follows:

Capital adequacy ratio (CET1 and T1)	12.69%
Capital adequacy ratio (T1)	18.19%
Total capital Adequacy ratio (Total capital)	**19.31%**

The Bank's paid up capital consists only of ordinary shares which have proportionate voting rights.

7 CREDIT RISK

7.1 Introduction

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's, placements with financial institutions, financing assets, and other receivables balances. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

The Bank does not have a trading book and hence all of its equity investments are classified in the banking book and are subject to credit risk weighting under the capital adequacy framework. For regulatory capital computation purposes, the Bank's equity investments in the banking book include investments carried at fair value through equity, investments designated at fair value through profit or loss, significant and majority investments in commercial entities and associate investments in non-significant financial and non-financial entities (as significant financial entities which qualify as associates are treated separately for regulatory purposes).

7.2 Credit risk management

The Bank is primarily exposed to credit risk from placements with other financial institutions, investment in sukuks, receivables from its investment banking services and in respect of funding made (both in the form of financing and short-term liquidity facilities) to its projects and other direct credit facilities provided.

The Bank has an established internal process for assessing credit risk. The Bank has established investment and credit risk policies covering credit risk identification, and assessment, risk reporting, documentation and legal procedures, and compliance with regulatory and statutory requirements. The policies are supplemented by an internal authorisation structure for the approval and renewal of investment and credit facilities. Authorisation limits for credit facilities are as per the Board approved Delegated Authority Limits (DAL). The RMD assesses all investment and credit proposals prior to investments / facilities being committed. RMD lists down its concerns, performs internal rating and provides final risk comments on all applications prior to circulation for sign off. Renewals and reviews of investments / facilities are subject to the same review process. Investment updates are periodically reviewed by the Board of Directors. Regular audits of business units and credit processes are undertaken by Internal Audit.

Please refer Note 36 to the consolidated financial statements for additional details on the processes for measuring and managing credit risk.

7 CREDIT RISK (contd.)

7.3 Capital requirements for credit risk

To assess its capital adequacy requirements for credit risk in accordance with the CBB requirements, the Bank adopts standardized approach. According to standardized approach, on and off balance sheet credit exposures are assigned to various defined categories based on the type of counterparty or underlying exposure. Risk Weighted Assets (RWAs) are calculated based on prescribed risk weights by CBB.

Following is the Group's analysis for credit risk as computed for regulatory capital adequacy purposes:

$000's

Exposure Class	Gross Credit Exposures	Credit Risk Mitigant	Credit Risk Exposure After Credit Risk Mitigant	Average Risk weights	Total Credit risk Weighted Exposure
Self-financed assets					
Cash items	8,482	–	8,482	0%	–
Total claims on sovereign and PSEs treated as sovereign	1,577,559	–	1,577,559	0%-100%	196,475
Standard Risk Weights for Claims on Banks	319,167	–	319,167	20%-150%	168,919
Short term Claims on Banks	241,641	–	241,641	20%	48,328
Preferential Risk Weight for Claims on Banks	1,745	–	1,745	20%	349
Claims on Corporates	1,364,566	(193,488)	1,171,078	20%-150%	1,153,767
Mortgage	1,971	(1,321)	650	35%	228
Past Due Facilities	139,547	(18,859)	120,688	100%-150%	169,927
Investments in Equity Securities and Equity Sukuk	471,603	–	471,603	100%-800%	1,105,690
Holding of Real Estate	1,878,134	–	1,878,134	200%-400%	4,266,166
Other Assets	124,526	–	124,526	100%	124,526
Total self-financed assets (A)	**6,128,941**	**(213,668)**	**5,915,273**	**0%-800%**	**7,234,375**
Total regulatory capital required - self-financed assets (A x 12.5%)				**12.5%**	**904,297**
Financed by EIAH					
Total claims on sovereign	466,995	–	466,995	0%	–
Total Claims on PSEs	24,896	–	24,896	0%-50%	3,000
Standard Risk Weights for Claims on Banks	192,525	–	192,525	20%-50%	96,024
Short term Claims on Banks	11,641	–	11,641	20%	2,328
Claims on Corporates	585,057	(47,237)	537,820	100%-150%	545,751
Mortgage	196,782	(169,114)	27,668	35%	9,684
Investments in Equity Securities and Equity Sukuk	200,000	–	200,000	150%	300,000
Total financed by EIAH (B)	**1,677,896**	**(216,351)**	**1,461,545**	**0%-150%**	**956,787**
Considered for credit risk (C) = (B x 30%)				**30%**	**287,036**
Total regulatory capital required - financed by EIAH (C x 12.5%)				**12.5%**	**35,880**
Total risk weighted assets (A+C)					**7,521,411**
Minimum regulatory capital required (at 12.5%)					**940,176**

7.4 Quantitative information on credit risk

7.4.1 Gross and average credit exposure

The following are gross credit risk exposures considered for Capital Adequacy Ratio calculations of the Group classified as per disclosure in the consolidated financial statements:

$000's

Balance Sheet Items	Self Finance	EIAH	Total Gross Credit Exposure	Average Gross Credit Exposure*
Cash and bank balances	586,354	136,117	722,471	650,265
Treasury portfolio	2,448,179	641,746	3,089,925	2,554,450
Financing assets	730,521	580,481	1,311,002	1,274,852
Real estate investments	1,905,598	-	1,905,598	1,848,797
Proprietary investments	211,638	-	211,638	182,404
Co-investments	171,877	-	171,877	139,103
Receivables and prepayments	531,488	-	531,488	615,645
Property and equipment	139,687	-	139,687	139,196
Total funded exposure	**6,725,342**	**1,358,344**	**8,083,686**	**7,404,712**
Commitments	155,428	-	155,428	165,476
Restricted investment accounts	28,529	-	28,529	28,490
Total unfunded exposure	**183,957**	-	**183,957**	**193,966**

** Average gross credit exposures have been calculated based on the average of balances outstanding on a quarterly basis during the year ended 31 December 2021. Assets funded by EIAH are geographically classified in GCC countries, Asia and Europe. Placements with financial and other institutions that are funded by EIAH are placed with Banks and financial institutions having maturity profile of up to 3 months.*

7.4.2 Credit exposure by geography

The classification of credit exposure by geography, based on the location of the counterparty, was as follows:

$000's

	GCC Countries	MENA	Asia	North America	Others	Total
Assets						
Cash and bank balances	577,879	2,097	1,097	67,254	74,144	722,471
Treasury portfolio	2,542,088	95,093	100,244	61,575	290,925	3,089,925
Financing assets	1,295,063	-	-	-	15,939	1,311,002
Real estate investment	1,076,694	489,903	329,444	-	9,557	1,905,598
Proprietary investment	157,830	-	-	-	53,808	211,638
Co-investments	52,459	-	72,235	44,701	2,482	171,877
Receivables and prepayments	496,230	10,440	11,589	8,072	5,157	531,488
Property and equipment	133,854	5,655	-	-	178	139,687
Total assets	**6,332,097**	**603,188**	**514,609**	**181,602**	**452,190**	**8,083,686**
Equity of investment account holders	1,334,623	1,700	21,907	3	111	1,358,344
Off-Balance sheet items						
Commitments	135,342	-	-	20,086	-	155,428
Restricted investment accounts	25,896	-	-	-	2,633	28,529

7 CREDIT RISK (contd.)

7.4 Quantitative information on credit risk (contd.)

7.4.3 Credit exposure by industry

The classification of credit exposure by industry was as follows:

$000's

	Banks and Financial Institutions	Real Estate	Others	Total
Assets				
Cash and bank balances	709,908	5,691	6,872	722,471
Treasury portfolio	2,224,184	6,012	859,729	3,089,925
Financing assets	124,783	499,559	686,660	1,311,002
Real estate investments	662,501	1,212,772	30,325	1,905,598
Proprietary investment	10,427	154,228	46,983	211,638
Co-investment	–	153,270	18,607	171,877
Receivables and prepayments	444,477	7,245	79,766	531,488
Property and equipment	5,770	23,492	110,425	139,687
Total assets	**4,182,050**	**2,062,269**	**1,839,367**	**8,083,686**
Equity of Investment account holders	220,935	60,469	1,076,940	1,358,344
Off-Balance sheet items				
Commitments	–	68,701	86,727	155,428
Restricted investment accounts	–	25,698	2,831	28,529

7.4.4 Credit exposure by maturity

The maturity profile of credit exposures based on expected maturity was as follows:

$000's

	Up to 3 Months	3 to 6 Months	6 Months-1 Year	1 to 3 Years	Over 3 Years	Total
Assets						
Cash and bank balances	704,672	6,772	9,650	1,377	–	722,471
Treasury portfolio	1,026,476	91,561	31,243	454,734	1,485,911	3,089,925
Financing assets	308,830	64,197	95,926	418,316	423,733	1,311,002
Real estate investment	–	–	–	937,463	968,135	1,905,598
Proprietary investments	–	–	53,806	61,755	96,077	211,638
Co-investments	–	2,676	23,607	139,535	6,059	171,877
Receivables and Prepayments	149,490	14,283	109,058	214,392	44,265	531,488
Property and equipment	–	–	–	–	139,687	139,687
	2,189,468	**179,489**	**323,290**	**2,227,572**	**3,163,867**	**8,083,686**
Equity of investment account holders	237,280	269,297	377,042	235,597	239,128	1,358,344
Off balance sheet items						
Commitments	114	3,308	17,268	118,611	16,127	155,428
Restricted investment accounts	–	–	–	28,529	–	28,529

The table above shows the maturity profile of the Group's assets and unrecognized commitments on the basis of their contractual maturity, here available. For other items, (including past due receivables), the maturity profile is on the basis of their expected realization. The total assets are reconciled to the gross credit exposures considered for capital adequacy computation purposes.

7.5 Large exposures

The CBB has set single exposure limit of 15% of the Bank's total capital base on exposures to individual and a combined exposure limit of 25% of total capital base of closely connected counterparties. The excess amount of any exposure above the mentioned thresholds must be risk weighted at 800%, unless it is an exempt exposure in accordance with the requirements of CBB rulebook.
All large exposures in excess of 15% of capital base as at 31 December 2021 has been risk weighted at 800%. Also the combined exposures in excess of 25% of total capital base of closely connected counterparties have been risk weighted at 800%.

The following are the large exposure counterparties in excess of 15% of capital base.

$000's

Single exposure in excess of 15% of capital base	% of capital	Exposure as at 31 December 2021
Counterparty A	20.43%	228,124

7.6 Impaired facilities and past-due exposures

The Bank classifies credit exposures into two broad categories "Unimpaired" and "Impaired", reflecting risk of default and the availability of collateral or other credit risk mitigation. The Bank does not perform a collective assessment of impairment for its credit exposures as the credit characteristics of each exposure is considered to be different. Credit and investment exposures are subject to regular reviews by the Investment units and RMD.

The definition and details of impaired assets, past due but not impaired exposures and policy for establishing an allowance account and write-off of an exposure is provided for in Note 36 to the consolidated financial statements. The details of changes in impairment allowances for financial assets are provided for in the notes to the consolidated financial statements.

All impaired and past due credit exposures at 31 December 2021 mainly relate to the real estate and development infrastructure sectors.

7.7 Credit risk mitigation

The credit risk exposures faced by the Bank are primarily related to placements with other financial institutions, investments in sukuks, other credit facilities and in respect of investment related funding made to its projects. The funding made to the projects are based on the assessment of the underlying value of the assets and the expected streams of cash flows.

The Bank shall conduct all necessary due-diligence irrespective of obtaining credit risk mitigates. As a principle, the Bank should try, on a best effort basis, not to extend facilities without any security / collateral. Only eligible collaterals as per the CBB guidelines shall be considered for reducing the capital requirement though the Bank can continue to take non-eligible collaterals to safeguard its exposure subject to obtaining requisite approvals. As a matter of principle, collateral should not replace a careful assessment of the borrower's ability to repay.

7.8 Related party and intra-group transactions

Related counterparties are those entities which are connected to the Bank through significant shareholding or control or both. The Bank has entered into business transactions with such counterparties in the normal course of its business. For the purpose of identification of related parties the Bank strictly follows the guidelines issued by Central Bank of Bahrain and definitions as per FAS issued by AAOIFI. Detailed break up of exposure to related parties has been presented in Note 25 to the consolidated financial statements.

7.9 Exposure to highly leveraged and other high-risk counterparties

The Bank has no exposure to highly leveraged and other high risk counterparties as per definition provided in the CBB rule book PD 1.3.24.

7.10 Restructured facilities

As at 31 December 2021, other assets which are neither past due nor impaired include certain short-term financing to projects which were renegotiated during the year (refer note 36 to the consolidated financial statements). In certain cases, on a need basis, the Bank supports its projects by providing credit facilities. These facilities are provided based on assessment of cash flow requirements of the projects and the projects ability to repay the financing amounts based on its operating cash flows. The assessment is independently reviewed by the RMD. The terms of the renegotiation primarily include extension of the repayment period. The facilities are provided for as viewed necessary based on periodic impairment assessments.

7.11 Equity investments held in banking book

The Bank does not have a trading book and hence all of its equity investments and other investments are classified in the banking book and are subject to credit risk weighting under the capital adequacy framework. For regulatory capital computation purposes, the Bank's equity investments in the banking book include available-for-sale investments, significant and majority investments in commercial entities and associate investments in non-significant financial and non-financial entities (i.e. significant financial entities which qualify as associates are treated separately for regulatory purposes).

Please refer to the notes to the consolidated financial statements for policies covering the valuation and accounting of equity holdings, including the accounting policies and valuation methodologies used, key assumptions and practices affecting valuation.

The RMD provides an independent review of all transactions. A fair evaluation and impairment assessment of investments takes place. Investment updates are periodically reviewed by the Board of Directors. Regular audits of business units and processes are undertaken by Internal Audit.

The Bank's equity investments are predominantly in its own projects, which include venture capital, private equity, asset management, real estate development and development infrastructure investment products. The intent of such investments is a later stage exit along with the investors principally by means of sell outs at the project level or through initial public offerings. The Bank also has a strategic financial institutions investment and treasury portfolio which is aligned with the long term investment objectives of the Group.

Information on equity investments	$000's
Privately held	787,488
Quoted in an active market	13
Dividend income	15,150
Realised gain/ (loss) during the year	7,814

The following are the categories under which equity investments are included in the capital adequacy computations as per the requirements of the CBB rules:

$000's

	Gross exposure	Risk weight	Risk weighted exposure	Capital charge 12.5%
Listed equity investment	-	100%	-	-
Unlisted equity investment*	161,533	150%	242,299	30,287
Significant investment in the common shares of financial entities >10%	4,270	250%	10,675	1,334
Other exposures with excess of large exposures limits	60,618	800%	484,944	60,618
Investments in unrated funds - unlisted	245,182	150%	367,773	45,972
Premises occupied by the bank*	-	100%	-	-
All other holdings of real estate*	1,623,179	200%	3,246,358	405,795
Investment in listed real estate companies	13	300%	39	5
Investment in unlisted real estate companies*	254,942	400%	1,019,768	127,471
Total	**2,349,737**		**5,371,856**	**671,482**

**Includes amounts of risk weighted assets arising from full consolidation of KHCB.*

8 MARKET RISK

8.1 Introduction

Market risk is the risk that changes in market prices, such as foreign exchange rates, profit rates, equity prices, sukuk prices and commodity prices will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. As a matter of general policy, the Bank does not assume trading positions on its assets and liabilities, and hence the entire balance sheet is a non-trading portfolio (banking book). The Bank has adopted a standardized approach for measurement of market risk under the CBB capital adequacy framework. The CBB's standardized approach capital computation framework requires risk weighted assets to be computed for price risk, equities position risk, Sukuk risk, foreign exchange risk and commodities risk. Hence, from a capital computation perspective the Bank's market risk measurement is limited to foreign exchange risk in the banking book. The Bank is also exposed to profit rate risk on the banking book which is managed separately.

8.2 Foreign exchange risk management

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank seeks to manage currency risk by continually monitoring exchange rates. The Board of Directors approves policies and strategies related to the management of FX risk. The Assets and Liabilities Committee ('ALCO') supports the Board in managing FX risk by recommending policies, setting limits and guidelines and monitoring the FX risk of the Bank on a regular basis. ALCO provides guidance for day to day management of FX risk and also approves hedging programs. The management of the day-to-day FX position of the Bank is the responsibility of the Treasury. The department shall ensure adequate FX liquidity to meet the maturing obligations and growth in assets while ensuring that all limits and guidelines set by the Board and ALCO are complied with; and shall implement hedging and other approved strategies for managing the risk. The Risk Management Department on an ongoing basis reviews the limits set and ensure that the concerned department(s) is complying with all limits set as per the risk appetite of the bank. The Group has reported net exposures denominated in various foreign currency as of 31 December from various financial instruments and structural foreign currency exposure arising from unhedged equity investments in its foreign subsidiaries and investments (refer to Note 36(c) in the Financials section).

The management of foreign exchange risk against net exposure limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various foreign exchange scenarios. Standard scenarios that are considered include a 5% plus / minus increase in exchange rates, other than GCC pegged currencies. An analysis of the Bank's net foreign exchange position and its sensitivity to an increase or decrease in foreign exchange rates (assuming all other variables, primarily profit rates, remain constant) has been presented in Note 36 to the consolidated financial statements.

8.3 Capital requirements for market risk

To assess its capital adequacy requirements for market risk in accordance with the CBB capital adequacy module for Islamic Banks, the Bank adopts the standardised approach. Foreign exchange risk charge is computed based on 8% of overall net open foreign currency position of the Group.

$000's

Self Financed	31st December 2021	Maximum During the Year	Minimum During the Year
Foreign exchange risk - [A]	3,078	4,514	3,066
Risk weighted assets – [B] = (A*12.5)	38,475	56,425	38,325
Capital requirement – (B*12.5%)	4,809	7,053	4,791

9 OPERATIONAL RISK

9.1 Introduction

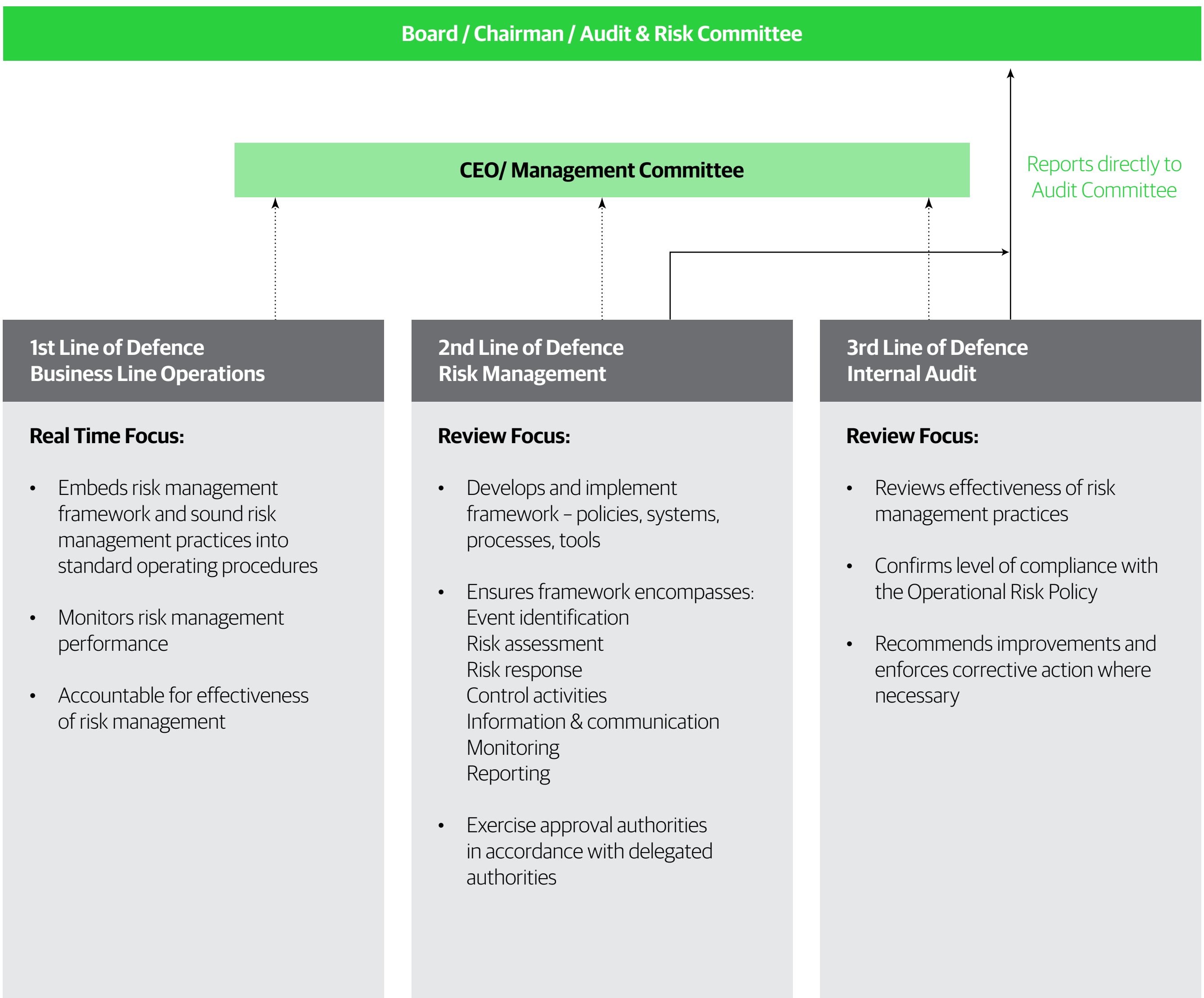
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is an inherent part of normal business operations. The Bank has adopted the Basic Indicator Approach for measurement of operational risk under the Basel II and CBB capital computation framework.

9.2 Operational risk management

Whilst operational risk cannot be eliminated entirely, the Bank endeavors to minimize it by ensuring that a strong control infrastructure is in place throughout the organization. Various procedures and processes used to manage operational risk include effective staff training, appropriate controls to safeguard assets and records, regular reconciliation of accounts and transactions, close monitoring of risk limits, segregation of duties, and financial management and reporting. The Risk Management Department manages the framework and facilitates the process of operational risk management.

The Bank has an operational risk management framework which includes components such as Key Risk Indicators (KRIs), operational loss data and Risk & Control Self Assessment (RCSA) across the Bank.

To ensure effective governance across all processes and functions, GFH has adopted a 'Three Lines of Defense' approach, as illustrated below. The structure clearly reflects the requisite independence between the three functions.



The rationale behind the 3 Lines of Defense are:

- The Business Unit heads are ultimately accountable for the 1st Line of Defense in their business areas;
- The Risk Management function is ultimately accountable for the 2nd Line of Defense for the Bank; and
- The Internal Audit is ultimately accountable for the 3rd Line of Defense for the Bank.

The Bank's definition of operational risk also incorporates legal and Sharia'a compliance risk. This is defined as an operational risk facing Islamic banks which can lead to, loss of reputation, non-recognition of income and loss of revenue. This definition excludes strategic, liquidity, credit, market and reputational risks. Whilst operational risk excludes losses attributable to traditional banking risk (credit, market and liquidity), the Bank recognises that operational risk is attached to the management of those traditional risks. For example operational risk includes legal and compliance related risks attached to the management of credit and market risk. Operational risks are attached to the management of business as usual as well as to changes such as the introduction of new products, projects or program activities.

9.3 Legal compliance and litigation

The Bank has established approved policies in relation to legal, regulatory and compliance risk; and have dedicated Compliance and Legal departments in place.

All contracts, documents, etc have to be reviewed by the legal department as well. For information on contingencies, refer note 35 to the consolidated financial statements.

