

## **GBCORP B.S.C. (c)**

### **CONSOLIDATED FINANCIAL STATEMENTS 31 December 2021**

Commercial registration	:	65708-1
Registered Office	:	Flat / Shop No. 528 P.O. Box. 1486 Building 1411, Road 4626 Block 346, Manama/ Sea Front Kingdom of Bahrain
Directors	:	Hesham Ahmed Al Rayes Isa Abdulla Zainal Eyad Yousuf Sater Mohamed Anwar Al Sada Salah Abdulla Sharif Syed Rehan Ashraf Razi Abdulghaffar Almerbati (till 6 December 2021) Majed Abdulla Al Khan (from 6 December 2021) Talal Nabeel Al Mahroos (from 6 December 2021)
Parent Company	:	GFH Financial Group B.S.C.
Bankers	:	Khaleeji Commercial Bank National Bank of Kuwait Al Salam Bank Bahrain Islamic Bank Kuwait Finance House
Auditor	:	KPMG Fakhro, Bahrain

**CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended 31 December 2021**

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**BOARD OF DIRECTORS REPORT**  
**For the year ended 31 December 2021**

*In the name of Allah, the Beneficent, the Merciful, Prayers and Peace upon the Last Apostle and Messenger, Our Prophet Mohammad*

On behalf of the Board of Directors of GBCORP B.S.C. (c) ("GBCORP"), I am pleased to present to you the financial statements of GBCORP for the Financial Year Ended 31<sup>st</sup> December 2021.

GBCORP's total operating income for the Financial Year Ended 31<sup>st</sup> December 2021 was US\$ 15.1 million. A total expense amounted to US\$ 1.8 million and net provision for credit losses was US\$ 0.3 million. Thus the net profit of GBCORP is US\$ 13.0 million for the year ended as on 31<sup>st</sup> December 2021 as compared to net loss of US\$ 0.6 million in 2020. GBCORP's total assets increased to US\$ 27.4 million compared to US\$ 15.3 million in 2020.

In line with Article 188 of the Commercial Companies Law No. (21) for the year 2001, the Board of Directors and executive management remuneration are as follows:

**First: Board of directors' remuneration details:**

Name	Fixed remunerations					Variable remunerations					End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
	Remunerations of the chairman and BOD	Total allowance for attending Board and committee meetings	Salaries	Others	Total	Remunerations of the chairman and BOD	Bonus	Incentive plans	Others	Total			
<b>First: Independent Directors:</b>													
1- Isa Zainal	5,833	6,786	-	-	12,619	-	-	-	-	-	-	12,619	-
2- Eyad Sater	5,833	6,786	-	-	12,619	-	-	-	-	-	-	12,619	-
<b>Second: Non-Executive Directors: Not Applicable</b>													
<b>Third: Executive Directors:</b>													
1- Hesham Al Rayes	5,833	3,016	-	-	8,849	-	-	-	-	-	-	8,849	-
2- Mohamed Al Sada	3,889	3,016	-	-	6,905	-	-	-	-	-	-	6,905	-
3- Salah Sharif	5,833	3,016	-	-	8,849	-	-	-	-	-	-	8,849	-
4- Syed Ashraf	3,889	3,016	-	-	6,905	-	-	-	-	-	-	6,905	-
5- Razi Almerbati (till 6 Dec 2021)	3,889	3,016	-	-	6,905	-	-	-	-	-	-	6,905	-
6- Majed Al Khan (from 6 Dec 2021)	-	-	-	-	-	-	-	-	-	-	-	-	-
7- Talal Al Mahroos (from 6 Dec 2021)	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>34,999</b>	<b>28,652</b>	<b>-</b>	<b>-</b>	<b>63,651</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>63,651</b>	<b>-</b>
<b>Note: All amounts in Bahraini Dinars.</b>													
<b>Notes:</b>													
1. Proposed Board of directors' remuneration is subject to approval of Ministry of Industry, Commerce and Tourism ("MOICT") and shareholders.													

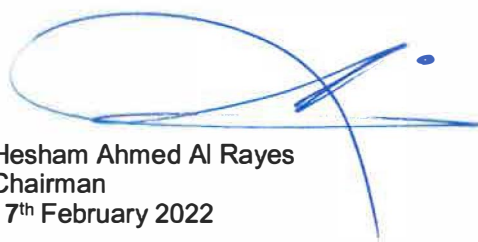
Executive management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/ in kind remuneration for 2021	Aggregate Amount
Remuneration for executives, including Acting CEO and Senior Financial Officer	249,158	18,855	-	268,013

**Note: All amounts in Bahraini Dinars.**  
**Notes:**  
1. Executive management remuneration represents the remuneration for all (five) executives of GBCORP.

**Second: Executive management remuneration details:**

GBCORP continues to operate with a small cost base consisting of minimum staff number and controlled expenses. During 2021, no new business activity was undertaken, however, the Board of Directors is considering options on the way forward which will be presented to the shareholders in due time.

The Board would like to take this opportunity to express its sincere appreciation to our shareholders, clients and strategic partners for their continued support, trust and faith in our management and staff during this time of uncertainty. The Board also wishes to thank our Shari'a Supervisory Board and the Central Bank of Bahrain, for their constructive assistance and advice. This is immensely encouraging in helping us building towards long- term success.



Hesham Ahmed Al Rayes  
Chairman  
17<sup>th</sup> February 2022



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## Independent auditors' report

### To the Shareholders of

*GBCORP B.S.C. (c)*  
*P.O. Box 1486*  
*Manama Sea Front,*  
*Kingdom of Bahrain*

#### Opinion

We have audited the accompanying consolidated financial statements of GBCORP B.S.C. (c) (the "Company"), 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 equity, and cash flows 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 equity, its cash flows 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").

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.

#### Other Matter

The consolidated financial statements of the Company as at and for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those financial statements on 4 March 2021.

#### Other Information

The board of directors is responsible for the other information. The other information obtained at the date of this auditors' report is the Board of Directors report set out on pages 1-2.

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 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, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

## 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:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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



## Report on Other Regulatory Requirements

As required by the Commercial Companies Law and Volume 4 of the Rulebook issued by the Central Bank of Bahrain, we report that:

- a) the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- b) the financial information contained in the board of directors report is consistent with the consolidated financial statements;
- c) 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 4, applicable provisions of Volume 6 and CBB directives) or the terms of the Company's memorandum and articles of association that would have had a material adverse effect on the business of the Company or on its financial position; and
- d) satisfactory explanations and information have been provided to us by management in response to all our requests.

A handwritten signature in blue ink, appearing to read 'KPMG', with a long horizontal stroke underneath it.

KPMG Fakhro  
Partner Registration Number 137  
17 February 2022

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**As at 31 December 2021**

US\$ 000's

	Note	31 December 2021	31 December 2020
<b>ASSETS</b>			
Bank balances and placements with financial institutions	4	12,640	13,963
Receivables and prepayments	5	9,077	901
Investment property	6	5,268	-
Right-of-use (usufruct) asset	7	395	-
Property and equipment	8	29	414
<b>Total assets</b>		<b>27,409</b>	<b>15,278</b>
<b>LIABILITIES</b>			
Accruals and other liabilities	10	490	1,761
Ijarah liability net	7	398	-
<b>Total liabilities</b>		<b>888</b>	<b>1,761</b>
<b>EQUITY</b>			
Share capital	11	13,144	13,144
Statutory reserve		1,301	-
Voluntary reserve	11	799	799
Retained earnings / (accumulated losses)		11,277	(426)
<b>Total equity</b>		<b>26,521</b>	<b>13,517</b>
<b>Total liabilities and equity</b>		<b>27,409</b>	<b>15,278</b>

The consolidated financial statements were approved by the Board of Directors on 17<sup>th</sup> February 2022 and signed on its behalf by:



**Hesham Ahmed Al Rayes**  
Chairman



**Isa Abdulla Zainal**  
Vice Chairman

The accompanying notes 1 to 20 are an integral part of these consolidated financial statements.



**GBCORP B.S.C. (c)**

**CONSOLIDATED STATEMENT OF INCOME**  
**For the year ended 31 December 2021**

US\$ 000's

	Note	2021	2020
Income from investment management services	16	14,102	2,470
Income from investment property	12	-	2,492
Income from placements with financial institutions		374	819
Other income		638	8
<b>Total income</b>		<b>15,114</b>	<b>5,789</b>
Amortization of right-of-use (usufruct) asset	7	147	-
Depreciation on property and equipment	8	20	1,322
Staff costs	13	827	741
Legal and professional expenses		517	727
Premises costs		113	861
Other operating expenses	14	182	567
<b>Total expenses</b>		<b>1,806</b>	<b>4,218</b>
<b>Profit for the year before impairment</b>		<b>13,308</b>	<b>1,571</b>
Allowances for credit losses, net	4,5	(297)	(2,203)
<b>Profit/(loss) for the year</b>		<b>13,011</b>	<b>(632)</b>



**Hesham Ahmed Al Rayes**  
*Chairman*



**Isa Abdulla Zainal**  
*Vice Chairman*

The accompanying notes 1 to 20 are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 31 December 2021**

US\$ 000's

**31 December 2021**

	Share capital	Statutory reserve	Voluntary reserve	Retained earnings	Total
Balance at 1 January 2021 as previously reported	13,144	-	799	(426)	13,517
Impact of adopting FAS 32	-	-	-	(7)	(7)
<b>Restated balance at 1 January 2021</b>	<b>13,144</b>	<b>-</b>	<b>799</b>	<b>(433)</b>	<b>13,510</b>
Profit for the year	-	-	-	13,011	13,011
Transfer to statutory reserve	-	1,301	-	(1,301)	-
<b>Balance at 31 December 2021</b>	<b>13,144</b>	<b>1,301</b>	<b>799</b>	<b>11,277</b>	<b>26,521</b>

## 31 December 2020

	Share capital	Statutory reserve	Voluntary reserve	Accumulated losses	Total
Balance at 1 January 2020 as previously reported	200,000	7,284	-	(83,140)	124,144
Impact of adopting FAS 30	-	-	-	(400)	(400)
Restated balance at 1 January 2020	200,000	7,284	-	(83,540)	123,744
Capital reduction (note 11)	(186,856)	(7,284)	799	83,746	(109,595)
Loss for the year	-	-	-	(632)	(632)
Balance at 31 December 2020	13,144	-	799	(426)	13,517

The accompanying notes 1 to 20 are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**For the year ended 31 December 2021**

US\$ 000's

	Note	2021	2020
<b>OPERATING ACTIVITIES</b>			
Profit / (loss) for the year		13,011	(632)
Adjustments for:			
Depreciation	8	20	1,322
Amortisation of prepaid car park rent	14	-	247
Amortization of right-of-use (usufruct) asset	14	147	-
Expense related to Ijarah	14	10	-
Expected credit losses / recovery of impaired	4,5	297	2,203
Operating income before changes in operating assets and Liabilities		13,485	3,140
Changes in operating assets and liabilities:			
Placements with financial institutions with original maturity of more than 90 days		7,013	15,786
Other receivables and prepayments		(8,409)	(2,174)
Right-of-use (usufruct) asset		(395)	-
Ijarah Liability		398	-
Accruals and other liabilities		(1,271)	660
<b>Net Cash from operating activities</b>		<b>10,821</b>	<b>17,412</b>
<b>INVESTING ACTIVITIES</b>			
Additions to investment property	6	(5,268)	-
Deletions/ (additions) to property and equipment	8	367	(311)
<b>Net Cash flows used in investment activities</b>		<b>(4,901)</b>	<b>(311)</b>
<b>FINANCING ACTIVITY</b>			
Payment of Ijarah Liability		(161)	-
Cash distribution to shareholders	11	-	(20,000)
<b>Net cash used in financing activities</b>		<b>(161)</b>	<b>(20,000)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>5,759</b>	<b>(2,899)</b>
Cash and cash equivalents at 1 January		2,131	5,030
<b>Cash and cash equivalents at 31 December</b>		<b>7,890</b>	<b>2,131</b>
Cash and bank balances		94	36
Placements with financial institutions (with maturity less than 90 days)		7,706	2,095
		<b>7,890</b>	<b>2,131</b>

The accompanying notes 1 to 20 are an integral part of these consolidated financial statements.