9.4 Sharia compliance

The Shari'a Supervisory Board (SSB) is entrusted with the duty of directing, reviewing and supervising the activities of the Bank in order to ensure that they are in compliance with the rules and principles of Islamic Shari'a and specific fatwas, rulings and guidelines issued. The Bank also has a dedicated internal Shari'a audit function, who performs an ongoing independent review of the compliance with the fatwas and rulings of the SSB on products and processes and also reviews compliance with the requirements of the Shari'a standards prescribed by AAOIFI while the Coordination and Implementation function assists the SSB in issuing Sharia pronouncements/ resolutions about the products and services offered by the Group. The SSB reviews and approves all products and services before launching and offering to the customers and also conducts periodic reviews of the transactions of the Bank. An annual audit report is issued by the SSB confirming the Bank's compliance with Shari'a rules and principles.

9.5 Capital requirements for operational risk

The Bank adopts the Basic Indicator Approach to evaluate operational risk charge in accordance with the approach agreed with the CBB. The Bank's average gross income for the last three financial years is multiplied by a fixed coefficient alpha of 15% set by CBB and a multiple of 12.5x is used to arrive at the risk weighted exposure that are subject to capital charge of 12.5%.

$'000s

	Average gross income	Risk weighted exposure	Capital charge at 12.5%
Operational risk	349,352	655,034	81,879

10. OTHER TYPES OF RISK

10.1 Introduction

Apart from the risks listed in the previous sections, the Bank is also exposed to other types of risks which it identifies and manages as part of its risk management framework. Although these risks do not directly form part of the Tier 1 risks, they are identified and captured by the ICAAP.

10.2 Liquidity risk

Liquidity risk is the inability of the Bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. This also includes the inability of the Bank to liquidate its assets at their expected prices in a reasonable period. The Group's approach to managing liquidity is to ensure that it should always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Bank has a liquidity risk policy in place, which describes the roles and responsibilities of various committees, Treasury and other concerned departments in management of liquidity. The Liquidity Risk policy and Liquidity Risk appetite limits stipulates various liquidity ratios to be maintained by the Bank, as well as gap limits for time bucket of the maturity ladder.

The liquidity position is closely monitored and stressed to cover both normal and severe bank specific and market specific conditions. Daily reports cover the liquidity position of the Bank. Moreover, periodic reports are submitted to the Asset and Liability Management Committee of the Bank (ALCO) Audit & Risk Committee (ARC) and to the Board of Directors for review and strategic decision. For maturity profile of assets and liabilities refer Note 31 of the consolidated financial statements.

The following are the key liquidity ratios which reflect the liquidity position of the Group:

Liquidity Ratios	31st December 2021	Maximum	Minimum
Liquid assets : Total assets	47.16%	47.16%	40.14%
Liquid assets : Total deposits	124.91%	124.91%	108.79%
Short-term assets : Short-term liabilities	57.80%	57.80%	43.70%
Illiquid assets : Total assets	52.84%	59.86%	52.84%

10.3 Management of profit rate risk in the banking book

Profit rate risk is the exposure of a bank's financial condition to adverse movements in profit rates. Changes in profit rates affect a bank's earnings by changing its net profit income and the level of other profit-sensitive income and operating expenses. Changes in profit rates also affect the underlying value of the bank's assets, liabilities, and off-balance-sheet (OBS) instruments because the present value of future cash flows change when profit rates change.
The sources of profit rate risk relevant for Bank's balance sheet size and complexity comprises mainly of:

- Repricing Risk: The primary form of profit rate risk arises from timing differences in the maturity (for fixed-rate) and repricing (for floating-rate) of bank assets, liabilities, and OBS positions.
- Basis risk: Another important source of profit rate risk arises from imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar repricing characteristics. When profit rates change, these differences can give rise to unexpected changes in the cash flows and earnings spread between assets, liabilities and OBS instruments of similar maturities or repricing frequencies.

Yield Curve Risk: Yield curve risk is the risk associated with either a flattening or steepening of the yield curve. Mismatch in maturity or repricing dates of assets, liabilities and off balance sheet items expose the Bank to risks that arises from non-parallel shift in yield curve.

- Optionality risk: This risk arises from the discretion that a bank's customers and counterparties have in respect of their contractual relations with the bank in the form of financial instruments. Embedded options are diverse and bank-specific and include prepayment risk on fixed rate loans and deposits and switching risk on non-interest bearing current accounts.

The Board is responsible for the overall management of the profit rate risk. ALCO helps the Board in determining the borrowing and funding strategy of the Bank in order to optimize risk return trade off. It supports the Board in managing profit rate risk by recommending policies, setting limits and guidelines and monitoring the risk on a regular basis.

The objective of profit rate risk measurement is to maintain the Bank's profit rate risk exposure within risk appetite limits. The process of establishing profit rate risk limits and describing the risk taking guidelines provides the means for achieving the objective. Such a process defines the boundaries for the level of profit rate risk for the Bank. The limit structure also ensures that positions that exceed certain predetermined levels receive prompt management attention.

The limit system enables management to control profit rate risk exposures, initiate discussion about opportunities and risks, and monitor actual risk taking against predetermined risk tolerance.

The management of profit rate is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard profit rate scenarios.

Standard scenarios that are considered include a 100 basis points (bps) parallel fall or rise in yield curves. For details of the Bank's profit rate gap position as at 31 December 2021 and analysis of the Bank's sensitivity to an increase or decrease in market profit rates, refer Note 36(c) of the consolidated financial statements. An analysis of the Group's sensitivity to an increase or decrease in market profit rates for a 100 bps parallel increase / (decrease) is as below:

100 bps parallel increase / (decrease)	$000's
At 31 December 2021	± 19,769
Average for the year	±± 18,108
Maximum for the year	±± 19,879
Minimum for the year	±± 16,082

10.4 Concentration risk

This risk arises from exposure to a common set of factors that can produce losses large enough to threaten the Bank's health or ability to maintain its core business. Concentration risk can arise from exposure to specific classes of assets, sector, country, revenue streams, counterparty, a group of counterparties, etc. Concentration risk is mitigated by limits, diversification by assets, geography counterparty quality etc. The industry sector and geographical concentration of credit exposures has been disclosed in Notes 32(a) and 32 (b) of the consolidated financial statements respectively.

10.5 Counterparty credit risk

Counterparty credit risk is the risk that a counterparty to a contract in the profit rate, foreign exchange, equity and credit markets defaults prior to maturity of the contract. In addition to the identified credit risk exposures the Bank's counterparty credit risk from markets as such is limited to the fair value of contracts of foreign exchange risk management instruments the overall exposure to which is usually not significant. For other credit market transactions (primarily inter-bank placements), the Bank has established a limit structure based on the credit quality (assessed based on external rating) of each counter party bank to avoid concentration of risks for counterparty, sector and geography. The Bank is constantly reviewing and monitoring the position to ensure proper adherence to the limits and defined policies of the Bank. As at 31 December 2021, the Bank did not have any open positions on foreign exchange contracts.

10.6 Reputational risk (non-performance risk)

Reputation risk is the risk that negative perception regarding the Bank's business practices or internal controls, whether true or not, will cause a decline in the Bank's investor base, lead to costly litigation that could have an adverse impact on liquidity or capital of the Bank. Being an Islamic Investment Bank, reputation is an important asset and among the issues that could affect the Bank's reputation is the inability to exit from investments, lower than expected returns on investments and poor communication to investors. A well developed and coherently implemented communication strategy helps the Bank to mitigate reputational risks.

10.7 Displaced commercial risk

Displaced Commercial Risk (DCR) refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared with competitor's rates. The Bank's DCR primarily arises from the funds accepted in the form of Investment Account Holders (IAH) which is currently not very significant in terms of its size and in comparison to the overall activities of the Bank. The returns to investors on the funds are based on returns earned from short-term placements and hence the Bank is not exposed to a significant repricing risk or maturity mismatch risk in relation to these accounts. In relation to the DCR that may arise from its investment banking and restricted investment account products, the risk is considered limited as the Bank does not have any obligation to provide fixed or determinable returns to its investors. The Bank constantly monitors all potential risks that may arise from all such activities as part of its reputational risk management.

10.8 Other risks

Other risks include strategic, fiduciary risks, regulation risks etc. which are inherent in all business activities and are not easily measurable or quantifiable. However, the Bank has policies and procedure to mitigate and monitor these risks. The Bank's Board is overall responsible for approving and reviewing the risk strategies and significant amendments to the risk policies. The Bank senior management is responsible for implementing the risk strategy approved by the Board to identify, measure, monitor and control the risks faced by the Bank. The Bank as a matter of policy regularly reviews and monitors financial and marketing strategies, business performance, new legal and regulatory developments and its potential impact on the Bank's business activities and practices.

11. ICAAP CONSIDERATIONS

The ICAAP incorporates a review and evaluation of risk management and capital relative to the risks to which the bank is exposed. GFH has developed an ICAAP which involves identification and measurement of risks to maintain an appropriate level of internal capital in alignment to the Bank's overall risk profile and business plan. An ICAAP policy and framework has been developed to address major components of the Bank's risk management, from the daily management of material risks including risk types which are not covered under Pillar I including liquidity risk, profit rate risk in the banking book, concentration risk, strategic risk and reputational risk etc. The Bank uses the ICAAP document for internal capital monitoring purposes.

12. PRODUCT DISCLOSURES

12.1 Product descriptions and consumer awareness

The Bank offers a comprehensive mix of Shari'a compliant investment banking products primarily to high net worth and sophisticated investors. This includes a range of innovative structured investment products like funds, repackaged products and structured restricted investment accounts. The investment department of the Bank has expertise in creating innovative high end and value added products offering a wide range of structures, expected returns, tenors and risk profiles.

Proposal for any new product is initiated by individual business lines within the Bank. The Management Investment Committee of the Bank reviews such proposal to ensure that the new product/ business is in line with the Bank's business and risk strategy. All new products will need the approval of the respective authorities as per the Delegated Authority Limits (DAL) as well as the Shari'a Supervisory Board of the Bank.

12.2 Customer complaints

GFH is dedicated to providing a high standard of service and to maintaining its reputation for honesty and integrity in all its dealings. The Bank takes all disputes and complaints from its customers and business partners very seriously. The Bank has a comprehensive policy on handling of external complaints, approved by the Board. All employees of the Bank are aware of and abide by this policy. The complaint handling process is disclosed in the Bank's website and also in all printed prospecting materials. Complaints are normally investigated by persons not directly related to the subject matter of the complaint.

12.3 Equity of Investment Account Holders (EIAH)

The Bank does not have significant amount under EIAH and does not use EIAH as a main source of its funding. The Bank does not, as a focused product proposition, offer EIAH products to its clients. The current EIAH deposits have been accepted on a case-by-case basis considering the Bank's relationship with its customers.

The EIAH holder authorises the Bank to invest the funds in any investments approved by the Bank's Shari'a Board without any preconditions. All EIAH accounts are on profit sharing basis, but the Bank does not guarantee any particular level of return. In accordance with the principles of Shari'a, the entire investment risk is on the investor. Any loss arising from the investment will be borne by the customer except in the case of the Bank's negligence. The Bank charges a Mudarib fee as its share of profit. Early withdrawal is at the discretion of the Bank and is subject to the customer giving reasonable notice for such withdrawal and agreeing to forfeit a share of the profit earned on such account.

Currently, the Bank comingles the EIAH funds with its funds for investments only into interbank placements and hence is not subject to any significant profit re-pricing or maturity mismatch risks. The Bank has an element of displaced commercial risk on EIAH which is mitigated by setting up and maintaining an appropriate level of Profit Equalisation Reserve (PER) and Investment Risk Reserve (IRR) to smoothen return to EIAH holders. Profit Equalisation Reserve (PER) is created by allocations from gross income of the Mudarabah before adjusting the Mudarib (Bank) share. Investment Risk Reserves (IRR) comprises amounts appropriated out of the income of investment account holders after deduction of the Mudarib share of income.

Administrative expenses incurred for management of the funds are borne directly by the Bank and are not charged separately to investment accounts. All terms of the EIAH are agreed upfront with the customers and form part of the agreement with the customer. Till date, the Bank has not made any withdrawals on PER or IRR. Any movements on these accounts are therefore only on account of additional reserves added.

For the qualitative disclosures pertaining to EIAH of KHCB, please refer the annual report of KHCB.
The quantitative disclosures below are pertaining to the EIAH from the Bank.

The details of Bank's income distribution to IAH holders for the last five years are given below:

$'000's

As at 31 December	2021	2020	2019	2018	2017
Allocated income to IAH	6	6	6	10	11
Distributed profit	6	6	6	10	10
Mudarib fees*	0	0.3	0.3	0.5	0.5
Average rate of return earned	0.94%	1.03%	1.04%	1.10%	0.88%
IAH [1]	605	600	591	924	1,149
Profit Equalisation Reserve (PER)	9	9	9	9	9
Investment Risk Reserve (IRR)	6	5	6	5	5
Profit Equalisation Reserve-to-IAH (%)	0	0	0	0	0
Investment Risk Reserve-to-IAH (%)	0	0	0	0	0

[1] Represents average balance

** Includes contribution towards deposit protection scheme*

12.4 Restricted investment accounts

The Bank offers Restricted Investment Accounts ("RIAs") to both financial institutions and high net worth individuals in the GCC. All RIA product offering documents ("Offering Document") are drafted and issued with input from the Bank's Investment Banking, Shari'a, Financial Control, Legal and Risk Management Departments to ensure that the Investors have sufficient information to make an informed decision after considering all relevant risk factors. The Bank has guidelines for the development, management and risk mitigation of its' RIA investments and for establishment of sound management and internal control systems to ensure that the interests of the investment account holders are protected at all times. Wherever it is necessary for the Bank establishes Special Purpose Vehicles (SPVs) for management of the investment. The Bank has a Board approved SPV Governance framework in place to equip the Board in ensuring that the management of such SPVs are conducted in a professional and transparent manner.

The Bank is aware of its fiduciary responsibilities in management of the RIA investments and has clear policies on discharge of these responsibilities. The Bank considers the following in discharge of its fiduciary responsibilities:

- Ensuring that the investment structure, Offering Documents and the investment itself are fully compliant with Islamic Shari'a principles and the CBB regulations;
- Appropriately highlighting to the Investors, as part of the RIA Offering Document, of all the relevant and known risk factors and making it clear that the investment risk is to be borne by the Investor before accepting the investment funds;
- Completing all necessary legal and financial due diligence on investments undertaken on behalf of the Investors with the same level of rigor as the Bank requires for its' own investments;
- Ensuring that the funds are invested strictly in accordance with the provisions outlined in the Offering Documents;
- Preparing and disseminating periodical investment updates to Investors on a regular basis during the tenor of the investment;
- Distributing the capital and profits to the Investor in accordance with the terms of the offering document; and;
- In all matters related to the RIA, RIA SPV(s) and the investment, act with the same level of care, good faith and diligence as the Bank would apply in managing its own investments.

Within the Bank, the abovementioned responsibilities and functions are provided, managed and monitored by qualified and experienced professionals from the Investment Banking, Shari'a, Financial Control, Legal, Investment Administration and the Risk Management Departments with Internal Audit oversight.

The restricted investment accounts primarily represent the investments in the projects promoted by the Bank and managed on a portfolio basis on behalf of investors.

There were no annual distributions made in RIA for the past five years.

For the qualitative disclosures pertaining to RIA's of KHCB, please refer the annual report of KHCB.

Reports + Financials
Section 06/6

This year's financial statements attest to the continuation of GFH's remarkable growth and performance, as well as our consistency in delivering high returns and value to our shareholders & stakeholders alike through resilient practices and visionary leadership.

P163_256.

06

Sharia Supervisory Board Report on the activities of GFH Financial Group

for the financial year ending 31 December 2021

6 February 2022
5 Rajab 1443 AH

Prayers and Peace Upon the Last Apostle and Messenger, Our prophet Mohammed, His comrades and Relatives.

The Sharia Supervisory Board of GFH Financial Group have reviewed the Bank's investment activates and compared them with the previously issued fatawa and rulings during the financial year 31st December 2021.

Respective Responsibility of Sharia Supervisory Board
The Sharia Supervisory Board believes that as a general principle and practice, the Bank Management is responsible for ensuring that it conducts its business in accordance with Islamic Sharia rules and principles. The Sharia Supervisory Board responsibility is to express an independent opinion on the basis of its control and review of the Bank's operations and to prepare this report.

Basis of opinion
Based on Sharia Supervisory Board fatwas and decisions, AAOIFI standards and Sharia Audit plan, the Sharia Supervisory Board through its periodic meetings reviewed the Sharia Audit function reports and examined the compliance of documents and transactions in regards to Islamic Sharia rules and principles, in coordination with Sharia Implementation & Coordination function. Furthermore, the Bank's management explained and clarified the contents of Consolidated Balance Sheet, Consolidated Income Statement, Consolidated statement of Zakah and Charity fund, and attached notes for the financial year ended on 31st December 2021 to our satisfaction.

Opinion
The Sharia Supervisory Board believes that,
1. The contracts, transactions and dealings entered into by the Bank are in compliance with Islamic Sharia rules and principles
2. The distribution of profit and allocation of losses on investments was in line with the basis and principles approved by the Sharia Supervisory Board and in accordance to the Islamic Sharia rules and principles
3. Any earnings resulted from sources or means prohibited by the Islamic Sharia rules and principles, have been directed to the Charity account.
4. Zakah was calculated according to the Islamic Sharia rules and principles, by the net assets method. It is to be noted that the bank will pay a portion of zakat amount due at the rate of 10%, and the shareholders are responsible for paying the remaining part and that the procedural action will be taken after obtaining the approval of the Ordinary General Assembly.
5. The Bank was committed to comply with Islamic Sharia rules and principles, the Sharia Supervisory Board fatawa and guidelines, Sharia related policies and procedures, AAOIFI's Sharia standards, and Sharia directives issued by the CBB.

We extend our sincere thanks to all the regulatory authorities in the Kingdom of Bahrain and abroad for their support in procedural matters. Praise be to Allah, Lord of the worlds. Prayer on Prophet Mohammed (Peace Be Upon Him), all his family and Companions.

Sheikh Nedham Yaquby | **Sheikh Abdulla Al Manie** | **Sheikh Abdulaziz Al Qassar** | **Sheikh Fareed Hadi**

Independent Auditors' Report

To the Shareholders

GFH Financial Group B.S.C, Manama, Kingdom of Bahrain

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of GFH Financial Group Bank B.S. C. (the "Bank"), and its subsidiaries (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated statements of income, changes in owners' equity, cash flows, changes in restricted investment accounts and sources and uses of zakah and charity fund for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and consolidated results of its operations, changes in owners' equity, its cash flows, changes in restricted investment accounts and its sources and uses of zakah and charity fund for the year then ended in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") as modified by the Central Bank of Bahrain (the "CBB").

In our opinion, the Group has also complied with the Islamic Shariah Principles and Rules as determined by the Group' s Shariah Supervisory Board during the year ended 31 December 2021.

Basis for opinion

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

Key audit matters

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

Independent Auditors' Report

To the Shareholders

(contd.)

Impairment allowance on financing assets and assets acquired for leasing

Refer accounting policy in note 4(p), use of estimates and judgments in note 5 and management of credit risk in note 36 (a).

The key audit matter	How the matter was addressed in our audit
We focused on this area because: • of the significance of financing assets and assets acquired for leasing representing 16% of total asset s. • The estimation of expected credit losses ("ECL") on financing assets and assets acquired for leasing involve significant judgment and estimates. The key areas where we identified greater level of management judgment and estimates are: **a. Use of complex models** Use of inherently judgemental complex models to estimate ECL which involves determining Probabilities of default ("PD"), Loss Given Default (" LGD") and Exposure At default ("EAD"). The PD models are considered the drivers of the ECLs. **b. Economic scenarios** The need to measure ECLs on an unbiased forward-looking basis incorporating a range of economic conditions. Significant management judgment is applied in determining the economic scenarios used and the probability weightings applied to them. **c. Management overlays** Adjustments to the ECL model results are made by management to address known impairment model limitations or emerging trends or risks, including the potential impact s of COVID -19. Such adjustments are inherently uncertain and significant management judgment is involved in estimating these amounts especially in the current COVID-19 environment.	Our audit procedures included : **Control testing** We performed walk throughs to identify the key systems, applications and controls used in the ECL processes. Key aspects of our controls testing involved the following: • testing the design and operating effectiveness of the key controls over the completion and accuracy of the key inputs and assumptions into the ECL Model; • evaluating the design and operating effectiveness of the key controls over the application of staging criteria ; • Evaluating controls over validation, implementation and model monitoring evaluating controls over authorization and calculation of post model adjustments and management overlays; and • testing key controls relating to selection and implementation of material macro-economic variables and the controls over the scenario selection and probabilities. **Tests of details** • Sample testing over key inputs and assumptions impacting ECL calculations to assess the reasonableness of economic forecast, weight s, and PD assumptions applied ; and • Selecting a sample of post model adjustments to assess the reasonableness of the adjustments by challenging key assumptions, inspecting the calculation methodology and tracing a sample of the data used back to the source data. **Use of specialists** • We involved our information technology specialists in testing the relevant general IT and applications controls over the key systems used in the ECL process; • We involved our credit risk specialists to assist us in: a. evaluating the appropriateness of the Groups' ECL methodologies (including the staging criteria used); b. on a test basis, re-performing the calculation of certain components of the ECL model (including the staging criteria); c. evaluating the appropriateness of the Group's methodology for determining the economic scenarios used and the probability weighing applied to them; and d. evaluating the overall reasonableness of the management economic forecast by comparing it to external market data. **Disclosures** Evaluating the adequacy of the Group's disclosures related to ECL on financing assets and assets acquired for leasing by reference to the relevant accounting standards.

Independent Auditors' Report

To the Shareholders

(contd.)

Valuation of unquoted equity investments

Refer accounting policy in note 4g(iv) and fair value of financial instruments in note 34.

The key audit matter	How the matter was addressed in our audit
We considered this as a key audit area we focused on because the valuation of unquoted equity securities held at fair value requires the application of valuation techniques which often involve the exercise of significant judgment by the Group and the use of significant unobservable inputs and assumptions.	Our audit procedures included : • we involved our own valuation specialists to assist us in: – evaluating the appropriateness of the valuation methodologies used by comparing with observed industry practice; – evaluating the reasonableness of key input and assumptions used by using our knowledge of the industries in which the investees operate and industry norms. – comparing the key underlying financial data inputs used in the valuation to external sources, investee company financial and management information, as applicable. **Disclosures** Evaluating the adequacy of the Group's disclosures related to valuation of unquoted equity instruments by reference to the relevant accounting standards.

Carrying value of development properties

Refer accounting policy in note 4(m) and note 9 for disclosures related to development properties

The key audit matter	How the matter was addressed in our audit
Development projects comprise projects under construction and long-term infrastructure projects. Development properties are stated at the lower of cost and net realisable value. We focused on this area due to: • the significance of development property representing 16% of total assets (by value); and • and complexity associated with the accounting for development properties under construction. The Group engages external valuers to assess the expected net realisable values of these development properties. The assessment of net realisable value involves significant judgment and estimation uncertainty.	Our audit procedures included: • evaluating whether management's classification of real estate under development properties was appropriate; • evaluating the qualifications and competence of the external valuers and reviewing the terms of their engagement to determine whether there were any matters that might have affected their objectivity or limited their scope of work; • for projects under construction, to evaluate appropriateness of carrying value of the work in progress at the balance sheet date, on a sample basis, we performed audit procedures over costs of construction to date, surveyor reports on physical completion and sub-developer contract arrangements; • we involved our valuation specialists, who used their knowledge of the industry and available historical data to assist in: – evaluating the appropriateness of the valuation methodologies used by the external valuers; – evaluating the reasonableness of key inputs and assumptions such as expected sale prices on completion and estimates of costs to complete. Where any component was out of our expected range, we undertook additional procedures including sensitivity analysis, to understand the effect on the assessed values and carrying amounts in the consolidated financial statements; and • on a sample basis, performed audit procedures to assess whether the source data used for the assessment of the net realisable values are reasonable by comparing it to the underlying supporting information to obtain insight into the calculation model used to determine the net realisable value. **Disclosures** Based on the outcome of our evaluation, we assessed the adequacy of disclosures in the consolidated financial statements.