## 1 REPORTING ENTITY

GBCORP B.S.C. (c) (the "Company") is a closed joint stock company incorporated in the Kingdom of Bahrain on 25 June 2007 under the Commercial Companies Law and is registered with the Ministry of Industry, Commerce and Tourism ("MOICT") under Commercial Registration (CR) number 65708-1. The Company is subsidiary of GFH Financial Group B.S.C. (the "Parent").

During the year, the Parent has acquired the additional 12.5% stake in the Company increasing its stake to 62.9% as at 31 December 2021 (2020: 50.4).

The Company was originally established as an Islamic Wholesale Islamic bank licensed by the Central Bank of Bahrain (the "CBB"). Following shareholders' and the CBB's approvals in June 2017 and November 2019, respectively, the Company changed its license to a Category 1 Investment Business Firm (Islamic Principles). The Group received the approval for the license change from the CBB on 17 September 2020.

The Company's activities are regulated by the CBB and supervised by a Shari'a Supervisory Board comprising of one Islamic scholar. The principal activities of the Company are fund management activities which include:

- Dealing in financial instruments as principal (including underwriting);
- Dealing in financial instruments as agent;
- Arranging deals in financial instruments;
- Managing financial instruments;
- Safeguarding financial instruments (i.e. Custodian);
- Advising on financial instruments; and
- Operating a Collective Investment Undertaking (i.e. an operator).

The Company had the following wholly owned subsidiaries, none of which is listed, as at the current and the comparative reporting dates:

<b>Name of the entity</b>	<b>Nature of business</b>
Diyafa Holdings Company W.L.L.	Virtual offices and hospitality services
Global Executive Offices Company W.L.L.	Providing, operation, leasing and equipping offices

The consolidated financial statements comprise the Company and its subsidiaries (together the "Group") and all group entities operates in the Kingdom of Bahrain.

### Going concern

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

**2 BASIS OF PREPARATION****a) 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"), the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Group, the Commercial Companies Law, the CBB Rule Book (Volume 4 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions and the terms of the Company's memorandum and articles of association. In accordance with the requirements of AAOIFI, for matters for which no AAOIFI standard exists, the Group uses the relevant International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board ("IASB").

**b) Functional and presentation currency**

The consolidated financial statements are prepared under the historical cost convention. The Company's functional currency is Bahraini Dinars ("BD") and the presentation currency is United States Dollars ("US\$"). All the values are rounded to the nearest US\$ '000, unless otherwise indicated.

**c) Basis of consolidation****i) Subsidiaries**

The Company's subsidiaries are entities controlled by the Company. 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 fully consolidated from the date on which control is transferred to the Group and continue to be consolidated until the date when such control ceases.

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. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. The assessment of whether the Group has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Group and the SPE. 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 not included in these consolidated financial statements except when the Group controls the entity so as to obtain benefits from its activities. Information about the Group's fiduciary assets under management is set out in note 16.

*Loss of control*

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the consolidated income statement. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

**ii) Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements of the Group.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the year ended 31 December 2021**

US\$ 000's

**2 BASIS OF PREPARATION (continued)****d) Significant assumptions, Judgements and estimates**

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about significant areas that involve a higher degree of judgment or complexity, or areas where assumptions or estimates have a significant risk of resulting in a material adjustment to the amounts recognised in the consolidated financial statements are as follows:

**Impairment of financial assets**

The Group reviews its financial assets at each reporting date to assess whether an impairment provision should be recorded in the consolidated financial statements. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about factors involving varying degrees of judgment and uncertainty and actual results may differ resulting in future changes to the provisions.

**e) New standards, amendments, and interpretations issued and effective for annual periods beginning on or after 1 January 2021****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. Changes in accounting policies resulting from the adoption of FAS 32 have been applied prospectively, and the impact on opening balances have been recognised through equity. 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 Group assesses whether the contract is Ijarah, or contains an Ijarah. A contract is Ijarah, or contains an Ijarah if the contract transfers the usufruct (but not control) of an identified asset for a period of time in exchange for an agreed consideration. For Ijarah contracts with multiple components, the Group accounts for each Ijarah component within a contract separately from non-Ijarah components of the contract (e.g. service fee, maintenance charges, toll manufacturing charges etc.).

**Measurement**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the year ended 31 December 2021**

US\$ 000's

**2 BASIS OF PREPARATION (continued)**

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

*FAS 32 Ijarah (continued)*(a) *Change in accounting policy (continued)*

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

(i) **Right-of-use (usufruct) asset**

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

- the prime cost of the right-of-use asset;
- initial direct costs incurred by the lessee; and
- dismantling or decommissioning costs.

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

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

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

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

- 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.

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

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

(ii) **Net ijarah liability**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the year ended 31 December 2021**

US\$ 000's

**2 BASIS OF PREPARATION (continued)**

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

*FAS 32 Ijarah (continued)*(a) *Change in accounting policy (continued)*

The gross Ijarah liability is 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).

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 maintenance. As of 30 September 2021, the Group did not have any contracts with variable or supplementary rentals.

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

- increasing the net carrying amount to reflect return on the Ijarah liability (amortisation of deferred Ijarah cost)
- reducing the carrying amount of the gross Ijarah liability to reflect the Ijarah rentals paid
- re-measuring the carrying amount in the event of reassessment or modifications to Ijarah contract, or to reflect revised Ijarah rentals

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

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

**Ijarah contract modifications**

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

- change in the Ijarah term: re-calculation and adjustment of the right-of-use asset, the Ijarah liability, and the deferred Ijarah cost; or
- change in future Ijarah rentals only: re-calculation of the Ijarah liability and the deferred Ijarah cost only, without impacting the right-of-use asset.

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

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

US\$ 000's

## 2 BASIS OF PREPARATION (continued)

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

*FAS 32 Ijarah (continued)*

## (a) Change in accounting policy (continued)

**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**

The Group has elected not to apply the requirements of Ijarah recognition and measurement of recognizing right-of-use asset and Ijarah 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 Ijarah Muntahia Bittamleek (“Ijarah Assets”) contracts**

There is no change in the accounting for Ijarah Muntahia Bittamleek portfolio upon adoption of this standard.

**(b) Impact on adoption of FAS 32**

As permitted by FAS 1, the Group has adopted a modified retrospective application of FAS 32 where the cumulative effect of the adoption of the standard is reflected in the opening retained earnings and statement of financial position of the current period. The lease contracts comprise ATM sites, branches. The impact of adoption of FAS 32 as at 1 January 2021 has resulted in the following changes at 1 January 2021.

	Total Assets	Total Liabilities	Accumulated losses
Closing balance (31 December 2020)	15,278	1,761	(426)
<u>Impact on adoption:</u>			
Right-of-use (usufruct) asset	98	-	-
Ijarah liability	-	105	-
Opening impact of FAS 32	-	-	(7)
	98	105	(7)
<b>Balance on date of initial application of 1 January 2021</b>	<b>15,376</b>	<b>1,866</b>	<b>(433)</b>

**Right-of-use (usufruct) asset**

	31 December 2021
Recognition of right-of-use (usufruct) asset on initial application of FAS 32	98
Additional right-of-use (usufruct) asset for the year, net of amortisation charge and adjustments	297
<b>Balance as at 31 December</b>	<b>395</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the year ended 31 December 2021**

US\$ 000's

**2 BASIS OF PREPARATION (continued)****f) New standards, amendments, and interpretations issued but not yet effective****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.

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

The Group expects that the adoption of this standards will not have material impact on the consolidated financial statements in the year of initial application as the Group does not have Wa'ad (promise), Khiyar (option) and Tahawwut (hedging) arrangements.

**g) New standards early adopted**

The Group did not early adopted any new standards.

**h) Impact of COVID-19**

On 11 March 2020, the coronavirus (COVID-19) outbreak was declared a pandemic by the World Health Organization (WHO) and has rapidly evolved globally. This has resulted in a global economic slowdown with uncertainties in the economic environment. Global equity and commodity markets have also experienced great volatility and a significant drop in prices. The estimation uncertainty is associated with the extent and duration of the expected economic downturn and forecasts for key economic factors including GDP, employment, oil prices etc. This includes disruption to capital markets, deteriorating credit markets and liquidity concerns.

The pandemic as well as the resulting measures and policies are expected to have direct and/or knock-on impact on the Group. The management and the board of directors has been closely monitoring the potential impact of the COVID-19 developments on the Group's operations and consolidated financial position; including possible loss of revenue, impairment, asset valuations etc. The Group has also put in place contingency measures, which include but are not limited to enhancing and testing of business continuity plans including its liquidity requirements. Based on their assessment, the board of directors is of the view that the Group will continue as a going concern entity for the next 12 months from the date of this consolidated financial statements.

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

The Government of the Kingdom of Bahrain has announced various economic stimulus programmes ("Packages") to support businesses in the wake of the economic downturn caused by COVID-19. The Group received financial assistance representing specified reimbursement of a portion of staff costs, levies and utility charges, as part of the Government's COVID-19 support measures. Accordingly, the Group recognised reduction in expense of US\$ Nil (2020:US\$ 168 thousand) comprising government grant received towards salary of Bahraini employees from April to June 2020 of US\$ Nil (2020: US\$ 58 thousand and utility charges of US\$ 110 thousand).

**3 SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted in the preparation of these consolidated financial statements are set below. The Group has consistently applied the accounting policies to all periods presented in these consolidated financial statements, except the change in accounting policy on adoption of FAS 32 as given in note 2(a).

**a) Foreign currency transactions*****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 functional currency (BD) is converted to the presentation currency (US\$) using a pegged exchange rate of 0.377.

***Transactions and balances***

Transactions in foreign currencies are initially recorded in the functional currency using the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the date of the consolidated statement of financial position. All differences are taken to the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial recognition. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Exchange gains and losses on non-monetary items classified as "fair value through statement of income" are taken to the consolidated statement of income and for items classified as "fair value through equity" such differences are taken to the consolidated statement of comprehensive income.

***Group companies***

The group companies' functional currencies are either denominated in US Dollars or currencies that are pegged to the US Dollars, and hence, the translation of the financial statements of such entities that have a functional currency different from the presentation currency do not result in any exchange differences.

**b) Cash and cash equivalents**

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise cash, bank balances and short-term highly liquid assets (placements with financial and other institutions) with original maturities of less than 90 days when acquired, which are subject to insignificant risk of changes in fair value and are used by the Group in the management of its short-term commitments.

**c) Placements with financial institutions*****Wakala placements***

These comprise interbank placements made under Shari'a compliant contracts. Placements are usually short-term and less than one year in nature and are stated at amortised cost.