Independent Auditors' Report

To the Shareholders

(contd.)

Other information

The board of directors is responsible for the other information. The other information comprises the annual report but does not include the consolidated financial statements and our auditors' report thereon. Prior to the date oft his auditors' report, we obtained the Chairman's report and other sections which forms part of the annual report.

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

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

Responsibilities of the board of directors for the consolidated financial statements

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

The board of directors is also responsible for the preparation and fair presentation of the consolidated financial statements in accordance with FAS as modified by CBB, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidate d 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 direct ors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with ASIFIs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

a) 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.

b) 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.

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

d) Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

Independent Auditors' Report

To the Shareholders

(contd.)

e) 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.

f) 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 direct ion, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the board of directors regarding, among other matters, t he planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Report on other regulatory requirements
As required by the Commercial Companies Law and Volume 2 of the Rulebook issued by the Central Bank of Bahrain, we report that:

- the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- the financial information contained in the chairman ' s report is consistent with the consolidated financial statements;
- we are not aware of any violations during the year of the Commercial Companies Law, the CBB and Financial Institutions Law No. 64 of 2006 (as amended), the CBB Rule Book (Volume 2, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and associated resolutions, the Bahrain Bourse rules and procedures or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and
- satisfactory explanations and information have been provided to us by management in response to all our requests.

The engagement partner on the audit resulting in this independent auditors' report is Mahesh Balasubramanian.

KPMG

KPMG Fakhro
Partner Registration Number 137
9 February 2022

Consolidated Statement of

Financial Position

as at 31 December 2021 $000's

	Note	31 December 2021	31 December 2020
ASSETS			
Cash and bank balances	6	722,471	536,502
Treasury portfolio	7	3,089,925	1,838,546
Financing assets	8	1,311,002	1,267,266
Investment in real estate	9	1,905,598	1,812,315
Proprietary investments	10	211,638	256,108
Co-investments	11	171,877	126,319
Receivables and other assets	12	531,488	605,658
Property and equipment	13	139,687	144,149
Total assets		**8,083,686**	6,586,863
LIABILITIES			
Clients' funds		216,762	130,935
Placements from financial, non-financial institutions and individuals	14	3,052,092	2,418,000
Customer current accounts		133,046	140,756
Term financing	15	1,750,667	1,089,077
Other liabilities	16	404,654	465,038
Total liabilities		**5,557,221**	4,243,806
Total equity of investment account holders	17	**1,358,344**	1,156,993
OWNERS' EQUITY			
Share capital	18	1,000,638	975,638
Treasury shares	18	(48,498)	(63,979)
Statutory reserve		27,970	19,548
Investment fair value reserve		(28,561)	5,593
Foreign currency translation reserve		(70,266)	(46,947)
Retained earnings		81,811	22,385
Share grant reserve	19	-	1,093
Total equity attributable to shareholders of Bank		**963,094**	913,331
Non-controlling interests		205,027	272,733
Total owners' equity		**1,168,121**	1,186,064
Total liabilities, equity of investment account holders and owners' equity		**8,083,686**	6,586,863

The consolidated financial statements were approved by the Board of Directors on 09 February 2022 and signed on its behalf by:

Jassim Al Seddiqi
Chairman

H.E. Shaikh Ahmed Bin Khalifa Al Khalifa
Vice Chairman

Hisham Alrayes
Chief Executive Officer & Board Member

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements

Consolidated

Income Statement

for the year ended 31 December 2021 $000's

	Note	2021	2020
Investment banking income			
Asset management		8,083	4,895
Deal related income		102,304	75,736
		110,387	80,631
Commercial banking income			
Income from financing		79,333	80,400
Treasury and investment income		55,258	42,864
Fee and other income		4,630	4,582
Less: Return to investment account holders	17	(31,710)	(32,587)
Less: Finance expense		(35,685)	(29,946)
		71,826	65,313
Income from proprietary and co-investments			
Direct investment income, net		14,609	20,436
Dividend from co-investments		14,280	8,854
		28,889	29,290
Real estate income			
Development and sale		24,885	14,209
Rental and operating income		4,959	5,248
		29,844	19,457
Treasury and other income			
Finance income		11,400	19,395
Dividend and net gain on treasury investments		95,759	70,282
Other income, net	21	50,643	39,026
		157,802	128,703
Total income		**398,748**	323,394
Staff costs	22	63,231	47,072
Other operating expenses	23	70,299	65,186
Finance expense		137,020	134,994
Impairment allowances	24	35,581	26,799
Total expenses		**306,131**	274,051
Profit for the year		**92,617**	49,343
Attributable to:			
Shareholders of the Bank		84,224	45,095
Non-controlling interests		8,393	4,248
		92,617	49,343
Earnings per share			
Basic and diluted earnings per share (US cents)		2.50	1.35

The consolidated financial statements were approved by the Board of Directors on 09 February 2022 and signed on its behalf by:

Jassim Al Seddiqi
Chairman

H.E. Shaikh Ahmed Bin Khalifa Al Khalifa
Vice Chairman

Hisham Alrayes
Chief Executive Officer & Board Member

Consolidated Statement of

Changes in Owners' Equity

For the year ended 31 December 2021 $000's

2021	Share capital	Treasury share	Statutory reserve	Investment fair value reserve
Balance at 1 January 2021 (as previously reported)	975,638	(63,979)	19,548	5,592
Effect of adoption of FAS 32 (note 4)	–	–	–	–
Balance at 1 January 2021 (restated)	975,638	(63,979)	19,548	5,592
Profit for the year	–	–	–	–
Fair value changes during the year	–	–	–	(786)
Transfer to income statement on disposal of sukuk	–	–	–	(33,367)
Total recognised income and expense	**-**	**-**	**-**	**(34,153)**
Bonus Shares issued for 2020	25,000	–	–	–
Dividends declared for 2020	–	–	–	–
Transfer to zakah and charity fund	–	–	–	–
Transfer to statutory reserve	–	–	8,422	–
Purchase of treasury shares	–	(45,025)	–	–
Sale of treasury shares	–	60,506	–	–
Foreign currency translation differences	–	–	–	–
Acquisition of NCI without a change in control (note 20)	–	–	–	–
Extinguishment of Share grant reserve to (retained earnings)	–	–	–	–
Balance at 31 December 2021	**1,000,638**	**(48,498)**	**27,970**	**(28,561)**

2020	Share capital	Treasury share	Statutory reserve	Investment Fair value reserve
Balance at 1 January 2020	975,638	(73,419)	125,312	9,245
Profit for the year	–	–	–	–
Fair value changes during the year	–	–	–	5,036
Reclassified to income on impairment of quoted equity securities	–	–	–	12,000
Reclassified to income on disposal of sukuk	–	–	–	(20,688)
Total recognised income and expense	–	–	–	(3,652)
Modification loss on financing assets (note 2)	–	–	–	–
Government grant (note 2)	–	–	–	–
Dividends declared for 2019	–	–	–	–
Transfer to zakah and charity fund	–	–	–	–
Transfer to statutory reserve	–	–	4,509	–
Purchase of treasury shares	–	(107,518)	–	–
Sale of treasury shares	–	133,483	–	–
Treasury shares acquired for share incentive scheme	–	(16,525)	–	–
Foreign currency translation differences	–	–	–	–
NCI arising from acquisition of a subsidiary (note 20)	–	–	–	–
Distribution to NCI	–	–	–	–
Adjustment of accumulated losses against statutory reserve (note 18)	–	–	(110,273)	–
Balance at 31 December 2020	975,638	(63,979)	19,548	5,593

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements

Attributable to shareholders of the Bank					
Foreign currency translation reserve	**Retained earnings**	**Share grant reserve**	**Total**	**Non-controlling interests**	**Total owners' equity**
(46,947)	22,385	1,093	913,330	272,733	1,186,063
–	(2,096)	–	(2,096)	–	(2,096)
(46,947)	20,289	1,093	911,234	272,733	1,183,967
–	84,224	–	84,224	8,393	92,617
–	–	–	(786)	62	(724)
–	–	–	(33,367)	–	(33,367)
–	**84,224**	**–**	**50,071**	**8,455**	**58,526**
–	(25,000)	–	–	–	–
–	(17,000)	–	(17,000)	–	(17,000)
–	(1,572)	–	(1,572)	(142)	(1,714)
–	(8,422)	–	–	–	–
–	–	–	(45,025)	–	(45,025)
–	5,121	–	65,627	–	65,627
(23,319)	–	–	(23,319)	(5,965)	(29,284)
–	23,078	–	23,078	(70,054)	(46,976)
–	1,093	(1,093)	–	–	–
(70,266)	**81,811**	**–**	**963,094**	**205,027**	**1,168,121**

Attributable to shareholders of the Bank					
Foreign currency translation reserve	Retained earnings	Share grant reserve	Total	Non-controlling interests	Total owners' equity
(29,425)	(4,005)	1,198	1,004,544	288,327	1,292,871
–	45,095	–	45,095	4,248	49,343
–	–	–	5,036	412	5,448
–	–	–	12,000	–	12,000
–	–	–	(20,688)	–	(20,688)
–	45,095	–	41,443	4,660	46,103
–	(13,893)	–	(13,893)	(11,179)	(25,072)
–	3,690	–	3,690	1,267	4,957
–	(30,000)	–	(30,000)	–	(30,000)
–	(1,388)	–	(1,388)	(258)	(1,646)
–	(4,509)	–	–	–	–
–	–	–	(107,518)	–	(107,518)
–	(22,985)	–	110,498	–	110,498
–	–	(105)	(16,630)	130	(16,500)
(17,522)	–	–	(17,522)	(3,084)	(20,606)
–	–	–	–	64,147	64,147
–	–	–	–	(56,966)	(56,966)
–	110,273	–	–	–	–
(46,947)	22,385	1,093	913,331	272,733	1,186,064

Consolidated Statement of
Cash Flows

for the year ended 31 December 2021 $000's

	31 December 2021	31 December 2020
OPERATING ACTIVITIES		
Profit for the year	92,617	49,343
Adjustments for:		
Income from commercial banking	(54,819)	(41,402)
Income from proprietary investments	(28,889)	(29,290)
Income from treasury and other income	(187,646)	(88,915)
Foreign exchange gain / (loss)	(2,190)	(1,329)
Finance expense	172,707	164,940
Impairment allowances	35,581	26,798
Depreciation and amortisation	4,776	6,150
	32,137	86,295
Changes in:		
Placements with financial institutions (original maturities of more than 3 months)	6,541	450,752
Financing assets	(43,736)	5,511
Other assets	(7,800)	(161,469)
CBB Reserve and restricted bank balance	(13,612)	39,623
Clients' funds	85,827	60,077
Placements from financial and non-financial institutions	634,092	(29,250)
Customer current accounts	(7,710)	(6,732)
Equity of investment account holders	201,351	(61,552)
Payables and accruals	(60,384)	(30,204)
Net cash generated from operating activities	**826,706**	353,051
INVESTING ACTIVITIES		
Payments for purchase of equipment	(3,604)	(674)
Proceeds from sale of proprietary and co-investments, net	13,391	(39,230)
Purchase of treasury portfolio, net	(1,177,088)	(621,110)
Proceeds from sale of investment in real estate	9,741	6,256
Dividends received from proprietary investments and co-investments	18,030	11,936
Advance paid for development of real estate	(6,515)	(19,751)
Net cash flows from acquisition of subsidiaries	-	26,803
Net cash used in investing activities	**(1,146,045)**	(635,770)

$000's

	31 December 2021	31 December 2020
FINANCING ACTIVITIES		
Term financing, net	701,035	787,666
Purchase of GFH sukuk, net	(39,445)	-
Finance expense paid	(151,268)	(165,778)
Dividends paid	(17,575)	(37,433)
Sale (Purchase) of treasury shares, net	15,481	(13,814)
Net cash generated from financing activities	**508,228**	570,641
Net increase in cash and cash equivalents during the year	**188,889**	287,922
Cash and cash equivalents at 1 January *	655,455	367,533
Cash and cash equivalents at 31 December	**844,344**	655,455
Cash and cash equivalents comprise: *		
Cash and balances with banks (excluding CBB Reserve balance and restricted cash)	664,388	492,031
Placements with financial institutions (original maturities of 3 months or less)	179,956	163,424
	844,344	655,455

** net of expected credit loss of $24 thousand (31 December 2020: $15 thousand)*

Consolidated Statement of

Changes in Restricted Investment Accounts

for the year ended 31 December 2021

31 December 2021	**Balance at 1 January 2021**		
Company	**No. of units (000)**	**Average value per share $**	**Total $000's**
Mena Real Estate Company KSCC	150	0.33	50
Al Basha'er Fund	12	7.91	95
Safana Investment (RIA 1) #	6,254	2.65	16,573
Shaden Real Estate Investment WLL (RIA 5) #	3,434	2.65	9,100
Locata Corporation Pty Ltd (RIA 6) #	2,633	1.00	2,633
			28,451

31 December 2020	Balance at 1 January 2020		
Company	No. of units (000)	Average value per share $	Total $000's
Mena Real Estate Company KSCC	150	0.33	50
Al Basha'er Fund	13	7.91	103
Safana Investment (RIA 1) #	6,254	2.65	16,573
Shaden Real Estate Investment WLL (RIA 5) #	3,434	2.65	9,100
Locata Corporation Pty Ltd (RIA 6) #	2,633	1.00	2,633
		28,459	(10)

#Represents restricted investment accounts of Khaleeji Commercial Bank BSC, a consolidated subsidiary

Movements during the year						Balance at 31 December 2021		
Investment/ (withdrawal) $000's	**Revaluation $000's**	**Gross income $000's**	**Dividends paid $000's**	**Group's fees as an agent $000's**	**Administration expenses $000's**	**No. of units (000)**	**Average value per share $**	**Total $000's**
–	–	–	–	–		150	0.33	50
(2)	–	–	–	–	–	12	7.87	94
–	–	–	–	–	–	6,254	2.65	16,573
–	–	–	–	–	–	3,434	2.65	9,100
(45)	5	119	–	–	–	2,633	1.03	2,712
(47)	**5**	**119**	**–**	**–**	**–**			**28,529**

Movements during the year						Balance at 31 December 2020		
Investment/ (withdrawal) $000's	Revaluation $000's	Gross income $000's	Dividends paid $000's	Group's fees as an agent $000's	Administration expenses $000's	No. of units (000)	Average value per share $	Total $000's
–	–	–	–	–	–	150	0.33	50
(10)	–	–	–	–	–	12	7.91	95
–	–	–	–	–	–	6,254	2.65	16,573
–	–	–	–	–	–	3,434	2.65	9,100
–	–	–	–	–	–	2,633	1	2,633
–	–	–	–	–		28,451		

Consolidated Statement of

Sources and uses of Zakah and Charity Fund

for the year ended 31 December 2021 $000's

	2021	2020
Sources of zakah and charity fund		
Contributions by the Group	1,766	1,646
Non-Sharia income (note 29)	31	129
Total sources	**1,797**	1,775
Uses of zakah and charity fund	(1,970)	(1,839)
Utilisation of zakah and charity fund		
Total uses	**(1,970)**	(1,839)
Surplus of sources over uses	(173)	(64)
Undistributed zakah and charity fund at 1 January	5,346	5,407
Undistributed zakah and charity fund at 31 December (note 16)	**5,173**	5,343
Represented by:		
Zakah payable	954	1,493
Charity fund	4,219	3,850
	5,173	5,343

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

1. REPORTING ENTITY

GFH Financial Group BSC ("the Bank") was incorporated as Gulf Finance House BSC in 1999 in the Kingdom of Bahrain under Commercial Registration No. 44136 and operates under an Islamic Wholesale Investment Banking license issued by the Central Bank of Bahrain ("CBB"). The Bank's shares are listed on the Bahrain, Kuwait and Dubai Financial Market Stock Exchanges. The Bank's sukuk certificates are listed on London Stock Exchange.

The Bank's activities are regulated by the CBB and supervised by a Shari'a Supervisory Board. The principal activities of the Bank include investment advisory services and investment transactions which comply with Islamic rules and principles determined by the Bank's Shari'a Supervisory Board.

The consolidated financial statements for the year comprise the results of the Bank and its subsidiaries (together referred to as "the Group"). The significant subsidiaries of the Bank which consolidated in these financial statements are:

Investee name	Country of incorporation	Effective ownership interests 2021	Activities
Khaleeji Commercial Bank BSC ('KHCB') *	Kingdom of Bahrain	81.17%	Islamic retail bank
Al Areen Project companies	Kingdom of Bahrain	100%	Real estate development
Falcon Cement Company BSC (c) ('FCC')	Kingdom of Bahrain	51.72%	Cement manufacturing
GBCORP BSC (c) (GBCORP) (note 20)	Kingdom of Bahrain	62.91%	Islamic investment firm
Residential South Real Estate Development Company (RSRED)	Kingdom of Bahrain	100%	Real estate development
Infracorp B.S.C (c) (Previously known as GFH Properties W.L.L.)	Kingdom of Bahrain	100%	Real estate development and management
Athena Private School for Special Education WLL	Kingdom of Bahrain	100%	Educational institution
GFH Capital Limited	United Arab Emirates	100%	Investment management
Morocco Gateway Investment Company ('MGIC')	Cayman Islands	90.27%	Real estate development
Tunis Bay Investment Company ('TBIC')	Cayman Islands	82.97%	Real estate development
Energy City Navi Mumbai Investment Company & Mumbai IT & Telecom Technology Investment Company (together "India Projects")	Cayman Islands	80.27%	Real estate development
Gulf Holding Company KSCC	State of Kuwait	53.63%	Investment in real estate
Roebuck A M LLP ("RAM")	United Kingdom	60%	Property asset management Company

The Bank has other SPE holding companies and subsidiaries, which are set up to supplement the activities of the Bank and its principal subsidiaries.

**During the year, the Group has made a voluntary pre-conditional offer to acquire up to 100% of the issued and paid-up ordinary shares of Khaleeji Commercial Bank BSC ("KHCB"), representing up to 187,589,034 ordinary shares of KHCB (constituting voting rights), not currently owned by the Group representing up to 21.03% stake of KHCB's issued and paid-up share capital, by way of shares exchange of 0.914 GFH shares per KHCB Share at the discretion of each shareholder of Khaleeji Commercial Bank BSC.*

GFH Group is carrying out a group restructuring program (the 'program') which involves the spinning out of its infrastructure and real estate assets under a newly established entity "Infracorp B.S.C." ("Infracorp"), which will be capitalized with more than $1 billion in infrastructure and development assets. Infracorp will specialise in investments focusing on accelerating growth and development of sustainable infrastructure assets and environments across the gulf and global markets.

Under this program certain real estate and infrastructure assets as well as certain investments in securities, equity accounted investees and subsidiaries will be transferred from the group to Infracorp for an in-kind consideration in the form of Sukuk and/ or equity shares issued by Infracorp. The final holding of the Group in the spin-off structure is still being ascertained.

Notes to the Consolidated

Financial Statements (contd.)

for the year ended 31 December 2021

2. STATEMENT OF COMPLIANCE

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

i. recognition of modification losses on financial assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional profits, in equity instead of profit or loss as required by FAS. Any other modification gain or loss on financial assets are recognised in accordance with the requirements of applicable FAS.;

ii. recognition of financial assistance received from the government and/ or regulators as part of its COVID-19 support measures that meets the government grant requirement, in equity, instead of profit or loss as required by the statement on "Accounting implications of the impact of COVID-19 pandemic" issued by AAOIFI to the extent of any modification loss recognised in equity as a result of (i) above. In case this exceeds the modification loss amount, the balance amount is recognized in the profit or loss account. Any other financial assistance is recognised in accordance with the requirements of FAS; and

iii. recognition of specific impairment allowances and expected credit losses in line with the specific CBB guidelines for application of staging rules issued as part of its COVID-19 response measures.

The above framework for basis of preparation of the condensed consolidated interim financial information is hereinafter referred to as 'Financial Accounting Standards as modified by CBB'. The modification to accounting policies have been applied retrospectively and did not result in any change to the comparatives.

Impact of COVID-19 concessionary measures

Modification of financial assets

During the second quarter of 2020, based on a regulatory directive issued by the CBB as concessionary measures to mitigate the impact of COVID-19, the one-off modification losses amounting to $25,072 thousand arising from the 6-month payment holidays provided to financing customers without charging additional profit was recognized directly in equity. The modification loss was calculated as the difference between the net present value of the modified cash flows calculated using the original effective profit rate and the current carrying value of the financial assets on the date of modification. The Group had provided payment holidays on financing exposures amounting to $118,257 thousand (first deferral - March 2020 to September 2020) as part of its support to impacted customers. As at 31 December 2021, the Group has customers with financing facilities of $493,721 thousand under continuing deferral arrangement.

Financial assistance

Governments and central banks across the world have responded with monetary and fiscal interventions to stabilize economic conditions. The Government of Kingdom of Bahrain has announced various economic stimulus programs ("Packages") to support businesses in these challenging times. As per the regulatory directive during 2020, financial assistance amounting to $2,098 thousand (representing specified reimbursement of a portion of staff costs, waiver of fees, levies and utility charges) and zero cost funding received from the government and/or regulators, in response to its COVID-19 support measures, was recognized directly in equity.

Fair valuation

The COVID-19 pandemic has resulted in a global economic slowdown with uncertainties in the economic environment. The global capital and commodity markets have also experienced great volatility and a significant drop in prices. The Group's fair valuation exercise primarily relies on quoted prices from active markets for each financial instrument (i.e. Level 1 input) or using observable or derived prices for similar instruments from active markets (i.e. Level 2 input) and has reflected the volatility evidenced during the period and as at the end of the reporting date in its measurement of its financial assets and liabilities carried at fair value. Where fair value measurements were based in full or in part on unobservable inputs (i.e. Level 3), management has used its knowledge of the specific asset/ investee, its ability to respond to or recover from the crisis, its industry and country of operations to determine the necessary adjustments to its fair value determination process.

Government grant

Due to Covid-19, the Government of Kingdom of Bahrain has announced various economic stimulus programs ("Packages") to support businesses in these challenging times. During the year, the Group received financial assistance in the form of reimbursement of staff costs and waiver of utility and other charges and zero-cost repo funding from the government of the Kingdom of Bahrain that has been recognised directly in equity.

Notes to the Consolidated

Financial Statements (contd.)

for the year ended 31 December 2021

3. BASIS OF MEASUREMENT

The consolidated financial statements are prepared on the historical cost basis except for the measurement at fair value of investment securities.

The Group classifies its expenses in the consolidated income statement by the nature of expense method. The consolidated financial statements are presented in United States Dollars ($), which is also the functional currency of the Group's operations. All financial information presented in $has been rounded to the nearest thousands, except when otherwise indicated.

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Management believes that the underlying assumptions are appropriate and the Group's consolidated financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

The below paragraphs and tables describe the Group's significant lines of business and sources of revenue they are associated with.

Activities:

The Group's primary activities include: a) to provide investment opportunities and manage assets on behalf of its clients as an agent, b) to provide commercial banking services, c) to undertake targeted development and sale of infrastructure and real estate projects for enhanced returns, d) to co-invest with clients and hold strategic proprietary assets as a principal. In addition, the Group also manages its treasury portfolio with the objective of earning higher returns from capital and money market opportunities.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2021

3. BASIS OF MEASUREMENT (contd.)

Segments:

To undertake the above activities, the Group has organised itself in the following operating segments units:

Investment banking	Investment banking segment focuses on private equity and asset management activities. Private equity activities include acquisition of interests in unlisted or listed businesses at prices lower than anticipated values. The Group acts as both a principal and an intermediary by acquiring, managing and realizing investments in investment assets for institutional and high net worth clients. The asset management unit is responsible for identifying and managing investments in income yielding real estate and leased assets in the target markets. Investment banking activities focuses on acquiring, managing and realizing investments to achieve and exceed benchmark returns. Investment banking activities produce fee-based, activity-based and asset- based income for the Group. Assets under this segment include proprietary private equity, co-investments and strategic non-banking investments.
Commercial banking	This includes all sharia compliant corporate banking and retail banking activities of the Group provided through the Group's subsidiary, Khaleeji Commercial Bank BSC. The subsidiary also manages its own treasury and proprietary investment book within this operating segment.
Real Estate development	This business unit is primarily involved in origination and management of large scale economic infrastructure projects. The business unit also covers the Group's investment in development real estate and related assets.
Corporate and treasury	All common costs and activities that are undertaken at the Group level, including treasury and residual investment assets, is considered as part of the Corporate and treasury activities of the Group.