***Mudarabah investment account (unrestricted)***

Mudarabah is a partnership between two parties, where one party provides the capital (Rab al Maal), and the other one possesses the necessary skills and expertise to manage such capital (Mudarab), for a pre-determined share of profit. These are stated at the fair value of consideration given less provision for impairment, if any.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the year ended 31 December 2021**

US\$ 000's

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)****c) Placements with financial institutions (continued)*****Murabaha investment***

Murabaha represents the sale of goods at cost plus an agreed profit. Murabaha receivables are stated net of deferred profits, any amounts written off and provision for impairment, if any. Promise made in the murabaha to the purchase orderer is not obligatory upon the customer.

**d) Investment properties**

Investment property represents land. Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the course of business, use in the production or supply of goods or services or for administrative purposes. The Group follows the cost model to measure its investment property and carries it at cost less accumulated depreciation and impairment losses, if any.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs. Land is not depreciated.

**e) Property and equipment**

Property and equipment are stated at cost, less accumulated depreciation and impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Depreciation on equipment is computed using the straight-line method to write off the cost of the assets over their estimated useful lives ranging from three to five years. Land is not depreciated. Self-occupied portion of the building is depreciated over a period 30 years. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

***Derecognition of property and equipment***

An item of property and equipment and any significant part initially recognised is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income when the asset is derecognised.

**f) Financial assets*****Initial recognition***

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through Other Comprehensive Income (OCI), and fair value through profit or loss. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of receivables, that do not contain a significant financing component, or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the year ended 31 December 2021**

US\$ 000's

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)****f) Financial assets (continued)**

## Initial recognition

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'Solely Payments of Principal and Profit (SPPP)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

**Subsequent measurement**

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments); and
- Financial assets at fair value through profit or loss.

**Financial assets at amortised cost (debt instruments)**

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the Effective Interest Rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at amortised cost are subsequently measured using the Effective Interest Rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost include bank balances and placements with financial institutions.

**Derecognition of financial assets**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the year ended 31 December 2021**

US\$ 000's

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)****f) Financial assets (continued)**

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

***Impairment of financial assets***

The Group recognises an allowance for ECLs for all non-listed debt instruments. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there have been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

The Group considers a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

**g) Financial liabilities*****Initial recognition and measurement***

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings and payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include accounts payable and accrued expenses.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the year ended 31 December 2021**

US\$ 000's

3 *SIGNIFICANT ACCOUNTING POLICIES (continued)*f) *Financial assets (continued)****Subsequent measurement***

The measurement of financial liabilities depends on their classification, as described below:

***Accounts payable and accrued expenses***

Liabilities for accounts payable and accruals are carried at the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

***Derecognition of financial liabilities***

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

**h) Offsetting financial instruments**

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

**i) Dividends to shareholders and board remuneration**

Dividends to shareholders and board remuneration are recognised as liabilities in the period in which they are declared.

**j) Share capital**

Ordinary shares are classified as equity. 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.

**k) Statutory reserve**

The Commercial Companies Law, 2001 (BCCL) requires that 10 percent of the annual net profit be appropriated to a statutory reserve after adjustment of accumulated losses which is normally distributable only on dissolution or in circumstances state in the BCCL subject to the approval of the CBB. Appropriations may cease when the reserve reaches 50 percent of the paid up share capital.

**l) Revenue recognition*****Income from investment property***

Rental income from investment property leased out under operating lease is recognised in the consolidated statement of income on a straight-line basis over the term of the lease. Utilities income is recognised based invoiced amount to tenants in accordance with the lease agreement.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the year ended 31 December 2021**

US\$ 000's

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)****l) Revenue recognition (continued)*****Income from investment management services***

Income from investment management services is recognised as per signed contracts over time when earned and the related services are performed and there is no uncertainty on its collectability.

***Income from placements with financial and other institutions***

Income from placements with financial and other institutions is recognised on a time-apportioned basis over the period of the related contract.

***Mudarabah investment***

Income on Mudarabah transactions are recognised when the right to receive such income is established or these are declared by the Mudarab, whichever is earlier. In case of losses on Mudarabah, the Company's share of loss is recognised to the extent that such losses are being deducted from its share of the Mudarabah capital.

***Dividend income***

Dividend income from investment securities is recognised when the right to receive the payment is established.

**m) 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 Company uses these funds for charitable means.

**n) Zakah**

The Group is not required to pay Zakah on behalf of its shareholders on its undistributed profits. However, the Group is required to calculate and notify, under a separate report, the individual shareholders, of their pro-rata share of the Zakah payable by them on distributed profits. These calculations are approved by the Group's Shari'a Supervisory Board.

**o) Employee 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***

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 General Organisation for Social Insurance scheme and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. Contributions by the Company are recognised as an expense in consolidated statement of income when they are due.

Certain employees on fixed contracts are also 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

US\$ 000's

## 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

## p) 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.

## 4 BANK BALANCES AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	31 December 2021	30 December 2020
Cash and bank balances	94	36
Wakala placements (i)	4,081	6,073
Mudarabah placement (ii)	4,521	5,305
Murabaha investment (iii)	3,979	2,653
	12,675	14,067
Less: provision for expected credit loss	(35)	(104)
	<b>12,640</b>	<b>13,963</b>

- i) These are Wakala based accounts with maturities of less than one year and an average profit rate of 2.83% (2020: 2.74%).
- ii) This is a Mudarabah investment account maintained with locally incorporated banks with maturity of nine months and an average profit rate of 2.76% (2020: 3.35%).
- iii) This is a Murabaha investment maintained with a locally incorporated bank with maturity of six months and an average profit rate of 3.00% (2020: 2.55%).

## 5 RECEIVABLES AND PREPAYMENTS

	31 December 2021	31 December 2020
Receivable from tenants	6	98
Management fee receivable (note 16)	12,130	2,470
Project costs recoverable (note 16)	490	1,196
	12,626	3,764
Less: provision for expected credit losses	(3,811)	(3,578)
	8,815	186
Other receivables and prepayments	262	715
	<b>9,077</b>	<b>901</b>

Movements on impairment provisions relating to receivables:

	2021	2020
At 1 January	3,578	1,112
Impact of adopting FAS 30	-	320
Restated balance at 1 January	3,578	1,432
Charge for the year – net	366	2,179
Write-off during the year	(133)	(33)
<b>At 31 December</b>	<b>3,811</b>	<b>3,578</b>

**6 INVESTMENT PROPERTY**

	<b>2021</b>	2020
<b>Cost:</b>		
At 1 January	-	65,252
Additions during the year (note 16) *	5,268	-
Disposals during the year	-	(9)
Distribution to shareholders (note 11)	-	(65,243)
<b>At 31 December</b>	<b>5,268</b>	-
<b>Accumulated depreciation</b>		
At 1 January	-	18,536
Charge for the year	-	945
Distribution to shareholders (note 11)	-	(19,481)
<b>At 31 December</b>	-	-
<b>Net book value at 31 December</b>	<b>5,268</b>	-

\*As at reporting date, the Company has signed a nominee agreement to enable it to transfer the land title deed to its name and is currently in the process of registering it in its name (Note 16).

As at 31 December 2021, the fair value of investment property (land) as determined by an independent third-party valuer was US\$ 9,125 thousand (2020: Nil)

The independent valuer has appropriate qualifications and recent experience in the valuation of properties in the relevant locations and approved under Real Estate Regulatory Authority ("RERA"). The fair value was determined based on comparable market value approach that reflects recent transaction prices for similar properties and accordingly is classified as level 2 in the fair value hierarchy.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 31 December 2021**

US\$ 000's

**7 RIGHT-OF-USE (UNUFRUCT) ASSETS**

	<b>2021</b>	2020
As at 1 January	-	-
Recognition of right-of-use (usufruct) asset on adoption of FAS 32	98	
Additions during the year	444	-
Amortization of right-of-use (usufruct) asset	(147)	-
<b>As at 31 December</b>	<b>395</b>	-

Set out below are the carrying amounts of Ijarah liability and the movements during the year:

	<b>2021</b>	2020
As at 1 January	-	-
Recognition of Ijarah liabilities on adoption of FAS 32	105	-
Additions during the year	444	-
Expenses related to Ijarah	10	-
Payments made during the year	(161)	-
<b>As at 31 December</b>	<b>398</b>	-
Current	143	-
Non-current	255	-
<b>As at 31 December</b>	<b>398</b>	-

The following are the amounts recognised in the consolidated statement of income:

	<b>2021</b>	2020
Amortization of Right of use (usufruct) asset	147	-
Expenses related to Ijarah (note 14)	10	-
<b>As at 31 December</b>	<b>157</b>	-

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 31 December 2021**

US\$ 000's

**8 PROPERTY AND EQUIPMENT**

<b>2021</b>	<b>Land</b>	<b>Building</b>	<b>Fixture and equipment</b>	<b>Furniture</b>	<b>Total</b>
<b>Cost</b>					
At 1 January	-	-	10,904	1,368	12,272
Additions	-	-	22	-	22
Disposals	-	-	(8,554)	(1,359)	(9,913)
<b>At 31 December</b>	-	-	<b>2,372</b>	<b>9</b>	<b>2,381</b>
<b>Accumulated depreciation</b>					
At 1 January	-	-	10,493	1,365	11,858
Depreciation	-	-	17	3	20
Disposals	-	-	(8,167)	(1,359)	(9,526)
<b>At 31 December</b>	-	-	<b>2,343</b>	<b>9</b>	<b>2,352</b>
<b>Net book value at 31 December</b>	-	-	<b>29</b>	-	<b>29</b>

<b>2020</b>	<b>Land</b>	<b>Building</b>	<b>Fixture and equipment</b>	<b>Furniture</b>	<b>Total</b>
<b>Cost</b>					
At 1 January	1,009	2,507	10,514	1,368	15,398
Additions	-	-	390	-	390
Distribution to shareholders (note 11)	(1,009)	(2,507)	-	-	(3,516)
<b>At 31 December</b>	-	-	<b>10,904</b>	<b>1,368</b>	<b>12,272</b>
<b>Accumulated depreciation</b>					
At 1 January	-	935	10,389	1,365	12,689
Depreciation	-	273	104	-	377
Distribution to shareholders (note 11)	-	(1,208)	-	-	(1,208)
<b>At 31 December</b>	-	-	<b>10,493</b>	<b>1,365</b>	<b>11,858</b>
<b>Net book value at 31 December</b>	-	-	<b>411</b>	<b>3</b>	<b>414</b>

**9 RELATED PARTY**

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, Shari'a Supervisory board, executive management of the Group and entities under common control. Key management personnel of the Group comprise the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group.

The Group's income from investment management services is from entities over which the Group exercises influence. Although, the entity is considered a related party, the Group administers and manages the entity on behalf of its clients, who are third parties and are the economic beneficiaries of the underlying investment. The transactions with these entities are based on agreed terms in the private placement memorandum.

**31 December 2021**

	<b>Assets under Management including SPEs</b>	<b>Shareholders / Key Management Personnel</b>	<b>Entities under common control</b>
<b>Assets</b>			
Placements with financial institutions	-	-	5,813
Other receivables and prepayments	9,024	-	2
Right of use (usufruct) asset	395	-	-
<b>Liabilities</b>			
Accruals and other liabilities	8	177	-
Ijarah liability	398	-	-

**31 December 2020**

	<b>Assets under Management including SPEs</b>	<b>Shareholders / Key Management Personnel</b>	<b>Entities under common control</b>
<b>Assets</b>			
Placements with financial institutions	-	-	5,256
Other receivables and prepayments	723	-	4
<b>Liabilities</b>			
Accruals and other liabilities	1,270	167	-

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9 RELATED PARTY (continued)

## 31 December 2021

	Assets under Management	Shareholders / Key Management Personnel	Entities under common control
<b>Income</b>			
Income from investment management services	14,102	-	-
Income from placements with financial institutions	-	-	179
Other Income	461	-	5
<b>Expenses</b>			
Staff costs	-	356	-
Board member fees	-	169	-
Shari'a fees	-	6	-