Each of the above operating segments, except commercial banking which is a separate subsidiary, has its own dedicated team of professionals and are supported by a common placement team and support units.

The strategic business units offer different products and services and are managed separately because they require different strategies for management and resource allocation within the Group. For each of the strategic business units, the Group's Board of Directors (chief operating decision makers) review internal management reports on a quarterly basis.

The performance of each operating segment is measured based on segment results and are reviewed by the management committee and the Board of Directors on a quarterly basis. Segment results is used to measure performance as management believes that such information is most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing, if any is determined on an arm's length basis.

The Group classifies directly attributable revenue and cost relating to transactions originating from respective segments as segment revenue and segment expenses respectively. Indirect costs is allocated based on cost drivers/factors that can be identified with the segment and/ or the related activities. The internal management reports are designed to reflect revenue and cost for respective segments which are measured against the budgeted figures. The unallocated revenues, expenses, assets and liabilities related to entity-wide corporate activities and treasury activities at the Group level. Expenses are not allocated to the business segment.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2021

Sources of revenue:

The Group primarily earns its revenue from the following sources and presents its statement of income accordingly:

Activity/ Source	Products	Types of revenue
Investment banking activity	Deal-by-deal offerings of private equity, income yielding asset opportunities.	Deal related income, earned by the Group from investee companies in connection with new acquisitions. Fee based income, in the nature of management fees, performance fee, acquisition fee and exit fee which are contractual in nature.
Commercial banking income	Islamic Shari'ah compliant corporate, institutional and retail banking financing and cash management products and services.	Financing income, fees and investment income (net of direct funding costs).
Proprietary investments	Proprietary investments comprise the Group's strategic and co- investment exposure. This also includes non-banking subsidiaries and equity -accounted investees where the Bank has significant influence.	Includes dividends, gain / (loss) on sale and remeasurement of proprietary investments, co-investments and share of profit / (loss) of equity accounted investees. Income from restructuring of liabilities and funding arrangements are also considered as income from proprietary investments.
Co-investment	Represent the Group's co- investment along with its clients in the products promoted by the Group.	Dividends, gain / (loss) on co-investments of the Bank.
Real estate	Proprietary holdings of real estate for direct sale, development and sale, and/ or rental yields. This also includes the group's holding or participation in leisure and hospitality assets.	Development and sale income, from development and sale of real estate projects of the Group based on percentage of completion (POC) method. Rental and operating income, from rental and other ancillary income from investment in real estate.
Treasury operations	Represents the Bank's liquidity management operations, including its fund raising and deployment activities to earn a commercial profit margin.	Income arising from the deployment of the Bank's excess liquidity, through but not limited to short term placements with bank and financial institutions, money market instruments, capital market and other related treasury investments.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been applied consistently to all periods presented in the consolidated financial statements, and have been consistently applied by the Group except as described in note 2 "statement of compliance" above and those arising from adoption of the following standards and amendments to standards.

(a) Impact of new accounting standards and changes in accounting policies

(i) FAS 32 - Ijarah

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

FAS 32 sets out principles for the classification, recognition, measurement, presentation and disclosure of Ijarah (Ijarah asset, including different forms of Ijarah Muntahia Bittamleek) transactions entered into by the Islamic financial institutions as a lessor and lessee. The Group has applied FAS 32 "Ijarah" from 1 January 2021. The impact of adoption of this standard is disclosed in (b) below:

(a) Change in accounting policy Identifying an Ijarah

At inception of a contract, the Bank assesses whether the contract is Ijarah, or contains an Ijarah. A contract is Ijarah, or contains an Ijarah if the contract transfers the usufruct (but not control) of an identified asset for a period of time in exchange for an agreed consideration.

Measurement

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

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

i) Right-of-use (usufruct) asset

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

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

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

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

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

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

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

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

Notes to the Consolidated

Financial Statements (contd.)

for the year ended 31 December 2021

ii) Net ijarah liability

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

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

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

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

Variable Ijarah rentals are Ijarah rentals that depend on an index or rate, such as payments linked to a consumer price index, financial markets, regulatory benchmark rates, or changes in market rental rates. Supplementary rentals are rentals contingent on certain items, such as additional rental charge after provision of additional services or incurring major repair or maintanence. As of 31 December 2021, the Bank did not have any contracts with variable or supplementary rentals.

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

- Increasing the net carrying amount to reflect return on the Ijarah liability (amortisation of deferred Ijarah cost);
- Reducing the carrying amount of the gross Ijarah liability to reflect the Ijarah rentals paid; and
- Re-measuring the carrying amount in the event of reassessment or modifications to Ijarah contract, or reflect revised Ijarah rentals.
- The deferred Ijarah cost is amortised to income over the Ijarah terms on a time proportionate basis, using the effective rate of return method. After the commencement date, the Bank recognises the following in the income statement:
- Amortisation of deferred Ijarah cost; and
- Variable Ijarah rentals (not already included in the measurement of Ijarah liability) as and when the triggering events/ conditions occur

Ijarah contract modifications

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

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

An Ijarah modification is considered as a new Ijarah component to be accounted for as a separate Ijarah for the lessee, if the modification both additionally transfers the right to use of an identifiable underlying asset and the Ijarah rentals are increased corresponding to the additional right-of-use asset. For modifications not meeting any of the conditions stated above, the Bank considers the Ijarah as a modified Ijarah as of the effective date and recognises a new Ijarah transaction. The Bank recalculates the Ijarah liability, deferred Ijarah cost, and right-of-use asset, and de-recognise the existing Ijarah transaction and balances.

Expenses relating to underlying asset

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

Recognition exemptions and simplified accounting for the lessee

A lessee may elect not to apply the requirements of Ijarah recognition and measurement of recognizing right- of-use asset and lease liability for the following:

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

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

Impact as lessor on accounting for Ijara Muntahia Bittamleek contracts

There was no change in the accounting policies for Ijarah Muntahia Bittamleek portfolio upon adoption of this standard.

Notes to the Consolidated
Financial Statements (contd.)

for the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES (contd.)

(a) Impact of new accounting standards and changes in accounting policies (contd.)
(i) FAS 32 - Ijarah (contd.)

(b) Impact on adoption of FAS 32

The impact of adoption of FAS 32 as at 1 January 2021 has resulted in an increase in right-of-use asset and an increase in lease liability as stated below. The lease contracts comprise office premises, school premises, leasehold lands, ATM sites, branches etc.

	Total Assets	Total Liabilities and EIAH	Total Equity
Closing balance (31 December 2020)	6,586,863	5,400,799	1,186,064
Impact on adoption:			
Right-of-use asset	58,949	-	-
Lease liability	-	61,045	-
Opening impact of FAS 32	-	-	(2,096)
Balance on date of initial application of 1 January 2021	**6,645,812**	**5,461,844**	**1,183,968**

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

The following new standards and amendments to standards are effective for financial years beginning after 1 January 2022 with an option to early adopt. However, the Group has not early adopted any of these standards.

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

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

This standard classifies Wa'ad and Khiyar arrangements into two categories as follows:

i) "ancillary Wa'ad or Khiyar" which is related to a structure of transaction carried out using other products i.e. Murabaha, Ijarah Muntahia Bittamleek, etc.; and

ii) "product Wa'ad and Khiyar" which is used as a stand-alone Shariah compliant arrangement.

Further, the standard prescribes accounting for constructive obligations and constructive rights arising from the stand-alone Wa'ad and Khiyar products and accounting for Tahawwut (hedging) arrangements based on a series of Wa'ad and Khiyar contracts.

The Group does not expect any significant impact on adoption this standard.

(ii) FAS 39 Financial Reporting for Zakah

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

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

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

The Group is assessing the impact of adoption of this standard.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2021

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

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

The revision of FAS 1 is in line with the modifications made to the AAOIFI conceptual framework for financial reporting.

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

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

(c) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

The Group measures goodwill at the acquisition date as:
- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interest in the acquiree; plus
- if the business combination achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the consolidated income statement.

The consideration transferred does not include amounts related to settlement of pre-existing relationships. Such amounts are generally recognised in the consolidated income statement. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

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 re-measured and settlement is accounted within equity. Otherwise subsequent changes in the fair value of the contingent consideration are recognised in the consolidated income statement.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES (contd.)

(c) Basis of consolidation (contd.)

(ii) Subsidiaries

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

(iii) Non-controlling interests (NCI)

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. If less than 100% of a subsidiary is acquired, then the Group elects on a transaction-by-transaction basis to measure non-controlling interests either at:

- Fair value at the date of acquisition, which means that goodwill, or the gain on a bargain purchase, includes a portion attributable to ordinary non-controlling interests; or
- the holders' proportionate interest in the recognised amount of the identifiable net assets of the acquire, which means that goodwill recognised, or the gain on a bargain purchase, relates only to the controlling interest acquired.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iv) Special purpose entities

The consolidated financial statements of the Group comprise the financial statements of the Bank and its subsidiaries. Subsidiaries are those enterprises (including special purpose entities) controlled by the Bank. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases. Control is presumed to exist, when the Bank owns majority of voting rights in an investee.

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or investment transaction and usually voting rights are relevant for the operating of such entities. An investor that has decision-making power over an investee and exposure to variability of returns determines whether it acts as a principal or as an agent to determine whether there is a linkage between power and returns. When the decision maker is an agent, the link between power and returns is absent and the decision maker's delegated power does not lead to a control conclusion. Where the Group's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and an SPE, the Group performs a reassessment of control over the SPE.

The Group in its fiduciary capacity manages and administers assets held in trust and other investment vehicles on behalf of investors. The financial statements of these entities are usually not included in these consolidated financial statements. Information about the Group's fiduciary assets under management is set out in note 26. For the purpose of reporting assets under management, the gross value of assets managed are considered.

(v) Loss of control

When the Group losses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity. Any surplus or deficit arising on the loss of control is recognised in consolidated income statement. Any interest retained in the former subsidiary, is measured at fair value when control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for investment securities depending on the level of influence retained.

(vi) Equity accounted investees

This comprise investment in associates and joint ventures. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exits when the Group holds between 20% and 50% of the voting power of another entity. A joint venture is an arrangement in which the Group has joint control, where the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2021

Associates and Joint venters are accounted for under equity method. 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 investees 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 equity-accounted investees, 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 equity-accounted investees. Equity accounting is discontinued when an associate is classified as held-for-sale.

(vii) Transactions eliminated on consolidation and equity accounting
Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency translation gains or losses) from intra-group transactions with subsidiaries are eliminated in preparing the consolidated financial statements. Intra-group gains on transactions between the Group and its equity- accounted investees are eliminated to the extent of the Group's interest in the investees. Unrealised losses are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Accounting policies of the subsidiaries and equity- accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Assets held-for-sale

Classification
Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use within twelve months. A subsidiary acquired exclusively with a view to resale is classified as disposal group held- for-sale and income and expense from its operations are presented as part of discontinued operation.

Measurement
Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro-rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale or held-for-distribution and subsequent gains and losses on re-measurement are recognised in profit or loss. Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

If the criteria for classification as held for sale are no longer met, the entity shall cease to classify the asset (or disposal group) as held for sale and shall measure the asset at the lower of its carrying amount before the asset (or disposal group) was classified as held-for-sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held- for-sale and its recoverable amount at the date of the subsequent decision not to sell.

(e) Foreign currency transactions

(i) Functional and presentation currency
Items included in the consolidated financial statements 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 $, which is the Group's functional and presentation currency.

(ii) Transactions and balances
Transactions in foreign currencies are translated into the functional currency using the spot exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at the reporting date.

Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date 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 income statement. 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.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES (contd.)

(e) Foreign currency transactions (contd.)

(iii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition are translated into $at exchange rates at the reporting date. The income and expenses of foreign operations are translated into $at the exchange rates at the date of the transactions. Foreign currency differences are accumulated into foreign currency translation reserve in owners' equity, except to the extent the translation difference is allocated to NCI.

When foreign operation is disposed of in its entirety such that control is lost, cumulative amount in the translation reserve is reclassified to consolidated income statement as part of the gain or loss on disposal.

(f) Offsetting of financing instruments

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expense are presented on a net basis only when permitted under AAOIFI, or for gains and losses arising from a group of similar transactions.

(g) Investment securities

Investment securities are categorised as proprietory investments, co-investments and treasury portfolio. (refer note 3 for categorisation)

Investment securities comprise debt type and equity type instruments but exclude investment in subsidiaries and equity-accounted investees (note 4 (c) (ii) and (vi)).

(i) Categorization and classification

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

i) equity-type instruments
ii) debt-type instruments, including:
- monetary debt-type instruments; and
- non-monetary debt-type instruments.

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

(ii) Recognition and de-recognition

Investment securities are recognised at the trade date i.e. the date that the Group commits to purchase or sell the asset, at which date the Group becomes party to the contractual provisions of the instrument. Investment securities are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership.

(iii) Measurement

Investment securities are measured initially at fair value plus, except for investment securities carried at FVTIS, transaction costs that are directly attributable to its acquisition or issue.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2021

Subsequent to initial recognition, investments carried at FVTIS and FVTE are re-measured to fair value. Gains and losses arising from a change in the fair value of investments carried at FVTIS are recognised in the consolidated income statement in the period in which they arise. Gains and losses arising from a change in the fair value of investments carried at FVTE are recognised in the consolidated statement of changes in owners equity and presented in a separate investment fair value reserve in equity.

The fair value gains / (losses) are recognised taking into consideration the split between portions related to owners' equity and equity of investment account holders. When the investments carried at FVTE are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in owners' equity is transferred to the income statement.

Investments at FVTE where the entity is unable to determine a reliable measure of fair value on a continuing basis, such as investments that do not have a quoted market price or there are no other appropriate methods from which to derive reliable fair values, are stated at cost less impairment allowances.

(iv) Measurement principles

Amortised cost measurement

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

Fair value measurement

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. When available, the Group measures the fair value of an instrument using quoted 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.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received.

If a market for a financial instrument is not active, 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, price / earnings multiples and other valuation models with accepted economic methodologies for pricing financial instruments.

Some or all of the inputs into these models may not be market observable, but are estimated based on assumptions. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

Fair value estimates involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events (such as continued operating profits and financial strengths). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(h) Financing assets

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

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES (contd.)

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

(j) Placements with and from financial and other institutions
These comprise placements made with/ from financial and other institutions under shari'a compliant contracts. Placements are usually short term in nature and are stated at their amortised cost.

(k) Cash and cash equivalents
For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise cash on hand, bank balances and placements with financial institutions) with original maturities of three months or less when acquired that are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Bank balances that are restricted and not available for day-to- day operations of the Group are not included in cash and cash equivalents.

(l) Investment property
Investment property comprise land plots and buildings. Investment property is property held to earn rental income or for capital appreciation or both but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes. Investment property is measured initially at cost, including directly attributable expenses. Subsequent to initial recognition, investment property is carried at cost less accumulated depreciation and accumulated impairment allowances (if any). Land is not depreciated.

A property is transferred to investment property when, there is change in use, evidenced by:
- end of owner-occupation, for a transfer from owner-occupied property to investment property; or
- commencement of an operating ijara to another party, for a transfer from a development property to investment property.

Further, an investment property is transferred to development property when, there is a change in use, evidenced by:
- commencement of own use, for a transfer from investment property to owner-occupied property;
- commencement of development with a view to sale, for a transfer from investment in real estate to development property.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the period in which the property is derecognised.

(m) Development properties
Development properties are properties held for sale or development and sale in the ordinary course of business. Development properties are measured at the lower of cost and net realisable value.

(n) Property and equipment
Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projection if the recognition criteria are met. All other repair and maintenance costs are recognised in the consolidated income statement as incurred.

Notes to the Consolidated

Financial Statements (contd.)

for the year ended 31 December 2021

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight line method over their estimated useful lives, and is generally recognised in the consolidated income statement.
The estimated useful lives of property and equipment of the industrial business assets are as follows:

Buildings and infrastructure on lease hold	15 - 30 years
Machinery	8 - 40 years
Other equipment comprising:	
Tools and dies	3 years
Computers	3 - 5 years
Furniture and fixtures	5 - 8 years
Motor vehicles	4 - 5 years

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amounts, being the higher of the fair value less costs to sell and their value in use.

An item of property and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognised in the consolidated statement of income in the year of derecognition.

The assets' residual values, useful lives and methods of depreciation are reviewed annually and adjusted prospectively if appropriate.

(o) Intangible assets

Goodwill

Goodwill that arises on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

Other Intangible assets

Intangible assets acquired separately are initially measured at cost. The cost of intangible assets acquired in a business combination are their fair values as at the date of acquisition. Subsequently, intangible assets are recognised at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the consolidated income statement in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life of ten years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income in the expenses category consistent with the function if intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Intangible assets with indefinite useful life consists of a license to construct and operate a cement plant in the Kingdom of Bahrain.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of income when the asset is derecognised.

Notes to the Consolidated

Financial Statements (contd.)

for the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES (contd.)

(p) Impairment of exposures subject to credit risk

The Group recognises loss allowances for the expected credit losses "ECLs" on:

- Bank balances;
- Placements with financial institutions;
- Financing assets;
- Lease rental receivables;
- Investments in Sukuk (debt-type instruments carried at amortised cost);
- Other receivables; and
- Undrawn financing commitments and financial guarantee contracts issued.

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

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

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

The Group assumes that the credit risk on exposure subject to credit risk increased significantly if it is more than 30 days past due. The Group considers an exposure subject to credit risk to be in default when:

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

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

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

Stage 1: 12-months ECL

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

Stage 2: Lifetime ECL - not credit impaired

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

Stage 3: Lifetime ECL - credit impaired

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

Notes to the Consolidated

Financial Statements (contd.)

for the year ended 31 December 2021

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

- ECLs are a probability-weighted estimate of credit losses. They are measured as follows:
- Exposures subject to credit risk that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- Exposures subject to credit risk that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn financing commitment: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn and the cash flows that the Group expects to receive; Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover; and
- ECLs are discounted at the effective profit rate of the exposure subject to credit risk.

Credit-impaired exposures

At each reporting date, the Group assesses whether exposures subject to credit risk are credit impaired. An exposure subject to credit risk is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that an exposure is credit- impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a financing facility or advance by the Bank on terms that the Bank would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for exposures subject to credit risk are deducted from the gross carrying amount of the assets.

(q) Impairment of equity investments classified at fair value through equity (FVTE)

In the case of investments in equity securities classified as FVTE. A significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment. The Group considers a decline of 30% to be significant and a period of nine months to be prolonged. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are subsequently reversed through equity.

(r) Impairment of non-financial assets

The carrying amount of the Group's non-financial assets (other than those subject to credit risk covered above) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use or fair value less costs to sell. An impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Separately recognised goodwill is not amortised and is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on separately recognised goodwill are not reversed.

(s) Clients' funds

These represent funds of projects set-up and promoted by the Group and placed with the Group pending disbursement to the projects concerned and carried at amortised cost.

Notes to the Consolidated

Financial Statements (contd.)

for the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES (contd.)

(t) Customers' current accounts

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

(u) Term financing

Term financing represents facilities from financial institutions, and financing raised through Sukuk. Term financing are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective profit rate method. Financing cost, dividends and losses relating to the term financing are recognised in the consolidated income statement as finance expense. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

(v) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised from the date of its issue. The liability arising from a financial guarantee contract is recognised at the present value of any expected payment to settle the liability, when a payment under the guarantee has become probable. The Group has issued financial guarantees to support its development projects (note 35).

(w) Dividends

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

(x) Share capital and reserves

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Equity instruments of the group comprise ordinary shares and equity component of share-based payments and convertible instruments. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

Treasury shares

The amount of consideration paid including all directly attributable costs incurred in connection with the acquisition of the treasury shares are recognised in equity. Consideration received on sale of treasury shares is presented in the financial statements as a change in equity. No gain or loss is recognised on the Group's consolidated income statement on the sale of treasury shares.

Statutory reserve

The 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. Appropriation to statutory reserve is made when approved by the shareholders.

(y) Equity of investment account holders

Equity of investment account holders are funds held by the Group in unrestricted investment accounts, which it can invest at its own discretion. The investment account holder authorises the Group to invest the account holders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

The Group charges management fee (Mudarib fees) to investment account holders. Of the total income from investment accounts, the income attributable to customers is allocated to investment accounts after setting aside provisions, reserves (Profit equalisation reserve and Investment risk reserve) and deducting the Group's share of income as a Mudarib. The allocation of income is determined by the management of the Group within the allowed profit sharing limits as per the terms and conditions of the investment accounts. Only the income earned on pool of assets funded from IAH are allocated between the owners' equity and investment account holders. Administrative expenses incurred in connection with the management of the funds are borne directly by the Group and are not charged separately to investment accounts.

The Group allocates specific provision and collective provision to owners' equity. Amounts recovered from these impaired assets is not subject to allocation between the IAH and owners' equity.

Notes to the Consolidated

Financial Statements (contd.)

for the year ended 31 December 2021

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

Restricted investment accounts

Restricted investment accounts represent assets acquired by funds provided by holders of restricted investment accounts and their equivalent and managed by the Group as an investment manager based on either a Mudharaba contract or agency contract. The restricted investment accounts are exclusively restricted for investment in specified projects as directed by the investments account holders. Assets that are held in such capacity are not included as assets of the Group in the consolidated financial statements.

(z) Revenue recognition

Revenue is measured at the fair value of consideration received or receivable. Revenue is recognised to the extent that it is probable that future economic benefits associated with the item of revenue will flow to the Group, the revenue can be measured with reliability and specific criteria have been met for each of the Group's activities as described below:

Banking business

Income from investment banking activities is recognised 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 agreed in the private placement memorandum/ contracts for each transaction. The assessment of whether economic benefits from a transaction will flow to the Group is determined when legally binding commitments have been obtained from underwriters and external investors for a substantial investment in the transaction.

Income from placements with / from financial institutions are recognised on a time-apportioned basis over the period of the related contract using the effective profit rate.

Dividend income from investment securities is recognised when the right to receive is established. This is usually the ex-dividend date for equity securities.

Finance income / expenses are recognised using the amortised cost method at the effective profit rate of the financial asset / liability.

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

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

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

Income from assets acquired for leasing (Ijarah Muntahia Bittamleek) are recognised proportionately over the lease term.

Income from sukuk and income / expenses on placements is recognised at its effective profit rate over the term of the instrument.

Non-banking business

Revenue from the sale of goods is recognised at a point in time when customer takes possession. Revenue from rendering of services is recognised when services are rendered.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES (contd.)

(aa) Earnings prohibited by Shari'a

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

(bb) Zakah

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

(cc) Employees benefits

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Post employment benefits

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

Expatriate and certain Bahraini employees on fixed contracts are entitled to leaving indemnities payable, based on length of service and final remuneration. Provision for this unfunded commitment, has been made by calculating the notional liability had all employees left at the reporting date. These benefits are in the nature of a "defined benefit scheme" and any increase or decrease in the benefit obligation is recognised in the consolidated income statement.

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

Share-based employee incentive scheme

The Bank operates a share-based incentive scheme for its employees (the "Scheme") whereby employee are granted the Bank's shares as compensation on achievement of certain non-market based performance conditions and service conditions (the 'vesting conditions'). The grant date fair value of equity instruments granted to employees is recognised as an employee expense, with a corresponding increase in equity over the period in which the employees become unconditionally entitled to the share awards.

Non-vesting conditions are taken into account when estimating the fair value of the equity instrument but are not considered for the purpose of estimating the number of equity instruments that will vest. Service and non- market performance conditions attached to the transactions are not taken into account in determining fair value but are considered for the purpose of estimating the number of equity instruments that will vest. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of share awards that do meet the related service and non- market performance conditions at the vesting date. Amount recognised as expense are not trued-up for failure to satisfy a market condition.

(dd) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Notes to the Consolidated

Financial Statements (contd.)

for the year ended 31 December 2021

(ee) 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.

(ff) 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.

(ff) Investment account holder protection scheme

Funds held with the Group in unrestricted investment accounts and current accounts of its retail banking subsidiary are covered by the Deposit Protection Scheme (the Scheme) established by the Central Bank of Bahrain regulation in accordance with Resolution No (34) of 2010.

(gg) Income tax

The Group is exposed to taxation by virtue of operations of subsidiaries in Morocco, Tunis and India. Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be realised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Currently, the Group does not have any material current or deferred tax exposure that requires recognition in the consolidated financial statements.

5 JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that effect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events. However, the process of making the required estimates and assumptions involved further challenges due to the prevailing uncertainties arising from COVID-19 and required use of management judgements.

a) Judgements

Establishing the criteria for determining whether credit risk on an exposure subject to credit risk has increased significantly since initial recognition, determining methodology for incorporating forward looking information into measurement of ECL and selection and approval of models used to measure ECL is set out in note 4(p) and note 36(a).

Covid 19 impact

Covid-19 was declared a worldwide pandemic by the World Health Organisation in March 2020. Covid-19 and related measures taken by governments worldwide to slow the spread of the virus, have since had a significant impact on the local and global economy, supply chains and financial markets.

The Group has considered the impact of COVID-19 and related market volatility in preparing these consolidated financial statements.

The Group's risk and capital management framework continues to be applied and the Group continues to monitor the impact of COVID-19 on the Group's risk and capital profile. Non-financial risks emerging from local and global movement restrictions, and remote working by staff, counterparties, clients and suppliers, are being identified, assessed, managed and governed through timely application of the Group's Risk Management Framework.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2021

5 JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (contd.)

Financing portfolio

In accordance with the CBB relief measures, the Group has introduced a number of support measures for customers impacted by COVID-19, including the deferral of payments with profit for retail and small business customers.

Impairment allowance on financing portfolio at amortised cost

In determining the appropriate level of expected credit losses (ECLs) the Group considered the macro- economic outlook, customer credit quality, the type of collateral held, exposure at default, and the effect of payment deferral options as at the reporting date.
The ECL methodology, significant increase in credit risk (SICR) thresholds, and definition of default remain consistent with those used as at 31 December 2020.

The model inputs, including forward-looking information, scenarios and associated weightings, were revised to reflect the current outlook. Noting the wide range of possible scenarios and macroeconomic outcomes, and the relative uncertainty of how the social and economic consequences of COVID-19 will materialize, these scenarios represent reasonable and supportable forward-looking views as at the reporting date.

The Group's models are calibrated to consider past performance and macrocosmic forward-looking variables as inputs. The global regulators have issued guidance to consider the exceptional circumstances of the Covid- 19 pandemic. This includes consideration of significant government support and the high degree of uncertainty around historic long-term trends used in determining reasonable and supportable forward-looking information as well as the assessment of underlying credit deterioration and migration of balances to progressive stages.

The Group considers both qualitative and quantitative information in the assessment of significant increase in credit risk. The utilisation of a payment deferral program was not considered an immediate trigger for a significant increase in credit risk ("SICR") or a staging migration for the purposes of calculating ECL, given the purpose of these programs is to provide temporary cash flow relief to the Group's customers affected by the COVID-19.

The Group continues to assess borrowers for other indicators of unlikeliness to pay, taking into consideration the underlying cause of any financial difficulty and whether it is likely to be temporary as a result of COVID-19 or longer term.

(i) Classification of investments

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as investments carried at fair value through income statement or investments carried at fair value through equity or investments carried at amortised cost. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification (note 4g(i)).

(ii) Special purpose entities

The Group sponsors the formation of special purpose entities (SPE's) primarily for the purpose of allowing clients to hold investments. The Group provides corporate administration, investment management and advisory services to these SPE's, 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 SPE's that it does not have the power to control. In determining whether the Group has the power to control an SPE, judgements 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.

(iii) Impairment of equity investments at fair value through equity

(refer to Note 4 (g) (iii)

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2021

b) Estimations

(i) Impairment of exposures subject to credit risk carried at amortised cost

Determining inputs into ECL measurement model including incorporation of forward-looking information is set out in note 4(p) and note 36(a).

(ii) Measurement of fair value of unquoted equity investments

The group determines fair value of equity investments that are not quoted in active markets by using valuation techniques such as discounted cashflows, income approach and market approaches. Fair value estimates are made at a specific point in time, based on market conditions and information about the investee companies. These estimates are subjective in nature and involve uncertainties and matter of significant judgment and therefore, cannot be determined with precision. There is no certainty about future events such as continued operating profits and financial strengths. It is reasonably possible based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments. In case where discounted cash flows models have been used to estimate fair values, the future cashflows have been estimated by the management based on information form and discussion with representatives of investee companies and based on the latest available audited and unaudited financial statements. The basis of valuation has been reviewed by the management in terms of the appropriateness of the methodology, soundness of assumptions and correctness of calculations and have been approved by the board of directors for inclusion in the consolidated financial statements.

Valuation of equity investments are measured at fair value through equity which involves judgment and is normally based on one of the following

- Valuation by independent external value for underlying properties / projects;
- Recent arms-length market transaction;
- Current fair value of another contract that is substantially similar;
- Present value of expected cash flows at current rates applicable for items with similar terms and risk characteristics; or
- Application of other valuation models.

(iii) Impairment of investment property

The Group conducts impairment assessment of investment property periodically using external independent property valuers to value the property. The fair value is determined based on the market value of the property using either sales comparable approach, the residual value basis, replacement cost or the market value of the property considering its current physical condition. The Group's investment properties are situated in Bahrain, UAE and Morocco. Given the dislocation in the property market and infrequent property transactions, it is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of these assets within the next financial year due to significant changes in assumptions underlying such assessments.

(iv) Impairment of other non-financial assets and cash generating units

Investment in associates and recognised goodwill are subject to an impairment based on indicators of performance and market conditions. Cash generating units include the Group's investments in certain subsidiaries and equity-accounted investees and investment property that generate cash flows that are largely independent from other assets and activities of the Group. The basis of impairment assessment for such cash generating units is described in accounting policy note 4 (r). For equity-accounted investees with indicators of impairment, the recoverable amounts is determined based on higher of fair value less costs to sell (FVLCTS); and value in use.

The recoverable amount for the equity-accounted investees was determined using a combination of income and market approaches of valuations. The objective of valuation techniques is to determine whether the recoverable amount is greater than the carrying amount.

(v) Estimating net realisable value of development property

Development property is stated at lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated selling expenses. The management has forecasted the cost of completion of development property and has engaged independent valuers to estimate the residual value of the development property based on estimated market selling prices for similar properties. Net realisable value estimates are made at a specific point in time, based on market conditions and information about the expected use of development property. These estimates involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events. It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the development property.

Notes to the Consolidated

Financial Statements (contd.)

for the year ended 31 December 2021

6. CASH AND BANK BALANCES

$000's

	31 December 2021	31 December 2020
Cash	12,153	13,339
Balances with banks	523,735	404,580
Balances with Central Bank of Bahrain:		
– Current account	146,026	77,697
– Reserve account	40,557	40,886
	722,471	536,502

The reserve account with the Central Bank of Bahrain of $40,557 thousand (2020: $40,886 thousand) and balances with banks of $17,526 thousand (2020: $3,585 thousand) are not available for day-to-day operational purposes. The cash and bank balances are net of ECL of $24 thousand (2020: $15 thousand).

7. TREASURY PORTFOLIO

$000's

	31 December 2021	31 December 2020
Placements with financial institutions	180,000	169,998
Equity type investments		
At fair value through income statement		
Structured notes	403,986	328,431
Debt type investments		
At fair value through equity		
Quoted sukuk	1,656,088	648,991
At amortised cost		
Quoted sukuk *	860,616	693,737
Unquoted sukuk	3,486	3,493
Less: Impairment allowances	(14,251)	(6,104)
	3,089,925	1,838,546

** Includes quoted sukuk of $290,642 thousand (31 December 2020: $302,260 thousand) pledged against term-financing of $215,077 thousand (31 December 2020: $200,204 thousand) (note 15).*

Equity type investments - At fair value through income statement

$000's

	31 December 2021	31 December 2020
At 1 January	328,431	239,807
Additions	557,681	687,496
Disposals during the year, at carrying value	(464,903)	(597,273)
Fair value changes	(17,223)	(1,599)
At 31 December	**403,986**	328,431

Notes to the Consolidated
Financial Statements (contd.)

for the year ended 31 December 2021

8. FINANCING ASSETS

$000's

	31 December 2021	31 December 2020
Murabaha	995,324	971,164
Musharaka	–	276
Wakala	239	239
Mudharaba	2,576	2,690
Istisnaa	–	3,565
Assets held-for-leasing (Ijarah)	384,312	345,342
	1,382,451	1,323,276
Less: Impairment allowances	(71,449)	(56,010)
	1,311,002	1,267,266

Murabahafinancing receivables are net of deferred profits of $46,130 thousand (2020: $50,032 thousand).

The movement on impairment allowances is as follows:

$000's

Impairment allowances	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2021	20,841	6,255	28,914	56,010
Net transfers	796	822	(1,618)	–
Net charge for the period (note 24)	(1,640)	(64)	18,080	16,376
Transfer to off balance sheet	–	–	(12)	(12)
Disposal	(2)	96	(1,019)	(925)
At 31 December 2021	**19,995**	**7,109**	**44,345**	**71,449**

Impairment allowances	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	11,601	8,366	89,754	109,721
Net transfers	228	(4,512)	4,285	1
Net charge for the period (note 24)	9,301	2,401	(2,542)	9,160
Write-offs	–	–	(29,204)	(29,204)
Disposal	(289)	–	(33,379)	(33,668)
At 31 December 2020	20,841	6,255	28,914	56,010

Notes to the Consolidated

Financial Statements (contd.)

for the year ended 31 December 2021

9. REAL ESTATE INVESTMENT

$000's

	31 December 2021	31 December 2020
Investment Property		
– Land	529,076	481,315
– Building	63,758	63,757
	592,834	545,072
Development Property		
– Land	592,926	761,032
– Building	719,838	506,211
	1,312,764	1,267,243
	1,905,598	1,812,315

(i) Investment property

Investment property includes land plots and buildings in Bahrain, UAE and Morocco. Investment property of carrying amount of $40.84 million (2020: $40.84 million) is pledged against Wakala facilities and Ijarah facility (note 15).

The fair value of the Group's investment property at 31 December 2021 was $766,848 thousand (31 December 2020: $686,913 thousand) based on a valuation carried out by an independent external property valuers who have recent experience in the location and category of the asset being valued. These are level 3 valuations in fair value hierarchy.

For sensitivity analysis of investment properties, an increase or decrease of 5% in value of properties will not impact the income statement as the carrying value of the properties are much lower than the impacted fair values.

$000's

	31 December 2021	31 December 2020
At 1 January	545,072	531,253
Reclassification from Other Assets	17,338	
Additions during the year	30,424	21,035
Disposals	–	(7,216)
At 31 December	**592,834**	545,072

(ii) Development properties

This represent properties under development for sale in UAE, Bahrain, North Africa and India.

$000's

	31 December 2021	31 December 2020
At 1 January	1,296,803	1,274,756
Additions during the year	21,151	10,637
Disposals	(5,190)	(18,150)
At 31 December	**1,312,764**	1,267,243

Notes to the Consolidated

Financial Statements (contd.)

for the year ended 31 December 2021

10. PROPRIETARY INVESTMENTS

$000's

	31 December 2021	31 December 2020
Equity-type investments		
At fair value through income statement (i)		
– Structured notes	41,197	40,000
– Unquoted securities	10,000	10,000
	51,197	50,000
At fair value through equity		
– Listed equity securities * (ii)	13	19,060
– Unquoted equity securities (iii)	91,425	108,998
	91,438	128,058
Equity-accounted investees (iv)	**69,003**	78,050
	211,638	256,108

** Listed equity securities of $Nil thousand (2020: $19,047 thousand) are pledged against Murabaha facility (note 15).*

(i) Equity type investments – At fair value through income statement

$000's

	2021	2020
At 1 January	50,000	-
Additions during the year	-	50,000
Fair value changes during the year	1,197	-
At 31 December	**51,197**	50,000

(ii) Listed equity securities at fair value through equity

$000's

	2021	2020
At 1 January	19,060	27,324
Disposals during the year	(19,047)	(1,095)
Transfer from fair value reserve	-	4,831
Impairment during the year	-	(12,000)
At 31 December	**13**	19,060

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2021

10. PROPRIETARY INVESTMENTS (contd.)

(iii) Unquoted equity securities fair value through equity

$000's

	2021	2020
At 1 January	108,998	125,234
Distributions during the year	9,286	–
Sale during the year	(21,003)	–
Capital repayments during the year	(5,856)	(6885)
Impairment during the year	–	(1,476)
Fair value changes	–	(7,875)
At 31 December	**91,425**	108,998

These are carried at cost less impairment in the absence of quoted prices or reliable measure of fair value.

(iv) Equity-accounted investees

Equity-accounted investees represents investments in the following material associates:

Name	Country of incorporation	% holding 2021	% holding 2020	Nature of business
Capital Real Estate Projects Company B.S.C. (c)	Kingdom of Bahrain	40%	40%	Real estate holding and development
Amlak II SPV	Cayman Islands	23.51%	23.51%	Purchase and sale of real estate in Bahrain
Bahrain Aluminium Extrusion Company B.S.C (c) ('Balexco')	Kingdom of Bahrain	17.92%	17.92%	Extrusion and sale of aluminium products
Enshaa Development Real Estate B.S.C. (c)	Kingdom of Bahrain	33.33%	33.33%	Holding plotof land in Kingdom of Bahrain.
AlAreen Hotel SPC	Kingdom of Bahrain	60%	60%	Hospitality
NS 12	Kingdom of Bahrain	28.41%	28.41%	Investment in Real Estate
Lagoon Real Estate Development	Kingdom of Bahrain	22.97%	23.01%	Real estate holding and development

$000's

	2021	2020
At 1 January	78,050	115,617
De-recognition on acquiring a controlling stake	–	(34,812)
Additions during the year	–	33,327
Disposals during the year	(6,111)	(35,168)
Share of loss for the year, net	(2,936)	(914)
At 31 December	**69,003**	78,050

Equity-accounted investees includes the Group's investment of less than 20% in Balexco. As the Group exercises significant influence over the entity by way of its presence on the board of directors, the investment is accounted for as an investment in equity-accounted investee. The Group through shareholder's agreement agreed to exercise joint control with 40% shareholding over AlAreen Hotel SPC with another partner, hence, it is considered as an equity-accounted investee.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2021

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

$000's

	2021	2020
Total assets	269,790	293,817
Total liabilities	43,936	23,717
Total revenues	100,940	10,384
Total profit / (loss)	(3,720)	(10,494)

11. CO-INVESTMENTS

$000's

	31 December 2021	31 December 2020
At fair value through equity		
– Unquoted equity securities	164,548	126,319
At fair value through income statement		
– Unquoted equity securities	7,330	–
	171,877	126,319

12. RECEIVABLES AND PREPAYMENTS

$000's

	31 December 2021	31 December 2020
Investment banking receivables	148,985	115,740
Financing to projects, net	42,383	40,803
Receivable on sale of development properties	59,914	59,733
Advances and deposits	58,222	74,276
Employee receivables	18,898	15,578
Profit on sukuk receivable	17,273	10,174
Lease rentals receivable	2,175	34,005
Goodwill on acquisition	6,810	6,810
Prepayments and other receivables	187,503	253,652
Less: Impairment allowances net of write-off	(10,675)	(5,113)
	531,488	605,658

13. PROPERTY AND EQUIPMENT

$000's

	31 December 2021	31 December 2020
Land	17,811	17,811
Buildings and other leased assets	46,936	2,191
Others including furniture, vehicles and equipment	79,402	83,855
	144,149	103,857

Depreciation on property and equipment during the year was $thousand 4,776 (2020: $6,150 thousand).

Notes to the Consolidated

Financial Statements (contd.)

for the year ended 31 December 2021

14. PLACEMENTS FROM FINANCIAL INSITUTIONS, OTHER ENTITIES AND INDIVIDUALS

These comprise placements in the form of murabaha and wakala contracts with financial, non-financial institutions, and individuals part of the Group's treasury activities. This includes $84.3M million (2020: $84.3 million) from a non-financial entity which is currently subject to regulatory sanctions.

$000's

	31 December 2021	31 December 2020
Financial institutions	2,112,577	1,639,923
Non-financial institutions and individuals	939,515	778,077
	3,052,092	2,418,000

15. TERM FINANCING

$000's

	31 December 2021	31 December 2020
Murabaha financing	1,449,852	748,265
Sukuk	250,943	289,818
Ijarah financing	20,093	22,303
Other borrowings	29,779	28,691
	1,750,667	1,089,077
Current portion	1,275,981	466,812
Non-current portion	474,686	622,265
	1,750,667	1,089,077

Murabaha financing comprise:

- $14 million facility obtained for general corporate purposes for a period of 5 years at a profit rate of 3 month LIBOR plus margin of 6% p.a. (subject to a minimum of 7% p.a.). The facility is secured by a pledge on Group's investment in shares of KHCB and matures in 2022; and

- Short-term and medium-term facilities of $1,417,800 thousand (2020: $724,653 thousand) are secured by quoted sukuk of $2,070,315 thousand (2020: $585,000 thousand), structured notes of $403,986 thousand (2020: $328,431 thousand) (note 7) and equity type investments of Nil (2020: $19,047 thousand) (note 10).

Sukuk

During 2020, the Group raised $300 million through issuance of unsecured sukuk certificates with a profit rate of 7.5% p.a. repayable by 2025. The Bank has repurchased cumulative sukuk of $49 million during the year ended 2020 and 2021.

Ijarah financing facility:

This represents facility obtained from a financial institution in 2016 to part finance the acquisition of an investment property of $40.84 million (note 9(i)), repayable over a period of 8 years at a profit rate of LIBOR plus margin of 5.7% p.a. (subject to minimum of 7% p.a.).

Other borrowings

These comprise financing availed by non-banking subsidiaries to fund project development and working capital requirements. The financing is secured against investment in real estate and are held through special purpose vehicle that do not have any recourse to the Bank. The Bank is not a party to these financing contracts and has not guaranteed repayment in any form. These balances are reported in the consolidated financial statements as a result of consolidation of subsidiaries.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2021

16. OTHER LIABILITIES

$000's

	31 December 2021	31 December 2020
Employee related accruals	18,089	5,364
Board member allowances and accruals	2,499	499
Unclaimed dividends	4,574	5,150
Mudaraba profit accrual	12,992	14,805
Provision for employees' leaving indemnities	3,155	3,302
Zakah and Charity fund	5,173	5,344
Advance received from customers *	70,051	71,547
Accounts payable	136,838	150,046
Other accrued expenses and payables	151,283	208,981
	404,654	465,038

** Represents amount received in advance from the customers on account of real estate assets to be delivered by the Group.*

Notes to the Consolidated

Financial Statements (contd.)

for the year ended 31 December 2021

17. EQUITY OF INVESTMENT ACCOUNT HOLDERS (EIAH)

$000's

	31 December 2021	31 December 2020
Placements and borrowings from financial institutions – Wakala	231,722	298,337
Mudaraba	1,126,622	858,656
	1,358,344	1,156,993

The funds received from investment account holders have been commingled and jointly invested with the Group in the following asset classes as at 31 December:

$000's

	31 December 2021	31 December 2020
Balances with banks	46,368	88,294
CBB reserve account	40,557	40,886
Placements with financial institutions	70,003	76,950
Debt type instruments – sukuk	456,310	693,576
Financing assets	745,106	257,287
	1,358,344	1,156,993

As at 31 December 2021, the balance of profit equalisation reserve and investment risk reserve was Nil (2020: Nil).

The Group does not allocate non-performing assets to IAH pool. All the impairment allowances are allocated to owners' equity. Recoveries from non-performing financial assets are also not allocated to IAH accountholders. Only profits earned on pool of assets funded from IAH are allocated between the owners' equity and IAH. The Group did not charge any administration expenses to investment accounts.

Following is the average percentage for profit allocation between owner's equity and investment accountholders.

	2021		2020	
	Mudarib share	IAH shares	Mudarib share	IAH shares
1 month Mudharaba *	89.08%	10.92%	87.96%	12.04%
3 months Mudharaba	76.60%	23.40%	75.35%	24.65%
6 months Mudharaba	69.15%	30.85%	71.57%	28.43%
12 months Mudharaba	59.52%	40.48%	62.50%	37.50%
18 months Mudharaba	52.84%	47.16%	60.09%	39.91%
24 months Mudharaba	73.67%	26.33%	67.35%	32.65%
36 months Mudharaba	52.43%	47.57%	55.72%	44.28%

** Includes savings, Al Waffer and Call Mudaraba accounts of KHCB.*

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2021

The investors' share of the return on jointly invested assets and distribution to investment account holders were as follows:

$000's

	2021	2020
Returns from jointly invested assets	(65,862)	(57,401)
Banks share as Mudarib	34,152	24,812
Return to investment account holders	**(31,711)**	(32,589)

The above returns as the Mudarib are forming part of Income from commercial banking in the statement of income. During the year, average mudarib share as a percentage of total income allocated to IAH was 61.73% (2020: 60.72%) as against the average mudarib share contractually agreed with IAH. Hence the Group sacrificed average mudarib fees of 3.11% (2020: 3.17%).

In addition to the Murabaha allocation, the Groups also provides wakala services to the investors wherein the Group's has generated a total returns from the jointly invested assets of $15,372 million (2020: $11,145 million) which is forming part of the Income from the treasury operations and the income from the propritory and co-investments in the statement of income. The returns to investment account holders are $10,145 million (2020: $7,356 million) which are included with the finance expenses in the statement of income. The difference between the returns from the invested assets and the returns to the investment account holder of $4,227 million (2020: $2,790 million) is the Group's share of return in its capacity of the wakil.

The Group does not share profits resulting from the assets funded through current accounts and other funds received on the basis other than mudarba contract and wakala contract.

The funds raised from IAH are deployed in the assets on a priority basis after setting aside certain amount in cash and placement with Banks for liquidity management purposes.

Notes to the Consolidated
Financial Statements (contd.)

for the year ended 31 December 2021

18. SHARE CAPITAL

$000's

	31 December 2021	31 December 2020
Authorised:		
9,433,962,264 shares of $0.265 each (2020: 9,433,962,264 shares of $0.265 each)	**2,500,000**	2,500,000
Issued and fully paid up:		
3,775,990,064 shares of $0.265 each (2020: 3,681,650,441 shares of $0.265 each)	**1,000,638**	975,638

The movement in the share capital during the year is as follows:

$000's

	2021	2020
At 1 January	975,638	975,638
Issue of bonus shares	25,000	-
At 31 December	**1,000,638**	975,638

As at 31 December 2021, the Bank held 213,806,890 (31 December 2020: 313,358,202) of treasury shares. Furthermore, the bank had vested shares of 54,196,667 for $11,963,207 (2020: 38,657,329).

Additional information on shareholding pattern

(i) The Bank has only one class of equity shares and the holders of these shares have equal voting rights.
(ii) Distribution schedule of equity shares, setting out the number of holders and percentage in the following categories:

Categories*	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	2,271,927,550	8,142	60%
1% up to less than 5%	1,504,062,514	20	40%
Total	**3,775,990,064**	**8,162**	**100%**

** Expressed as a percentage of total outstanding shares of the Bank.*

Appropriations and changes in capital structure

Appropriations, if any, are made when approved by the shareholders.