## 31 December 2020

	Assets under Management	Shareholders / Key Management Personnel	Entities under common control
<b>Income</b>			
Income from investment management services	2,470	-	-
Income from placements with financial institutions	-	-	402
Income from investment property	11	-	-
<b>Expenses</b>			
Staff costs	-	375	-
Board's fees	-	179	-
Shari'a fees	-	7	-

## 10 ACCRUALS AND OTHER LIABILITIES

	31 December 2021	31 December 2020
Payable to a related party (note 9)	-	1,263
Employee related accruals	189	150
Security deposits	16	33
Unearned rental income	40	39
Other accruals and payables	245	276
	<b>490</b>	<b>1,761</b>

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**11 SHARE CAPITAL****Authorised:**

50,000,000 ordinary shares of US\$ 1 each  
 (2020: 50,000,000 ordinary shares of US\$ 1 each)

**Issued and subscribed:**

13,144,324 ordinary shares of US\$ 1 each  
 (2020: 13,144,324 ordinary shares of US\$ 1 each)

**Paid up:**

13,144,324 ordinary shares of US\$ 1 each  
 (2020: 13,144,324 ordinary shares of US\$ 1 each)

	2021	2020
	<b>50,000</b>	50,000
	<b>13,144</b>	13,144
	<b>13,144</b>	13,144

In the EGM held on 3 December 2019, the shareholders resolved to reduce the Company's issued and paid up capital by US\$ 186,856 thousands from US\$ 200,000 thousand to US\$ 13,144 thousand.

In 2020, the Group received regulatory approvals for the capital reduction and accordingly, the Group's paid up share capital was reduced through the following:

- a) Write off of accumulated losses of US\$ 76,462 thousands;
- b) Cash distribution of US\$ 20,000 thousands;
- c) Distribution of the Group investment in Marsa with a carrying value of US\$ 33,422 thousand;
- d) Distribution of the Group investment in Al Areen with a carrying value of US\$ 8,102 thousand;
- e) Distribution of investment property and property and equipment with a net book value of US\$ 48,071 thousand; and
- f) Creation of voluntary reserve of US\$ 799 thousands.

**12 INCOME FROM INVESTMENT PROPERTY**

Rental income  
 Utilities and service income

	2021	2020
	-	1,938
	-	554
	-	2,492

**13 STAFF COSTS**

Salaries and benefits  
 Indemnity expenses  
 Social insurance expenses  
 Other staff expenses

	2021	2020
	748	656
	39	47
	33	30
	7	8
	<b>827</b>	741

**14 OTHER OPERATING EXPENSES**

Amortisation of prepaid car park rent  
 Car park rent  
 Information technology and communication expenses  
 Expenses related to Ijarah  
 Other expenses

	2021	2020
	-	247
	-	95
	58	84
	10	-
	114	141
	<b>182</b>	567

**15 SEGMENT INFORMATION**

The activities of the Group are performed on an integrated basis. Therefore, any segmentation of operating income, expenses, assets and liabilities is not relevant. As such, operating income, expenses, assets and liabilities are not segmented.

The Group has physical operations and offices solely in the Kingdom of Bahrain and, as such, no geographical segment information is presented.

**16 ASSETS UNDER MANAGEMENT**

The Group provides corporate administration, investment management and advisory services to its investor vehicles, 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 the following assets under management:

	<b>31 December 2021</b>	31 December 2020
Marsa Al Seef Investment Company Limited ("Marsa")	400,652	414,652
Boulevard Al Areen Real Estate Development ("Al Areen")	96,750	96,750
GBCORP Tower Group Ltd.	48,071	48,084
Bank balances*	196	2,586
	<b>545,669</b>	<b>562,072</b>

\*Group has withheld distribution to certain shareholder of US\$ 196 thousand (2020: US\$ 2,586 thousand), pending resolution of certain legal and administrative matters. This balance is currently maintained in the name of the Group for the beneficial interest of the shareholders.

**Income from investment management fees**
Al Areen

During the year, the Group has recognised management fee of US\$ 5,587 thousands of which US\$ 1,451 thousands for this year and US\$ 4,136 thousands relates to previous years, which was not accrued earlier, following a settlement with Al Areen during the year whereby Al Areen agreed to transfer plot of land with fair value US\$ 5,268 thousands. Management fee for the year of US\$ 1,451 thousands has been fully provide for.

Fair value of the land was determined by an independent third-party valuer who has the qualification and experience in valuing similar properties in the same location (note 6).

From Marsa

During the year, the Group has recognised management fee of US\$ 8,035 thousands of which US\$ 2,073 thousand for this year and US\$ 5,962 thousands relates to previous years, which was not accrued earlier, following a settlement with Marsa during the year whereby Marsa agreed to transfer plots of land with fair value of US\$ 8,815 thousands. The fair value of lands also covers accrued fees belonging to previous years.

Since the legal formalities for the transfer of the title of the plots has not yet been completed, the management fee and project costs recoverable has not been derecognized as at the reporting date (note 5).

GBCORP Tower Group Ltd

The Group has recorded the income of US\$ 480 thousands as per the terms of signed agreement for the year.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the year ended 31 December 2021**

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**16 ASSETS UNDER MANAGEMENT (continued)****Litigation relating to assets under management**

During the year, the Al Areen withdrew the court case against certain parties in respect of real estate properties of one of the investor vehicles managed by it.

**17 FINANCIAL RISK MANAGEMENT**

Financial assets of the Group comprise cash and bank balances, placements with financial institutions, and other receivable balances. Financial liabilities of the Group comprise Accruals and other liabilities and Ijarah liabilities.

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

- credit risk;
- liquidity risk
- market risk; and
- operational risk.