In the shareholders meeting held on 6 April 2021, the following were approved:

- Cash dividend of 1.86% of the paid-up share capital amounting to $17 million;
- Stock dividend of 2.56% of the paid-up share capital amounting to $25 million;
- Appropriation of $1,104,000 towards charity, civil society institutions and Zakat for the year 2020; and
- Transfer of $4,509,500 to statutory reserve.

Notes to the Consolidated

Financial Statements (contd.)

for the year ended 31 December 2021

Proposed appropriations

The Board of Directors proposes the following appropriations for 2021 subject to shareholders' and regulatory approval:

- Cash dividend of 4.57% of the paid-up share capital amounting to $45 million;
- Stock dividend of 1.50% of the paid-up share capital amounting to $15 million;
- Transfer of $8.42 million to statutory reserve; and
- $1 million towards charity and $484 thousand towards zakah for the year.

Treasury shares

As at 31 December 2021, the Bank holds 85,100,000 (31 December 2020 - 94,300,000) shares as part of its treasury shares which are held under a market making arrangement with an approved securities broker.

19. SHARE GRANT RESERVE

$000's

	2021	2020
At 1 January	1,093	1,198
Extinguishment of share grant reserve to retained earnings	(1,093)	-
Issue/disposal of share under incentive scheme	-	(105)
At 31 December	**-**	1,093

20. ACQUISITION OF ADDITIONAL INTERESTS IN AN EXISTING SUBSIDIARY

During the year, the Group acquired additional stake in the following key subsidiaries:

The Group's existing stake and additional stake acquired are given below.

	Current Stake	Additional stake acquired	Total stake
Khaleeji Commercial Bank BSC ('KHCB')	55.41%	25.76%	81.17%
GBCORP BSC (c) ('GBCORP')	50.41%	12.5%	62.91%

The consideration transferred for the acquisition was in the form of cash and non-cash assets held. The change in net assets arising out of the acquisition of additional interests has the following effect on the consolidated financial statements:

	$000's
Carrying amount of NCI acquired (based on historical cost)	66,647
Consideration to NCI (based on transaction price)	43,569
Increase in equity attributable to shareholders of the Bank	**23,078**

21 OTHER INCOME

Other income includes write back of liabilities no longer required of $24.3 (2020: $23.2 million) after settlement arrangements were concluded for some of the non-banking subsidiaries, recoveries of expenses from project companies of $0.3 million (2020: $8.4 million) and income of non-financial subsidiaries of $26.0 million (2020: $7.4 million).

Notes to the Consolidated

Financial Statements (contd.)

for the year ended 31 December 2021

22. STAFF COST

$000's

	2021	2020
Salaries and benefits	55,294	39,706
Social insurance and end of service benefits	3,111	3,154
Share-based payments	4,196	4,212
	63,231	47,072

As per the Group's Variable Incentive Policy, a portion of the annual performance bonus is issued in the form of share awards to its senior management employees. These awards include deferred incentives in the form of shares, share purchase plans and long-term incentive plans with different conditions. The terms of the award, including the type of plan, extent of funding, pricing and deferral period is determined for each year by the Board Nomination, Remuneration and Governance Committee of the Bank.

Performance year	Nature of award	Staff coverage	Summary of deferral and vesting conditions
2018 - 2021 * Awards	Employee Share Purchase Plan & Deferred Annual Bonus (DAB)	Covered persons in business and control functions who exceed total compensation thresholds as per CBB Remuneration Regulations and Bank's Variable Remuneration policy.	Shares are released rateably over the 3 year deferral period. The issue price is determined based on a defined adjustment to market price on the date of the award. No future performance conditions or service conditions associated with the DAB shares. DAB Shares are entitled for dividends, if any, but released over the deferral period.
2020 Awards	Long term incentive plan (LTIP) share awards	Select Senior Management	During 2020, under the future performance awards structure of the Bank, an LTIP scheme was introduced where the employees are compensated in form of shares as a percentage on achievement of certain pre-determined performance conditions. The LTIP sets performance and service conditions and has a rateable vesting schedule over a period of six years. Accelerated vesting may occur on exceeding performance conditions leading to true up of share- based payment charges. The issue price is determined based on a defined adjustment to market price on the date of the award. The LTIP shares include leverage features and are entitled to dividends, if any, released along with the vested shares.

	2021		2020	
Share incentive scheme	**No. of Shares**	**$000's**	No. of Shares	$000's
Opening balance	245,264,354	29,763	37,531,546	11,039
Awarded during the period				
- Deferred Annual Bonus	42,087,569	6,429	5,316,072	1,259
- LTIP shares	-	-	257,715,531	26,860
Bonus shares				
- Deferred Annual Bonus	1,679,932			
- LTIP shares	4,569,552			
Forfeiture and other adjustments	(1,369,114)	(9,426)	-	-
Transfer to employees / settlement	(107,906,694)	(9,684)	(55,298,795)	(9,395)
Closing balance	**184,325,599**	**17,082**	**245,264,354**	**29,763**

In case of the employee share purchase plans and LTIP, the amounts reported in the table represents the vesting charge or benefit which is charged to the income statement and not the gross value of issued shares

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2021

23. OTHER OPERATING EXPENSES

$000's

	2021	2020
Investment advisory expenses	10,860	13,091
Rent	2,523	4,002
Professional and consultancy fees	10,211	9,073
Legal expenses	579	4,379
Depreciation	2,541	2,268
Expenses relating to non-banking subsidiaries	22,797	17,428
Other operating expenses	20,788	14,945
	70,299	65,186

24. IMPAIRMENT ALLOWANCES

$000's

	2021	2020
Bank balances	8	5
Treasury portfolio		
Placements with financial institutions	12	(1,077)
Equity and debt type securities	8,135	2,556
Financing assets (note 8)	16,376	9,160
Proprietary investments (note 10 (ii) and (iii))	-	13,476
Co-investments (note 11)	690	-
Other receivables	11,428	2,761
Commitments and financial guarantees	(1,068)	(82)
	35,581	26,799

Notes to the Consolidated

Financial Statements (contd.)

for the year ended 31 December 2021

25. 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 entities over which the Group exercises significant influence, major shareholders, directors and executive management of the Group. A significant portion of the Group's management fees are from entities over which the Group exercises influence (assets under management). Although these entities are considered related parties, 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 transactions with these entities are based on agreed terms.

The significant related party transactions during the year and balances as at year end included in these consolidated financial statements are as follows:

$000's

	Related parties				
2021	**Associates/ Joint venture**	**Key management personnel**	**Significant shareholders/ entities in which directors are interested**	**Assets under management including special purpose entities and other entities**	**Total**
Assets					
Treasury portfolio	–	–	37,148	–	**37,148**
Financing assets	–	7,817	33,407	16,482	**57,706**
Proprietary investment	114,387	–	20,328	48,011	**182,726**
Co investment	–	–	–	76,794	**76,794**
Receivables and other assets	8,060	623	300	171,559	**180,542**
Liabilities					
Customer current account	1,488	366	10,517	64	**12,435**
Placements from financial, non-financial institutions and individuals	–	4,430	–	–	**4,430**
Payables and accruals	–	2,688	1,528	33,678	**37,894**
Equity of investment account holders	1,088	355	54,276	772	**56,491**
Income					
Income from investment banking	–	–	–	119,389	**119,389**
Income from commercial banking					
– Income from financing	–	310	2,332	–	**2,642**
– Fee and other income	(3,005)	–	–	698	**(2,307)**
– Less: Return to investment account holders	24	3	5,111	13	**5,151**
– Less: Finance expense	–	50	–	–	**50**
Income from proprietary and co-investments	4	–	8,017	19,727	**27,748**
Real Estate Income	–	120	–	–	**120**
Treasury and other income	–	–	(440)	1,742	**1,302**
Expenses					
Operating expenses	–	7,174	743	117	**8,034**

* The amount presented excluded bonus to key management personnel for 2021 as allocation has not been finalized at the date of approval of these consolidated financial statements.

Notes to the Consolidated
Financial Statements (contd.)

for the year ended 31 December 2021

$000's

2020	Related parties: Associates/ Joint venture	Related parties: Key management personnel	Related parties: Significant shareholders/ entities in which directors are interested	Assets under management including special purpose entities and other entities	Total
Assets					
Treasury portfolio	–	–	35,000	–	35,000
Financing assets	–	9,485	17,695	29,848	57,028
Proprietary investment	114,250	–	16,058	49,170	179,478
Co investment	–	–	–	70,715	70,715
Receivables and other assets	4,622	–	–	132,616	137,238
Liabilities					
Customer current account	358	225	17,995	3,212	21,790
Placements from financial, non-financial institutions and individuals	–	5,584	112,568	–	118,152
Payables and accruals	–	500	2,732	74,242	77,474
Equity of investment account holders	1,095	639	99,579	865	102,178
Income					
Income from investment banking	–	–	–	73,266	73,266
Income from commercial banking	(886)	(5)	(7,342)	(24)	(8,257)
– Income from financing	–	265	2,618	–	2,883
– Fee and other income	–	–	5	–	5
– Less: Return to investment account holders	37	5	4,828	24	4,894
– Less: Finance expense	–	265	5,138	–	5,403
Income from proprietary and co-investments	(1,015)	–	–	8,854	7,839
Treasury and other income	–	–	–	5,159	5,159
Expenses					
Operating expenses					

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2021

25. RELATED PARTY TRANSACTIONS (contd.)

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 and its significant banking subsidiary.

During the year, there were no direct participation of directors in investments promoted by the Group.

The key management personnel compensation is as follows:

$000's

	2021	2020
Board members' remuneration, fees and allowance	1,154	1,673
Salaries, other short-term benefits and expenses	7,643	9,222
Post-employment benefits	685	276

26. ASSETS UNDER MANAGEMENT AND CUSTODIAL ASSETS

i. The Group provides corporate administration, investment management and advisory services to its project companies, which involve the Group making decisions on behalf of such entities. Assets that are held in such capacity are not included in these consolidated financial statements. At the reporting date, the Group had assets under management of $5,297 million (31 December 2020: $4,360 million). During the year, the Group had charged management fees and performance fee amounting to $3,855 thousand (31 December 2020: $4,895 thousand) and $4,228 thousand (31 December 2020: $Nil) respectively to its assets under management.

ii. Custodial assets comprise discretionary portfolio management ('DPM') of $639,599 thousand, of which $407,877 thousand has been invested in the Bank's investment products. Further, the Bank is also holding Sukuk of $16,256 thousand on behalf of its customers.

27. EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of equity shares outstanding during the year.

The weighted average number of ordinary equity shares for the comparative periods presented are adjusted for the issue of shares during the year without corresponding change in resources.

$000's

	2021	2020
In thousands of shares		
Weighted average number of shares for basic and diluted earnings	3,375,296	3,378,454

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Potential ordinary shares are considered to be dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase the loss per share.

Notes to the Consolidated

Financial Statements (contd.)

for the year ended 31 December 2021

28. ZAKAH AND SOCIAL RESPONSIBILITY

Zakah is directly borne by the shareholders on distributed profits and investors in restricted investment accounts. The Bank does not collect or pay Zakah on behalf of its shareholders and investors in restricted investment accounts. Zakah payable by the shareholders is computed by the Bank on the basis of the method prescribed (net assets method) by the Bank's Shari'a Supervisory Board and notified to shareholders annually. The current year calculations for zakah are yet to be approved by the Group's Shari'a Supervisory Board and will be provided for in the Bank's website.

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

29. EARNINGS PROHIBITED BY SHARIA

The Group is committed to avoid recognising any income generated from non-sharia sources. Accordingly, all non-sharia income is credited to a charity account where the Group uses these funds for charitable means. Movements in non-sharia funds are shown in the statement of sources and uses of charity funds. The Group receives interest from deposits placed with the CBB and other incidental or required deposits. These earnings are utilised exclusively for charitable purposes and amount to $30 thousand (2020: $129 thousand).

30. SHARIA SUPERVISORY BOARD

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

Notes to the Consolidated

Financial Statements (contd.)

for the year ended 31 December 2021

31. MATURITY PROFILE

The table below shows the maturity profile of the Group's assets and unrecognised commitments on the basis of their contractual maturity. Where such contractual maturity is not available, the Group has considered expected realisation / settlement profile for assets and liabilities respectively. For undiscounted contractual maturity of financial liabilities, refer note 36.

$000's

31 December 2021	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash and bank balances	704,672	6,772	9,650	1,377	–	722,471
Treasury portfolio	1,026,476	91,561	31,243	454,734	1,485,911	3,089,925
Financing assets	308,830	64,197	95,926	418,316	423,733	1,311,002
Real estate investment	–	–	–	937,463	968,135	1,905,598
Proprietary investments	–	–	53,806	61,755	96,077	211,638
Co-investments	–	2,676	23,607	139,535	6,059	171,877
Receivables and prepayments	149,490	14,283	109,058	214,392	44,265	531,488
Property and equipment	–	–	–	–	139,687	139,687
Total assets	**2,189,468**	**179,489**	**323,290**	**2,227,572**	**3,163,867**	**8,083,686**
Liabilities						
Client's funds	152,925	–	63,837	–	–	216,762
Placements from financial, non-financial institutions and individuals	1,367,734	731,689	653,020	194,187	105,462	3,052,092
Customer current account	35,801	13,666	14,841	16,958	51,780	133,046
Term financing	578,012	185,494	512,475	84,031	390,655	1,750,667
Payables and accruals	96,565	22,225	229,286	56,578	–	404,654
Total liabilities	**2,231,037**	**953,074**	**1,473,459**	**351,754**	**547,897**	**5,557,221**
Equity of investment account holders	**237,280**	**269,297**	**377,042**	**235,597**	**239,128**	**1,358,344**
Off-balance-sheet items						
Commitments	114	3,308	17,268	118,611	16,127	**155,428**
Restricted investment accounts	–	–	–	28,529	–	**28,529**

Notes to the Consolidated

Financial Statements (contd.)

for the year ended 31 December 2021

$000's

31 December 2020	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash and bank balances	515,867	4,973	10,393	5,269	–	536,502
Treasury portfolio	880,830	60,209	26,401	374,068	497,038	1,838,546
Financing assets	129,080	59,849	133,727	457,629	486,981	1,267,266
Real estate investment	–	–	–	871,993	940,322	1,812,315
Proprietary investments	–	2,448	56,273	110,131	87,256	256,108
Co-investments	–	2,676	8,987	108,597	6,059	126,319
Receivables and prepayments	128,512	23,874	43,250	410,022	–	605,658
Property and equipment	–	–	–	–	144,149	144,149
Total assets	1,654,289	154,029	279,031	2,337,709	2,161,805	6,586,863
Liabilities						
Client's funds	103,517	–	–	27,418	–	130,935
Placements from financial, non-financial institutions and individuals	1,001,195	634,641	491,597	214,101	76,466	2,418,000
Customer current account	38,477	14,374	15,607	17,836	54,462	140,756
Term financing	307,241	53,340	143,357	271,774	313,365	1,089,077
Payables and accruals	81,145	25,548	288,748	69,597	–	465,038
Total liabilities	1,531,575	727,903	939,309	600,726	444,293	4,243,806
Equity of investment account holders	283,905	194,080	285,764	193,745	199,499	1,156,993
Off-balance sheet items						
Commitments	21,171	15,601	25,133	65,444	18,363	145,712
Restricted investment accounts	–	–	–	28,451	–	28,451

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2021

32. CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS

(a) Industry Sector

$000's

31 December 2021	Banks and financial institutions	Real Estate	Others	Total
Assets				
Cash and bank balances	709,908	5,691	6,872	722,471
Treasury portfolio	2,224,184	6,012	859,729	3,089,925
Financing Assets	124,783	499,559	686,660	1,311,002
Real estate investments	662,501	1,212,772	30,325	1,905,598
Proprietary investment	10,427	154,228	46,983	211,638
Co-investment	-	153,270	18,607	171,877
Receivables and prepayments	444,477	7,245	79,766	531,488
Property and equipment	5,770	23,492	110,425	139,687
Total assets	**4,182,050**	**2,062,269**	**1,839,367**	**8,083,686**
Liabilities				
Client's funds	212,789	-	3,973	216,762
Placements from financial, non-financial institutions and individuals	2,579,106	790	472,196	3,052,092
Customer accounts	779	13,610	118,657	133,046
Term financing	1,706,299	19,919	24,449	1,750,667
Payables and accruals	135,118	138,440	131,096	404,654
Total liabilities	**4,634,091**	**172,759**	**750,371**	**5,557,221**
Equity of Investment account holders	**220,935**	**60,469**	**1,076,940**	**1,358,344**
Off-balance sheet items				
Commitments	-	68,701	86,727	**155,428**
Restricted investment accounts	-	25,698	2,831	**28,529**

Notes to the Consolidated

Financial Statements (contd.)

for the year ended 31 December 2021

$000's

31 December 2020	Banks and financial institutions	Real Estate	Others	Total
Assets				
Cash and bank balances	526,253	5,571	4,678	536,502
Treasury portfolio	1,140,276	56,184	642,086	1,838,546
Financing Assets	112,111	555,192	599,963	1,267,266
Real estate investments	-	1,812,315	-	1,812,315
Proprietary investment	29,733	161,940	64,435	256,108
Co-investment	-	103,837	22,482	126,319
Receivables and prepayments	458,794	36,820	110,044	605,658
Property and equipment	3,137	22,233	118,779	144,149
Total assets	2,270,304	2,754,092	1,562,467	6,586,863
Liabilities				
Client's funds	3,152	-	127,783	130,935
Placements from financial, non-financial institutions and individuals	1,533,003	113,523	771,474	2,418,000
Customer accounts	2,471	18,615	119,670	140,756
Term financing	1,045,797	19,919	23,361	1,089,077
Payables and accruals	188,460	174,676	101,902	465,038
Total liabilities	2,772,883	326,733	1,144,190	4,243,806
Equity of Investment account holders	82,707	156,952	917,334	1,156,993
Off-balance sheet items				
Commitments	-	65,102	80,610	145,712
Restricted investment accounts	-	25,817	2,634	28,451

Notes to the Consolidated

Financial Statements (contd.)

for the year ended 31 December 2021

32. CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS (contd.)

(b) Geographic Region

$000's

31 December 2021	GCC Countries	MENA	Asia	North America	Others	Total
Assets						
Cash and bank balances	577,879	2,097	1,097	67,254	74,144	722,471
Treasury portfolio	2,542,088	95,093	100,244	61,575	290,925	3,089,925
Financing assets	1,295,063	–	–	–	15,939	1,311,002
Real estate investment	1,076,694	489,903	329,444	–	9,557	1,905,598
Proprietary investment	157,830	–	–	–	53,808	211,638
Co-investments	52,459	–	72,235	44,701	2,482	171,877
Receivables and prepayments	496,230	10,440	11,589	8,072	5,157	531,488
Property and equipment	133,854	5,655	–	–	178	139,687
Total assets	**6,332,097**	**603,188**	**514,609**	**181,602**	**452,190**	**8,083,686**
Liabilities						
Client's funds	212,789	–	–	–	3,973	216,762
Placements from financial, non-financial institutions and individuals	2,963,662	88,205	225	–	–	3,052,092
Customer accounts	136,274	(260)	(496)	–	(2,472)	133,046
Financing liabilities	732,099	–	–	374,028	644,540	1,750,667
Payables and accruals	233,933	69,064	68,577	30,871	2,209	404,654
Total liabilities	**4,278,757**	**157,009**	**68,306**	**404,899**	**648,250**	**5,557,221**
Equity of investment account holders	**1,334,623**	**1,700**	**21,907**	**3**	**111**	**1,358,344**
Off-balance sheet items						
Commitments	135,342	–	–	20,086	–	155,428
Restricted investment accounts	25,896	–	–	–	2,633	28,529

Concentration by location for assets is measured based on the location of the underlying operating assets, and not based on the location of the investment (which is generally based in tax efficient jurisdictions).

Notes to the Consolidated

Financial Statements (contd.)

for the year ended 31 December 2021

$000's

31 December 2020	GCC countries	MENA	Asia	North America	Others	Total
Assets						
Cash and bank balances	451,512	4,105	1,349	32,788	46,748	536,502
Treasury portfolio	1,507,398	12	–	74,600	256,536	1,838,546
Financing assets	1,246,979	–	5,939	14,348	–	1,267,266
Real estate investment	982,767	490,031	339,517	–	–	1,812,315
Proprietary investment	205,089	–	–	–	51,019	256,108
Co-investments	38,975	–	49,199	35,663	2,482	126,319
Receivables and prepayments	513,902	10,116	11,128	14,840	55,672	605,658
Property and equipment	139,794	4,333	–	–	22	144,149
Total assets	5,086,416	508,597	407,132	172,239	412,479	6,586,863
Liabilities						
Client's funds	115,817	–	–	15,118	–	130,935
Placements from financial, non-financial institutions and individuals	2,315,744	87,805	199	–	14,252	2,418,000
Customer accounts	142,812	(788)	(1,958)	–	690	140,756
Financing liabilities	717,236	–	–	–	371,841	1,089,077
Payables and accruals	290,972	90,852	65,104	2,987	15,123	465,038
Total liabilities	3,582,581	177,869	63,345	18,105	401,906	4,243,806
Equity of investment account holders	1,133,272	4,000	19,610	–	111	1,156,993
Off-balance sheet items						
Commitments	113,141	2,879	10,558	19,134	–	145,712
Restricted investment accounts	25,817	–	–	–	2,634	28,451

Concentration by location for assets is measured based on the location of the underlying operating assets, and not based on the location of the investment (which is generally based in tax efficient jurisdictions).

Notes to the Consolidated

Financial Statements (contd.)

for the year ended 31 December 2021

33. OPERATING SEGMENTS

The Group has three distinct operating segments, Real Estate Development, Investment Banking and Commercial Banking, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different strategies for management and resource allocation within the Group. For each of the strategic business units, the Group's Board of Directors (chief operating decision makers) review internal management reports on a quarterly basis.

The following summary describes the operations in each of the Group's operating reportable segments:

- **Real Estate Development:** This business unit primarily is involved in origination and management of large-scale economic infrastructure projects. The business unit also covers the Group's investment in real estate and related assets.

- **Investment Banking:** The Banking segment of the Group is focused on private equity and asset management domains. The private equity activities include acquisition of interests in unlisted or listed businesses at prices lower than anticipated values. The asset management unit is responsible for identifying and managing investments in yielding real estate in the target markets of the GCC. The investment banking activities focuses on providing structuring capabilities in Islamic asset-backed and equity capital markets, Islamic financial advisory and mid-sized mergers and acquisition transactions.

- **Commercial Banking:** These include commercial and corporate banking, retail banking, wealth management, structured investment products and project financing facilities of the Group's commercial banking subsidiary.

- **Corporate and treasury:** All common costs and activities treasury and residual investment assets, excluding those that are carried independently by the reportable segments which are included within the respective segment, are considered as part of the Corporate and treasury activities of the Group.

The performance of each operating segment is measured based on segment results and are reviewed by the management committee and the Board of Directors on a quarterly basis. Segment results is used to measure performance as management believes that such information is most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing, if any is determined on an arm's length basis.

The Group classifies directly attributable revenue and cost relating to transactions originating from respective segments as segment revenue and segment expenses respectively. Indirect costs is allocated based on cost drivers/factors that can be identified with the segment and/ or the related activities. The internal management reports are designed to reflect revenue and cost for respective segments which are measured against the budgeted figures. The unallocated revenues, expenses, assets and liabilities related to entity-wide corporate activities and treasury activities at the Group level. Segment revenue and expenses were net-off inter segment revenue and expenses.

The Group has primary operations in Bahrain and the Group does not have any significant independent overseas branches/divisions in the banking business. The geographic concentration of assets and liabilities is disclosed in note 32 (b) to the consolidated financial statements.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2021

Information regarding the results of each reportable segment is included below:

$000's

31 December 2021	Real estate development	Investment banking	Commercial banking	Corporate and Treasury	Total
Segment revenue	29,844	110,387	71,825	186,692	**398,748**
Segment expenses (including impairment allowances)	(15,801)	(73,943)	(43,144)	(173,243)	**(306,131)**
Segment result	14,043	36,244	28,682	13,648	**92,617**
Segment assets	1,758,446	1,068,340	3,095,984	2,160,916	**8,083,686**
Segment liabilities	159,790	576,991	1,228,774	3,591,666	**5,557,221**
Other segment information					
Impairment allowance	-	15,260	12,693	7,628	**35,581**
Equity accounted investees	5,764	18,339	44,900	-	**69,003**
Equity of investment account holders	-	-	1,126,622	231,722	**1,358,344**
Commitments	20,086	-	135,342	-	**155,428**

31 December 2020	Real estate development	Investment banking	Commercial banking	Corporate and Treasury	Total
Segment revenue	19,457	80,631	65,313	157,993	323,394
Segment expenses (including impairment allowances)	(21,628)	(69,152)	(44,343)	(138,928)	(274,051)
Segment result	(2,071)	11,480	20,970	18,964	49,343
Segment assets	1,746,751	929,392	2,693,884	1,216,836	6,586,863
Segment liabilities	256,879	615,022	1,159,795	2,212,110	4,243,806
Other segment information					
Impairment allowance	246	2,203	11,515	12,835	26,799
Equity accounted investees	5,702	18,335	54,013	-	78,050
Equity of investment account holders	-	-	858,057	298,936	1,156,993
Commitments	35,449	-	110,263	-	145,712

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2021

34. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. This 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 a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

As at 31 December 2021 and 31 December 2020, the fair value of bank balances, placements with financial institutions, other financial assets, investors' fund, placements from financial and other institutions and other financial liabilities are not expected to be materially different from their carrying values as these are short term in nature and are re-priced frequently to market rates, where applicable. Investment securities carried at fair value through income statement are carried at their fair values determined using quoted market prices and internal valuation models.

As at 31 December 2021, the fair value of term financing was estimated at $1,089,077 thousand (carrying value $1,089,077 thousand) (31 December 2020: fair value $301,411 thousand (carrying value $301,411 thousand)). These may not necessarily represent active market quotes. In a normal (and not stressed) scenario excluding adjustments for own credit risk, the carrying values would approximate fair value of term financing as these are largely floating rate instruments.

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).

$000's

	Level 1	Level 2	Level 3	Total
31 December 2021				
i) Proprietary investments				
Investment securities carried at fair value through:				
– income statement	–	51,197	–	51,197
– equity	13	–	91,425	91,438
	13	**51,197**	**91,425**	**142,635**
(ii) Treasury portfolio				
Investment securities carried at fair value through:				
– income statement	–	224,086	179,900	403,986
– equity	1,656,088	–	–	1,656,088
	1,656,088	**224,086**	**179,900**	**2,060,074**
iii) Co-investments				
Investment securities carried at fair value through equity	–	–	164,548	164,548
Investment securities carried at fair value through income statement	–	–	7,330	7,330
	-	**-**	**171,877**	**171,877**
	1,656,101	**275,283**	**443,203**	**2,374,587**

Notes to the Consolidated
Financial Statements (contd.)

for the year ended 31 December 2021

$000's

	Level 1	Level 2	Level 3	Total
31 December 2020				
i) Proprietary investments				
Investment securities carried at fair value through:				
– income statement	–	50,000	–	50,000
– equity	19,060	–	108,998	128,058
	19,060	50,000	108,998	178,058
ii) Treasury portfolio				
Investment securities carried at fair value through:				
– income statement	–	173,181	155,250	328,431
– equity	648,991	–	–	648,991
	648,991	173,181	155,250	977,422
iii) Co-investments				
Investment securities carried at fair value through equity	–	–	126,319	126,319
	668,051	223,181	390,567	1,281,799

The table below shows the reconciliation of movements in value of investments measured using Level 3 inputs:

$000's

	2021	2020
At 1 January	390,567	221,741
Total gains / (losses) in income statement	(17,223)	(1,326)
Transfer from Level 2	24,650	155,250
Disposals at carrying value	(27,531)	(41,685)
Purchases	69,129	63,623
Fair value changes during the year	3,611	(7,036)
At 31 December	**443,203**	390,567

The sensitivity analysis for Level 3 of non-trading investments were carried out using valuation techniques such as comparable methods, discounted cash flow methods, asset valuations and residual method with the key unobservable inputs such as market multiples, discount rates and occupancy rates. The reasonable possible shift in case of +/-5% in the real estate properties will not lead to any impact on income statement as the carrying value of such investments are kept at a reasonably lower value compared to existing fair values. Similarly the reasonable possible shift of +/-0.5% discount rate in the discounted cash flow method or +/-1x of market multiple for equity investments or +/-1% in the occupancy rates of the underlying properties will not impact the profit and loss as the fair value of such investments are reasonably higher than the carrying value of such investments.

Notes to the Consolidated
Financial Statements (contd.)

for the year ended 31 December 2021

35. COMMITMENTS AND CONTINGENCIES

The commitments contracted in the normal course of business of the Group are as follows:

$000's

	31 December 2021	31 December 2020
Undrawn commitments to extend finance	95,347	83,260
Financial guarantees	39,995	27,003
Capital commitments for infrastructure development projects	16,171	22,449
Commitment to lend	3,915	13,000
	155,428	145,712

Performance obligations
During the ordinary course of business, the Group may enter into performance obligations in respect of its infrastructure development projects. It is the usual practice of the Group to pass these performance obligations, wherever possible, on to the companies that own the projects. In the opinion of the management, no liabilities are expected to materialise on the Group as at 31 December 2020 due to the performance of any of its projects.

Litigations and claims
The Group has a number of claims and litigations filed against it in connection with projects promoted by the Bank in the past and with certain transactions. Further, claims against the Bank also have been filed by former employees. Based on the advice of the Bank's external legal counsel, the management is of the opinion that the Bank has strong grounds to successfully defend itself against these claims. Appropriate provision have been made in the books of accounts. No further disclosures regarding contingent liabilities arising from any such claims are being made by the Bank as the directors of the Bank believe that such disclosures may be prejudicial to the Bank's legal position.

36. FINANCIAL RISK MANAGEMENT

Overview
Financial assets of the Group comprise bank balances, placements with financial and other institutions, investment securities and other receivable balances. Financial liabilities of the Group comprise investors' funds, placements from financial and other institutions, term financing and other payable balances. Accounting policies for financial assets and liabilities are set out in note 4.

The Group has exposure to the following risks from its use of financial instruments:
- Credit risk;
- Liquidity risk;
- Market risks; and
- Operational risk.

This note presents information about the Group's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. The material subsidiaries consolidated in these financial statements have independent risk management frameworks which is monitored by the respective Board of Directors of the subsidiaries. Accordingly, such risk management policies, procedures and practices are not included in these consolidated financial statements.

Risk management framework
The key element of our risk management philosophy is for the Risk Management Department ('RMD') to provide independent monitoring and control while working closely with the business units which ultimately own the risks. The Head of Risk Management reports to the Board Audit and Risk Committee.

The Board of Directors has overall responsibility for establishing our risk culture and ensuring that an effective risk management framework is in place. The Board has delegated its authority to the Board Audit and Risk Committee (ARC), which is responsible for implementing risk management policies, guidelines and limits and ensuring that monitoring processes are in place. The RMD, together with the Internal Audit and Compliance Departments, provide independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board of Directors.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2021

The RMD submits a quarterly Risk Overview Report along with a detailed Liquidity Risk Report to the Board of Directors. The Risk Overview Report describes the potential issues for a wide range of risk factors and classifies the risk factors from low to high. The Liquidity Risk Report measure the Group's liquidity risk profile against policy guidelines and regulatory benchmarks. An additional report is prepared by the respective investment units that give updated status and impairment assessment of each investment, a description of significant developments on projects or issues as well as an update on the strategy and exit plan for each project.

a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's, placements with financial institutions, financing assets and other receivables from project companies. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country, sector risk and sector concentration risk, related party exposure, etc.). The uncertainties due to COVID-19 and resultant economic volatility has impacted the Group's financing operations.

The Group had updated its inputs and assumptions for computation of ECL (refer note 4 p).

Management of investment and credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Board Investment Committee (BIC). This committee establishes operating guidelines and reviews and endorses the Management Investment and Credit Committee recommendations for investment strategies, products and services. Its actions are in accordance with the investment policies adopted by the Board of Directors.

The RMD is responsible for oversight of the Group's credit risk, including:

- Ensuring that the Group has in place investment and credit policies, covering credit assessment, risk reporting, documentary and legal procedures, whilst the Compliance Department is responsible for ensuring compliance with regulatory and statutory requirements.
- Overseeing the establishment of the authorisation structure for the approval and renewal of investment and credit facilities. Authorisation limits are governed by the Board approved Delegated Authority Limits (DAL) Matrix.
- Reviewing and assessing credit risk. Risk Management department assesses all investment and credit exposures in excess of designated limits, prior to investments / facilities being committed. Renewals and reviews of investments / facilities are subject to the same review process.
- Ongoing review of credit exposures. The credit review of the commercial banking exposure is managed and governed by the Board of Directors of KHCB and is consistent with the practices appropriate for retail banks. The risk assessment approach is used by the Parent Bank in determining where impairment provisions may be required against specific investment / credit exposures at its board. The current risk assessment process classifies credit exposures into two broad categories "Unimpaired" and "Impaired", reflecting risk of default and the availability of collateral or other credit risk mitigation. Risk is assessed on an individual basis for each investment / receivable and is reviewed at least once a year. The Group does not perform a collective assessment of impairment for its credit exposures as the credit characteristics of each exposure is considered to be different. Risk profile of exposures are subject to regular reviews.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of investment / credit risk.

The Risk Management Department works alongside the Investment Department at all stages of the deal cycle, from pre-investment due diligence to exit, and provides an independent review of every transaction. A fair evaluation of investments takes place periodically with inputs from the Investment department. Quarterly updates of investments are presented to the Board of Directors or their respective committees. Regular audits of business units and Group credit processes are undertaken by Internal Audit.

Notes to the Consolidated

Financial Statements (contd.)

for the year ended 31 December 2021

36. FINANCIAL RISK MANAGEMENT (contd.)

Risk management framework (contd.)
a) Credit risk (contd.)
Exposures subject to credit risk

$000's

31 December 2021	Stage 1	Stage 2	Stage 3	Total
Balances with banks and placements with financial institutions				
Grade 1 -6 Low-Fair Risk	902,427	–	–	902,427
Gross carrying amount	902,427	–	–	902,427
Less expected credit losses		–	–	–
Net carrying amount	**902,427**	**-**	**-**	**902,427**
Financing facilities				
Grade 8 -10 Impaired	–	–	97,592	97,592
Past due but not impaired				
Grade 1-6 Low-Fair Risk	16,618	19,313	–	35,931
Grade 7 Watch list	19	7,536	–	7,555
Past due comprises:				
Up to 30 days	15,311	26,491	–	41,802
30-60 days	281	–	–	281
60-90 days	1,045	358	–	1,403
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	686,667	66,544	–	753,211
Grade 7 Watch list	5,305	64,538	–	69,843
Gross carrying amount	708,609	157,931	97,592	964,134
Less expected credit losses	19,246	4,645	33,467	57,358
Net carrying amount	**689,363**	**153,286**	**64,125**	**906,774**
Assets acquired for leasing				
Grade 8-10 impaired	–	–	33,984	33,984
Past due but not impaired				
Grade 1-6 Low-Fair Risk	16,249	–	–	16,249
Grade 7 Watch list	732	745	–	1,477
Past due comprises:				
Up to 30 days	8,222	–	–	8,222
30-60 days	1,902	64	–	1,966
60-90 days	6,857	681	–	7,538

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2021

$000's

31 December 2021	Stage 1	Stage 2	Stage 3	Total
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	273,124	65,268	–	338,392
Grade 7 Watch list	650	27,565	–	28,215
Gross carrying amount	290,755	93,578	33,984	418,317
Less expected credit losses	643	2,464	10,984	14,091
Net carrying amount	**290,112**	**91,114**	**23,000**	**404,226**
Investment in Sukuk				
Grade 8 -10 Impaired	–	–	3,496	3,496
Grade 1-6 Low-Fair Risk	2,449,638	67,011	–	2,516,649
Gross carrying amount	2,449,638	67,011	3,496	2,520,145
Less: expected credit losses	7,183	3,571	3,496	14,250
Net carrying amount	**2,442,455**	**63,440**	**-**	**2,505,895**
Commitments and financial guarantees				
Grade 8 -10 Impaired	–	–	16	16
Grade 1-6 Low-Fair Risk	138,887	16,501	–	155,388
Grade 7 Watch list	–	24	–	24
Gross carrying amount (note 35)	138,887	16,525	16	155,428
Less: expected credit losses	–	–	–	–
Net carrying amount	**138,887**	**16,525**	**16**	**155,428**
Total net carrying amount	**4,463,244**	**324,365**	**87,141**	**4,874,750**

Notes to the Consolidated
Financial Statements (contd.)

for the year ended 31 December 2021

36. FINANCIAL RISK MANAGEMENT (contd.)

Risk management framework (contd.)
a) Credit risk (contd.)
Exposures subject to credit risk

$000's

31 December 2020	Stage 1	Stage 2	Stage 3	Total
Balances with banks and placements with financial institutions				
Grade 1 -6 Low-Fair Risk	706,500	-	-	706,500
Gross carrying amount	706,500	-	-	706,500
Less expected credit losses	-	-	-	-
Net carrying amount	706,500	-	-	706,500
Financing facilities				
Grade 8 -10 Impaired	-	-	106,040	106,040
Past due but not impaired				
Grade 1-6 Low-Fair Risk	24,531	2,639	-	27,170
Grade 7 Watch list	69	43,875	-	43,944
Past due comprises:				
Up to 30 days	22,804	41,981	-	64,785
30-60 days	218	3,334	-	3,552
60-90 days	1,578	1,199	-	2,777
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	756,304	27,748	-	784,052
Grade 7 Watch list	554	14,163	-	14,717
Gross carrying amount	781,458	88,425	106,040	975,923
Less expected credit losses	19,178	5,130	20,928	45,236
Net carrying amount	762,280	83,295	85,112	930,687
Assets acquired for leasing				
Grade 8-10 impaired	-	-	42,353	42,353
Past due but not impaired				
Grade 1-6 Low-Fair Risk	28,602	28,576	-	57,178
Grade 7 Watch list	3,337	849	-	4,186
Past due comprises:				
Up to 30 days	7,377	955	-	8,332
30-60 days	5,347	295	-	5,642
60-90 days	19,215	28,175	-	47,390

Notes to the Consolidated
Financial Statements (contd.)

for the year ended 31 December 2021

$000's

31 December 2020	Stage 1	Stage 2	Stage 3	Total
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	185,891	28,061	-	213,952
Grade 7 Watch list	26,244	3,440		29,684
Gross carrying amount	244,074	60,926	42,353	347,353
Less expected credit losses	1,446	1,127	8,201	10,774
Net carrying amount	242,628	59,799	34,152	336,579
Investment in Sukuk				
Grade 8 -10 Impaired	-	-	3,493	3,493
Grade 1-6 Low-Fair Risk	1,297,516	45,210	-	1,342,726
Gross carrying amount	1,297,516	45,210	3,493	1,346,219
Less: expected credit losses	1,738	870	3,493	6,101
Net carrying amount	1,295,778	44,340	-	1,340,118
Commitments and financial guarantees				
Grade 8 -10 Impaired	-	-	1,928	1,928
Grade 1-6 Low-Fair Risk	136,532	6,968	-	143,500
Grade 7 Watch list	-	284	-	284
Gross carrying amount (note 35)	136,532	7,252	1,928	145,712
Less: expected credit losses	411	13	202	626
Net carrying amount	136,121	7,239	1,726	145,086
Total net carrying amount	3,143,307	194,673	120,990	3,458,970

Significant increase in credit risk

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

In determining whether credit risk has increased significantly since initial recognition, the following criteria are considered:

- Downgrade in risk rating according to the approved ECL policy;
- Facilities restructured during previous twelve months;
- Qualitative indicators; and
- Facilities overdue by 30 days as at the reporting date subject to rebuttal in deserving circumstances.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2021

36. FINANCIAL RISK MANAGEMENT (contd.)

Risk management framework (contd.)
a) Credit risk (contd.)
Credit risk grades

The Group allocates each exposure to credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. Exposers are rated 1 to 10 with 1 to being good and 7 being watch list and 8, 9 and 10 default grades. The monitoring typically involves use of the following data.

Corporate exposures

- Information obtained during periodic review of customer files- e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes
- Data from credit reference agencies. press articles, changes in external credit ratings
- Quoted bond and credit default swap (CDS) prices for the borrower where available
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities

Retail exposures

- Internally collected data on customer behaviour -e.g. utilisation of credit card facilities
- Affordability metrics
- External data from credit reference agencies including industry-standard credit scores

All exposures

- Payment record this includes overdue status as well as a range of variables about payment ratios
- Utilisation of the granted limit
- Requests for and granting of forbearance
- Existing and forecast changes in business, financial and economic conditions

Generating the term structure of PD

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

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

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark profit rates and oil price. For exposures to specific industries and/or regions. The analysis may extend to relevant commodity and/or real estate prices.

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

Notes to the Consolidated

Financial Statements (contd.)

for the year ended 31 December 2021

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency. Using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

Qualitative indicators, including different criteria used for different portfolios credit cards, commercial real estate etc.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower. For the purpose of calculating ECL for the year ended 31 December 2021 and 2020, the Bank has applied the backstop of 74 days as against 30 days, in line with the CBB concessionary measures.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:
- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

Definition of default

The Group considers an exposure subject to credit risk to be in default when:
- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material obligation to the Group; or
- It is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligation.

In assessing whether the borrower is in default, the Group considers qualitative and quantitative indicators. The definition of default aligns with that applied by the Group for regulatory capital purposes.

Incorporation of forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Group Market Risk Committee and economic experts and consideration of a variety of external actual and forecast information. The Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, supranational organisations such as the OECD and the International Monetary Fund, and selected private- sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at 31 December 2021 included the key indicators for the selected countries such as the unemployment rates, profit rates and the GDP growth.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2021

36. FINANCIAL RISK MANAGEMENT (contd.)

Risk management framework (contd.)

a) Credit risk (contd.)

Modified exposures subject to credit risk

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

When the terms of a financial asset are modified and the modification does not result in de- recognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- Its remaining lifetime PD at the reporting date based on the modified terms; with
- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

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

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

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired / in default (refer note 4). A customer needs to demonstrate consistently good payment behaviour over a period of time (12 months) before the exposure is no longer considered to be credit- impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL. For the purpose of calculating ECL on the commercial bank's financial assets and assets acquired for leasing for the year ended 31 December 2021, the Group has applied the 3 months as against 12 months, in order to assess consistent good payment behaviour of customer this is in line with the CBB concessionary measures.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective profit rate of the exposure subject to credit risk.

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

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

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

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For financing assets secured by retail property, LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective profit rate as the discounting factor.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2021

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

The following tables show reconciliations from the opening to the closing balance of the loss allowance: 12-month ECL, lifetime ECL and credit-impaired.

$000's

2021	12-month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total 2021
Balance at 1 January	22,346	6,271	37,239	**65,856**
Transfer to 12-month ECL	3,512	(1,772)	(1,740)	**-**
Transfer to lifetime ECL non- credit-impaired	(3,029)	3,928	(899)	**-**
Transfer to lifetime ECL credit- impaired	(435)	(512)	947	**-**
Write-off	-	-	(4,811)	**(4,811)**
Charge for the period	5,264	2,717	27,600	**35,581**
Balance at 31 December	**27,658**	**10,632**	**58,336**	**96,626**

Break down of ECL by category of assets in the consolidated statement of financial position and off-balance sheet commitments:

Balances with banks	24	-	-	**24**
Treasury portfolio	7,232	3,523	3,496	**14,251**
Financing assets	19,886	7,109	44,454	**71,449**
Other financial receivables	307	-	10,368	**10,675**
Financing commitments and financial guarantees	209	-	18	**227**
Balance at 31 December	**27,658**	**10,632**	**58,336**	**96,626**

2020	12-month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total 2020
Balance at 1 January	14,395	2,655	98,082	115,132
Transfer to 12-month ECL	3,793	(2,597)	(1,196)	-
Transfer to lifetime ECL non- credit-impaired	(324)	955	(631)	-
Transfer to lifetime ECL credit- impaired	(2,629)	(3,101)	5,730	-
Net re-measurement of loss allowance	(1,024)	5,630	(80,681)	(76,075)
Charge for the period	8,135	2,729	15,935	26,799
Balance at 31 December	22,346	6,271	37,239	65,856

Break down of ECL by category of assets in the consolidated statement of financial position and off-balance sheet commitments:

Balances with banks	15	-	-	15
Treasury portfolio	1,109	-	4,995	6,104
Financing assets	19,289	5,130	31,591	56,010
Other financial receivables	1,522	1,127	452	3,101
Financing commitments and financial guarantees	411	14	201	626
Balance at 31 December	22,346	6,271	37,239	65,856

Notes to the Consolidated

Financial Statements (contd.)

for the year ended 31 December 2021

36. FINANCIAL RISK MANAGEMENT (contd.)

Risk management framework (contd.)

a) Credit risk (contd.)

Renegotiated facilities

During the year, facilities of $50,942 thousands (2020: $52,191 thousand) were renegotiated, out of which $47,936 thousand (2020: $16,064 thousand) are classified as neither past due nor impaired as of 31 December 2021. The renegotiated terms usually require settlement of profits accrued till date on the facility and/or part payment of the principal and/or obtaining of additional collateral coverage. The renegotiated facilities are subject to revised credit assessments and independent review by the RMD. Of the total past due facilities of $108,488 thousand (2020: $221,782 thousand) only instalments of $48,560 thousand (2020: $112,878 thousand) are past due as at 31 December 2021.

Allowances for impairment

The Group makes provisions for impairment on individual assets classified under grades 8,9 and 10. This is done on the basis of the present value of projected future cash flows from the assets themselves and consideration of the value of the collateral securities available. On a collective basis, the Bank has provided for impairment losses based on management's judgment of the extent of losses incurred but not identified based on the current economic and credit conditions.

Non-accrual basis

The Group classifies financing facility/Sukuk as non-accrual status, if the facility/Sukuk is past due greater than 90 days or there is reasonable doubt about the collectability of the receivable amount. The profits on such facilities are not recognized in the income statement until there are repayments from the borrower or the exposure is upgraded to regular status.

Write-off policy

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. During the year, the Group has written off financing facilities amounting to $13 thousand (2020: $29,204 thousand) which were fully impaired. The Group has recovered $1,918 thousand from a financing facility written off in previous years (2020: $1,665 thousand).

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2021

Collaterals

The Group holds collateral against financing assets and receivables from assets acquired for leasing in the form of mortgage/ pledge over property, listed securities, other assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely. Collateral generally is not held against exposure to other banks and financial institutions. An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below. This includes the value of financial guarantees from banks, but not corporate and personal guarantees as the values thereof are not readily quantifiable. The collateral values considered for disclosure are restricted to the extent of the outstanding exposures.

$000's

	As at 31 December 2021			As at 31 December 2020		
	Financing assets	**Assets acquired for leasing (including lease rentals receivable)**	**Total**	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total
Against impaired						
Property	47,584	34,241	**81,825**	45,141	31,401	76,542
Other	3,249	-	**3,249**	3,082	-	3,082
Against past due but not impaired						
Property	65,342	65,605	**130,947**	61,987	60,894	122,881
Other	1,756	-	**1,756**	1,666	-	1,666
Against neither past due nor impaired						
Property	393,867	304,204	**698,071**	373,642	278,973	652,615
Other	48,475	-	**48,475**	45,987	-	45,987
Total	**560,273**	**404,050**	**964,323**	531,505	371,268	902,773

The average collateral coverage ratio on secured facilities is 148.99% as at 31 December 2021 (31 December 2020: 149.71%).

Concentration risk

The geographical and industry wise distribution of assets and liabilities are set out in notes 32 (a) and (b).
Concentration risk arises when a number of counterparties are engaged in similar economic 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. The Group seeks to manage its concentration risk by establishing and constantly monitoring geographic and industry wise concentration limits.

An analysis of concentrations of credit risk of financing assets of the Group's business at the reporting date is shown below:

$000's

	As at 31 December 2021			As at 31 December 2020		
Concentration by Sector	**Financing assets**	**Assets acquired for leasing**	**Total**	Financing assets	Assets acquired for leasing	Total
Banking and finance	12,156	-	**12,156**	11,725	-	11,725
Real estate	235,845	340,058	**575,903**	351,829	303,748	655,577
Construction	143,714	-	**143,714**	150,194	-	150,194
Trading	136,464	-	**136,464**	129,844	-	129,844
Manufacturing	35,923	-	**35,923**	38,772	-	38,772
Others	342,672	64,170	**406,842**	248,207	32,947	281,154
Total carrying amount	**906,774**	**404,228**	**1,311,002**	930,571	336,695	1,267,266

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2021

36. FINANCIAL RISK MANAGEMENT (contd.)

Risk management framework (contd.)

b) Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

The effect of COVID-19 on the liquidity and funding risk profile of the banking system is evolving and is subject to ongoing monitoring and evaluation.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Payment holidays have been extended to customers, including private and SME sector, in line with the instructions of CBB from March 2020 to 30 June 2022. This payment holiday is expected to delay expected contractual cash inflows of the Group. However, the management will take appropriate steps to mitigate its impact on the liquidity position.

The CBB has announced various measures to combat the effects of COVID-19 and to ease liquidity in the banking sector including, concessionary repos at zero percent, reduction of cash reserve ratio from 5% to 3%; and reduction in LCR and NSFR ratio from 100% to 80%;

In response to COVID-19 outbreak, the Group continues to monitor and respond to all liquidity and funding requirements that are presented. The Group continues to calibrate stress testing scenarios to current market conditions in order to assess the impact on the Group in current extreme stress.

As at the reporting date, the liquidity and funding position of the Group remains strong and is well placed to absorb and manage the impacts of this disruption. Further information on the regulatory liquidity and capital ratios as at 31 December 2021 have been disclosed below.

Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then aims to maintain a portfolio of short-term liquid assets, largely made up of short-term placements with financial and other institutions and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The liquidity requirements of business units are met through treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Board of Directors. Daily reports cover the liquidity position of the Bank and is circulated to Management Committee (MANCOM). Moreover, quarterly reports are submitted to the Board of Directors on the liquidity position by RMD.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2021

The table below shows the undiscounted cash flows on the Group's financial liabilities, including issued financial guarantee contracts, and unrecognised financing commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. The Group's expected cash flows on these instruments vary significantly from this analysis. Refer note 31 for the expected maturity profile of assets and liabilities.

$000's

	Gross undiscounted cash flows						
31 December 2021	**Up to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Total**	**Carrying amount**
Financial liabilities							
Clients' funds	152,925	–	63,837	–	–	**216,762**	**216,762**
Placements from financial, non-financial institutions and individuals	1,367,734	731,689	653,020	194,187	105,462	**3,052,092**	**3,052,092**
Customer current accounts	35,801	13,666	14,841	16,958	51,780	**133,046**	**133,046**
Term financing	578,012	185,494	512,475	84,031	390,655	**1,750,667**	**1,750,667**
Payables and accruals	96,562	22,225	229,286	56,581	–	**404,654**	**404,654**
Total liabilities	**2,231,034**	**953,074**	**1,473,459**	**351,757**	**547,897**	**5,557,221**	**5,557,221**
Equity of investment account holders	981,081	269,297	377,042	235,597	239,127	**2,102,144**	**1,358,344**
Commitment and contingencies	228	3,308	17,268	118,611	16,128	**155,543**	**155,428**

To manage the liquidity risk arising from financial liabilities, the Group aims to hold liquid assets comprising cash and cash equivalents, investment in managed funds and treasury shares for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements. Further, the Group is focussed on developing a pipeline of steady revenues and has undertaken cost reduction exercises that would improve its operating cash flows.

$000's

	Gross undiscounted cash flows						
31 December 2020	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total	Carrying amount
Financial liabilities							
Clients' funds	103,517	–	–	27,418	–	130,935	130,935
Placements from financial, non-financial institutions and individuals	972,171	565,735	544,618	358,306	84,380	2,525,210	2,418,000
Customer current accounts	38,477	14,374	15,607	17,836	54,462	140,756	140,756
Term financing	308,917	65,516	168,124	324,314	328,747	1,195,618	1,089,077
Payables and accruals	81,145	25,548	288,748	69,597	–	465,038	465,038
Total liabilities	1,504,227	671,173	1,017,097	797,471	467,589	4,457,557	4,243,806
Equity of investment account holders	762,918	194,080	285,764	193,745	199,499	1,636,006	1,156,993
Commitment and contingencies	21,171	15,601	25,133	65,444	18,363	145,712	145,712

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2021

36. FINANCIAL RISK MANAGEMENT (contd.)

Risk management framework (contd.)
b) Liquidity risk
Measures of liquidity

Liquidity is managed at an entity level and is not a Group wide measure. The Bank follows certain internal measures of liquidity. These metrics are intended to better reflect the liquidity position from a cash flow perspective and provide a target for the Group. These are liquidity coverage ratio, net stable funding ratio and stock of liquid assets.

For this purpose, the liquidity coverage ratio is based on an internally defined management criteria which identifies the amount of liquid assets (including inter- bank placements) the Bank holds that can be used to offset the net cash outflows for 30, 60 and 90 days time horizon. The net stable funding ratio measures the amount of long-term, stable sources of funding employed by an institution relative to the liquidity profiles of the assets funded and the potential for contingent calls on funding liquidity arising from off- balance sheet commitments and obligations.

Details of the ratio of liquid assets to total assets at the reporting date and during the year were as follows:

	Liquid asset/Total asset	
	2021	2020
At 31 December	47.16%	36.35%
Average for the year	43.14%	35.62%
Maximum for the year	47.16%	36.35%
Minimum for the year	40.14%	34.48%

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

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

LCR is computed as a ratio of Stock of HQLA over the Net cash outflows over the next 30 calendar days. Until 31 December 2021, the Bank is required to maintain LCR greater than 80%. As of 31 December 2021, the Bank had LCR ratio of 221%.

$000's

	Average balance	
	31 December 2021	31 December 2020
Stock of HQLA	292,998	244,049
Net cashflows	148,599	103,188
LCR %	221%	240%
Minimum required by CBB	80%	80%

NSFR is to promote the resilience of banks' liquidity risk profiles and to incentivise a more resilient banking sector over a longer time horizon. The NSFR will require banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. A sustainable funding structure is intended to reduce the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress. The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on-balance sheet and off-balance sheet items, and promotes funding stability.

Notes to the Consolidated

Financial Statements (contd.)

for the year ended 31 December 2021

NSFR as a percentage is calculated as "Available stable funding" divided by "Required stable funding". Until 31 December 2021, the Bank is required to maintain NSFR ratio greater than 80%. As of 31 December 2021, the Bank had NSFR ratio of 101%.

31 December 2021	No Specified Maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	1,070,314	–	–	49,953	1,120,267
Other Capital Instruments	–	–	–	–	–
Retail deposits and deposits from small business customers:					
Stable deposits		182,112	25,962	2,749	200,420
Less stable deposits	–	1,314,514	430,372	90,957	1,661,355
Wholesale funding:					
Operational deposits					
Other Wholesale funding	–	2,860,814	861,346	773,058	1,896,078
Other liabilities:					
NSFR Shari'a- compliant hedging contract liabilities		–	–	–	
All other liabilities not included in the above categories	–	136,864	18,759	71,437	71,437
Total ASF					**4,949,558**
Required Stable Funding (RSF):					
Total NSFR high- quality liquid assets (HQLA)	1,493,881				73,941
Deposits held at other financial institutions for operational purposes:					
Performing financing and sukuk/ securities:	–	636,283	–	720,739	708,071
Performing financial to financial institutions by level 1 HQLA	–	–	–	–	–
Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	–	5,000	–	174,023	150,419
Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	–	320,720	91,696	205,595	339,845
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	–	–	–	–	–
Performing residential mortgages, of which:	–	–	–	–	–
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	–	–	–	–	–
Securities/sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	–	615,521	634,536	291,421	916,449
Other assets:					
Physical traded commodities, including gold	–				–
Assets posted as initial margin for Shari'a- compliant hedging contracts and contributions to default funds of CCPs		–	–	–	–
NSFR Shari'a- compliant hedging assets		–	–	–	–
NSFR Shari'a- compliant hedging contract liabilities before deduction of variation margin posted		–	–	–	–
All other assets not included in the above categories	2,672,214	–	–	–	2,672,214
OBS items		–	–	–	27,946
Total RSF		1,577,524	726,232	1,391,778	4,888,886
NSFR(%)					101%

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2021

36. FINANCIAL RISK MANAGEMENT (contd.)

Risk management framework (contd.)
b) Liquidity risk (contd.)
Measures of liquidity (contd.)

31 December 2020	No Specified Maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	1,009,571	–	–	85,635	1,095,206
Other Capital Instruments	–	–	–	–	–
Retail deposits and deposits from small business customers:					
Stable deposits	–	–	–	–	–
Less stable deposits	–	793,480	306,688	231,458	1,221,609
Wholesale funding:					
Operational deposits	–	–	–	–	–
Other Wholesale funding	–	2,042,390	485,665	1,016,610	1,845,431
Other liabilities:					
NSFR Shari'a-compliant hedging contract liabilities	–	–	–	–	–
All other liabilities not included in the above categories	–	81,718	29,287	182,725	182,725
Total ASF	–	–	–	–	4,344,971
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	–	–	–	–	50,531
Deposits held at other financial institutions for operational purposes	–	–	–	–	–
Performing financing and sukuk/ securities	–	453,447	20,628	906,357	838,420
Performing financial to financial institutions by level 1 HQLA	–	–	–	–	–
Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	–	127,045	–	214,171	245,568
Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which	–	147,516	101,279	–	124,398
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	–	–	–	22,064	14,342
Performing residential mortgages, of which:	–	–	–	–	–
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	–	–	–	–	–
Securities/sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	–	260,664	19,500	395,881	535,963
Other assets:	–	–	–	–	–
Physical traded commodities, including gold	–				–
Assets posted as initial margin for Shari'a- compliant hedging contracts and contributions to default funds of CCPs	–	–	–	–	–
NSFR Shari'a-compliant hedging assets	–	–	–	–	–
NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	–	–	–	–	–
All other assets not included in the above categories	2,652,216	–	–	–	2,652,216
OBS items	–	–	–	–	13,743
Total RSF	–	988,673	141,407	1,538,473	4,475,181
NSFR (%)	–	–	–	–	97%

Notes to the Consolidated
Financial Statements (contd.)

for the year ended 31 December 2021

(c) Market Risks

Market risk is the risk that changes in market prices, such as profit rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Group's income, future cash flows or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

As a matter of general policy, the Group shall not assume trading positions on its assets and liabilities, and hence the entire balance sheet is a non-trading portfolio. All foreign exchange risk within the Group is transferred to Treasury. The Group seeks to manage currency risk by continually monitoring exchange rates. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for repricing bands. Overall authority for market risk is vested in the Board Audit and Risk Committee ('BARC'). RMD is responsible for the development of detailed risk management policies (subject to review and approval of the BARC).

Exposure to profit rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market profit rates. Majority of the Group's profit based asset and liabilities are short term in nature, except for certain long term liabilities which have been utilised to fund the Group's strategic investments in its associates.

A summary of the Group's profit rate gap position on non-trading portfolios is as follows:

$000's

	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
31 December 2021						
Assets						
Treasury portfolio	1,026,479	91,561	31,243	454,734	1,485,908	3,089,925
Financing assets	308,832	64,197	95,926	418,316	423,731	1,311,002
Total assets	**1,335,311**	**155,758**	**127,169**	**873,050**	**1,909,639**	**4,400,927**
Liabilities						
Client's fund	152,925	–	63,837	–	–	216,762
Placements from financial institutions, non-financial institutions and individuals	1,367,734	731,689	653,020	194,187	105,462	3,052,092
Term financing	578,012	185,494	512,475	84,031	390,655	1,750,667
Total liabilities	**2,098,671**	**917,183**	**1,229,332**	**278,218**	**496,117**	**5,019,521**
Equity of investment account holders	237,281	269,297	377,042	235,597	239,127	1,358,344
Profit rate sensitivity gap	**(1,000,641)**	**(1,030,722)**	**(1,479,205)**	**359,235**	**1,174,395**	**(1,976,938)**
31 December 2020						
Assets						
Treasury portfolio	880,830	60,209	26,401	374,068	497,038	1,838,546
Financing assets	129,080	59,849	133,727	457,629	486,981	1,267,266
Total assets	1,009,910	120,058	160,128	831,697	984,019	3,105,812
Liabilities						
Client's fund	103,517	–	–	27,418	–	130,935
Placements from financial institutions, non-financial institutions and individuals	1,001,195	634,641	491,597	214,101	76,466	2,418,000
Term financing	307,241	53,340	143,357	271,774	313,365	1,089,077
Total liabilities	1,411,953	687,981	634,954	513,293	389,831	3,638,012
Equity of investment account holders	283,905	194,080	285,764	193,745	199,499	1,156,993
Profit rate sensitivity gap	(685,948)	(762,003)	(760,590)	124,659	394,689	(1,689,193)

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2021

36. FINANCIAL RISK MANAGEMENT (contd.)

Risk management framework (contd.)
b) Liquidity risk (contd.)
Exposure to profit rate risk (contd.)

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered include a 100 basis point (bp) parallel fall or rise in all yield curves worldwide. An analysis of the Group's sensitivity to an increase or decrease in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) is as follows:

$000's

100 bps parallel increase/(decrease)	2021	2020
At 31 December	±19,769	±16,892
Average for the year	±18,108	±15,584
Maximum for the year	±19,879	±16,892
Minimum for the year	±16,082	±15,593

Overall, profit rate risk positions are managed by Treasury, which uses placements from / with financial institutions to manage the overall position arising from the Group's activities.

The effective average profit rates on the financial assets, liabilities and unrestricted investment accounts are as follows:

	2021	2020
Placements with financial institutions	3.18%	3.68%
Financing assets	6.09%	6.59%
Debt type investments Sukuk	6.38%	6.57%
Placements from financial institutions, other entities and individuals	4.76%	4.38%
Term financing	2.55%	6.80%
Equity of investment account holders	2.56%	3.55%

Exposure to foreign exchange risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Groups major exposure is in GCC currencies, which are primarily pegged to the US Dollar. The Group had the following significant net exposures denominated in foreign currency as of 31 December from its financial instruments:

$000's Equivalent

	2021	2020
Sterling Pounds	1,895	1,449
Euro	(2,619)	(2,654)
Australian Dollars	13,528	13,528
Kuwaiti Dinar	39,793	39,887
Other GCC Currencies (*)	(1,376,341)	(1,380,093)

(*) These currencies are pegged to the US Dollar.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2021

The management of foreign exchange risk against net exposure limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various foreign exchange scenarios. Standard scenarios that are considered include a 5% plus / minus increase in exchange rates, other than GCC pegged currencies. An analysis of the Group's sensitivity to an increase or decrease in foreign exchange rates (assuming all other variables, primarily profit rates, remain constant) is as follows:

$000's Equivalent

	2021	2020
Sterling Pounds	±95	±72
Euros	±(131)	±133
Australian dollar	±676	±676
Kuwaiti dinar	±1,990	±1,994
Egyptian Pound	-	±0.32
Structural positions of foreign operation		
Moroccan Dirham	±7,891	±7,513
Tunisian Dinar	±15,238	±14,617
Indian rupee	±13,635	±15,328

Exposure to other market risks

Equity price risk on quoted investments is subject to regular monitoring by the Group. The price risk on managed funds is monitored using specified limits (stop loss limit, stop loss trigger and overall stop loss limit cap) set within the portfolio management contract for fund managers. The Group's equity type instruments carried at cost are exposed to risk of changes in equity values. The significant estimates and judgements in relation to impairment assessment of fair value through equity investments carried at cost are included in note 5b(ii). The Group manages exposure to other price risks by actively monitoring the performance of the equity securities.

d) Operational Risk

Operational risk is the risk of loss arising from systems and control failures, fraud and human errors, which can result in financial and reputation loss, and legal and regulatory consequences. The Group manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, including internal audit and compliance. The Risk Management Department facilitates the management of Operational Risk by way of assisting in the identification of, monitoring and managing of operational risk in the Group.

In response to COVID-19 outbreak, there were various changes in the working model, interaction with customers, digital modes of payment and settlement, customer acquisition and executing contracts and carrying out transactions with and on behalf of the customers. The management of the Group has enhanced its monitoring to identify risk events arising out of the current situation and the changes in the way business is conducted. The operational risk department has carried out a review of the existing control environment and has considered whether to update the risk registers by identifying potential loss events based on their review of the business processes in the current environment.

During 2021, the Group did not have any significant issues relating to operational risks.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2021

37. CAPITAL MANAGEMENT

The Group's regulator Central Bank of Bahrain (CBB) sets and monitors capital requirements for the Group as a whole. In implementing current capital requirements CBB requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets. The total regulatory capital base is net of prudential deductions for large exposures based on specific limits agreed with the regulator. Banking operations are categorised as either trading book or banking book, and risk- weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The Group does not have a trading book.

The Group aims to maintain strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

The CBB sets and monitors capital requirements for the Bank as a whole. In implementing current capital requirements CBB requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets. Capital adequacy regulations of CBB is based on the principles of Basel III and the IFSB guidelines.

The Bank's regulatory capital is analysed into two tiers:

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
This 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 Tier 2, asset revaluation reserve from revaluation of fixed assets and instruments purposes and 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 exceeds 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.
Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

To combined the effect of Covid-19, the CBB has allowed the Aggregate of modification loss and incremental ECL provision for stage 1 and stage 2 for the period from March to December 2020 to be added back to Tier 1 capital for the two years ending 31 December 2020 and 31 December 2021. And to deduct this amount proportionately from Tier 1 capital on an annual basis for three years ending 31 December 2022, 31 December 2023 and 31 December 2024.

Notes to the Consolidated

Financial Statements (contd.)

for the year ended 31 December 2021

The Bank's regulatory capital position was as follows:

$000's

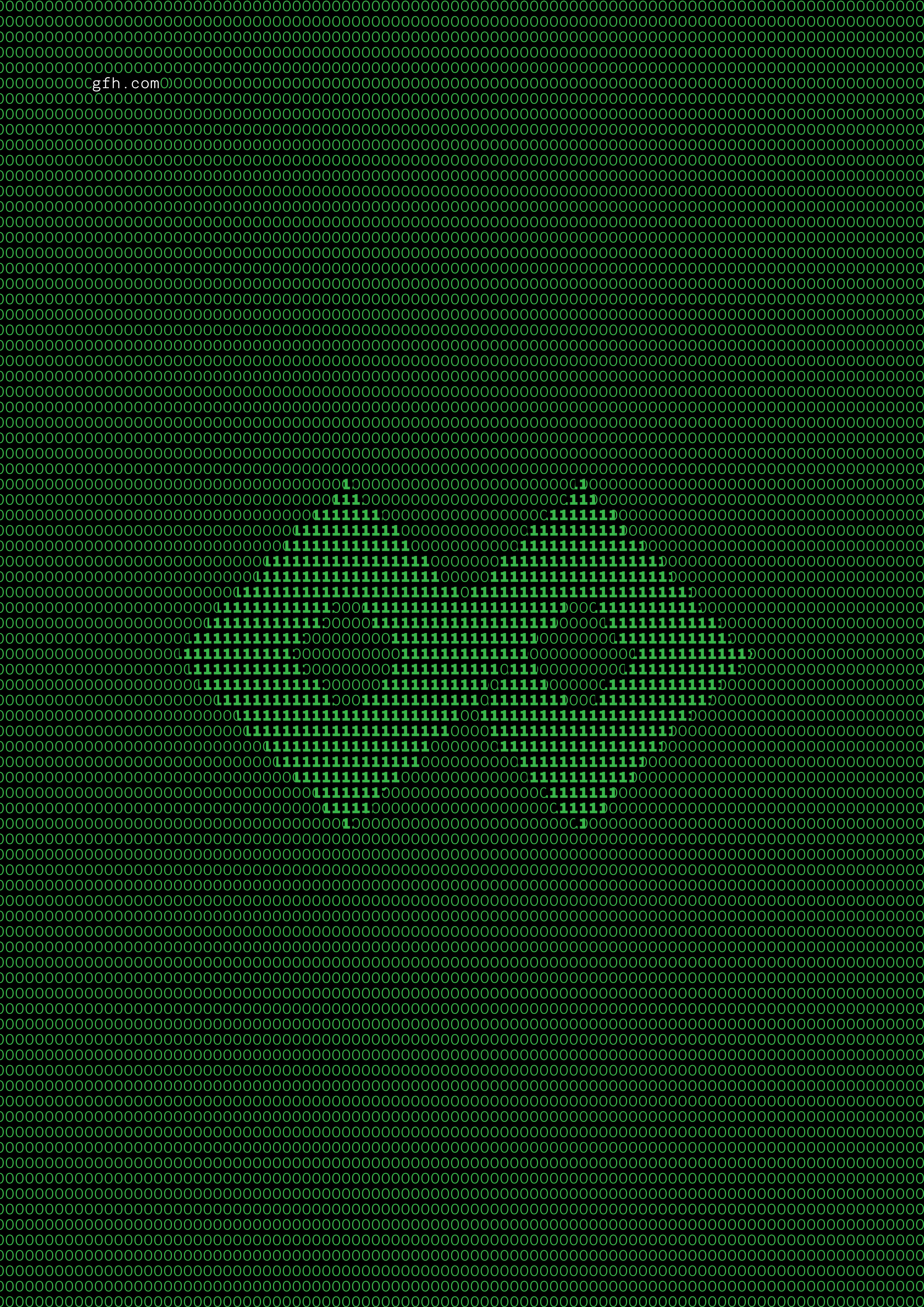
	31 December 2021	31 December 2020
CET 1 Capital before regulatory adjustments	1,063,515	1,025,835
Less: regulatory adjustments	-	-
CET 1 Capital after regulatory adjustments	1,063,515	1,025,835
T 2 Capital adjustments	53,374	76,062
Regulatory Capital	1,116,889	1,101,897
Risk weighted exposure:		
Credit Risk Weighted Assets	7,574,496	7,647,064
Market Risk Weighted Assets	38,325	72,038
Operational Risk Weighted Assets	655,034	552,821
Total Regulatory Risk Weighted Assets	8,267,855	8,271,923
Investment risk reserve (30% only)	2	2
Profit equalization reserve (30% only)	3	3
Total Adjusted Risk Weighted Exposures	8,267,850	8,271,918
Capital Adequacy Ratio	13.51%	13.49%
Tier 1 Capital Adequacy Ratio	12.86%	12.57%
Minimum required by CBB	12.50%	12.50%

The allocation of capital between specific operations and activities is primarily driven by regulatory requirements. The Group's capital management policy seeks to maximise return on risk adjusted capital while satisfying all the regulatory requirements. The Group's policy on capital allocation is subject to regular review by the Board of Directors. The Group has complied with the externally imposed capital requirements set by the regulator for its consolidated capital adequacy ratio throughout the year.

38. COMPARATIVES

Except for the prospective adoption of FAS-32 Ijara (refer note 4 (a) (ii)), certain prior year amounts have been regrouped to conform to the current year's presentation. Such regrouping did not affect previously reported profit for the year or total owners' equity.

Transformed by Technology


gfh.com