**a) Credit risk**

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties fail to discharge their contractual obligations. Credit risk arises principally from the Group's balances with banks, placements with financial institutions and other receivables. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

*Exposure to credit risk*

The carrying values of bank balances, placements with financial institutions and other receivables represent the maximum credit risk. The Group's credit risk on bank balances and placements with financial institutions is limited, as these are placed with locally incorporated banks having good credit ratings.

*Impaired receivables*

Impaired receivables are those for which the Group determines that it is probable that it will be unable to collect all payments due according to the contractual terms of the receivables agreements. During the year, additional provision for impairment of US\$ 2,765 has been provided on receivables (2020: US\$ 2,410).

*Concentration risk*

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.

The industry sector wise distribution of assets and liabilities are set out as follows:

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**For the year ended 31 December 2021**

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## 17 FINANCIAL RISK MANAGEMENT (continued)

*Concentration risk – industry sector*

	<b>Banks and financial institutions</b>	<b>Real estate</b>	<b>Others</b>	<b>Total</b>
<b>31 December 2021</b>				
<b>Assets</b>				
Cash and bank balances and placements with financial institutions	12,640	-	-	12,640
Investment Property	-	5,268	-	5,268
Right of use (usufruct) asset	-	395	-	395
Property and equipment	-	-	29	29
Other receivables	-	9,025	52	9,077
<b>Total assets</b>	<b>12,640</b>	<b>14,688</b>	<b>81</b>	<b>27,409</b>
<b>Liabilities</b>				
Ijarah Liability	-	398	-	398
Accruals and other liabilities	-	103	387	490
<b>Total liabilities</b>	<b>-</b>	<b>501</b>	<b>387</b>	<b>888</b>
<b>31 December 2020</b>				
<b>Assets</b>				
Cash and bank balances and placements with financial institutions	13,963	-	-	13,963
Property and equipment	-	-	414	414
Other receivables	-	790	111	901
<b>Total assets</b>	<b>13,963</b>	<b>790</b>	<b>525</b>	<b>15,278</b>
<b>Liabilities</b>				
Accruals and other liabilities	-	1,263	498	1,761
<b>Total liabilities</b>	<b>-</b>	<b>1,263</b>	<b>498</b>	<b>1,761</b>

Concentration is measured based on the location of the underlying operating assets and not based on the location of the investments. The Group's concentration exposure as at 31 December 2021 and 31 December 2020 is limited to the Kingdom of Bahrain.

**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 Board of Directors approves significant policies and strategies related to the management of liquidity. The management reviews the liquidity profile of the Group on a regular basis and any material change in the Group's current or prospective liquidity position is notified to the Board.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

US\$ 000's

## 17 FINANCIAL RISK MANAGEMENT (continued)

The management ensures that adequate funds are available to meet the maturing obligations and growth in assets while cost is minimised. The management ensures that all limits and guidelines set by the Board are complied with and any adverse development is reported to the Board. The management also obtains the exceptional approvals when required as per this policy and manages the Group's relationship with banks and financial institutions.

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.

		Gross undiscounted cash flows						
		Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total	Carrying amount
<b>31 December 2021</b>								
<b>Financial liabilities</b>		<b>253</b>	<b>39</b>	<b>219</b>	<b>377</b>	<b>-</b>	<b>888</b>	<b>888</b>
<b>31 December 2020</b>								
<b>Financial liabilities</b>		<b>1,342</b>	<b>7</b>	<b>308</b>	<b>104</b>	<b>-</b>	<b>1,761</b>	<b>1,761</b>

The table below shows the maturity profile of the Group's assets and liabilities and unrecognised commitments on the basis of their expected realisation / payment.

		Gross undiscounted cash flows					
		Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Undated	Total
<b>31 December 2021</b>							
<b>Assets</b>							
Cash and bank balances and placements with financial institutions		8,685	3,955	-	-	-	12,640
Investment property		-	-	-	-	5,268	5,268
Right of use (usufruct) asset		37	37	74	247	-	395
Property and equipment		-	-	-	-	29	29
Receivables and prepayments		9,044	-	33	-	-	9,077
<b>Total assets</b>		<b>17,766</b>	<b>3,992</b>	<b>107</b>	<b>247</b>	<b>5,297</b>	<b>27,409</b>
<b>Liabilities</b>							
Ijarah Liabilities		35	35	73	255	-	398
Accruals and other liabilities		218	4	146	122	-	490
<b>Total liabilities</b>		<b>253</b>	<b>39</b>	<b>219</b>	<b>377</b>	<b>-</b>	<b>888</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

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## 17 FINANCIAL RISK MANAGEMENT (continued)

	Gross undiscounted cash flows					
	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Undated	Total
31 December 2020						
Assets						
Cash and bank balances and placements with financial institutions	2,131	3,165	8,667	-	-	13,963
Property and equipment	-	-	-	-	414	414
Receivables and prepayments	821	2	78	-	-	901
Total assets	2,952	3,167	8,745	-	414	15,278
Liabilities						
Accruals and other liabilities	1,342	7	308	104	-	1,761
Total liabilities	1,342	7	308	104	-	1,761

**c) Market risk**

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.

*Exposure to profit rate risk*

Profit rate risk arises due to differences in timing of repricing of the Group's assets and liabilities. The Group's profit rate sensitive assets are mainly placements with financial institutions. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for repricing bands. The effective profit rate for the year was 2.8% (2020: 3.50%).

The following table demonstrates the sensitivity to reasonably possible change in profit rates, with all other variables held constant of the Group's consolidated statement of income. The sensitivity of the consolidated statement of income is the effect of the assumed changes in profit rates on the consolidated net income for the year, based on the placements with financial institutions held as at the date of consolidated statement of financial position.

	2021	2020
Placements with financial institutions (+1%)	126	140
Placements with financial institutions (-1%)	(126)	(140)

*Exposure to foreign exchange risk*

Currency risk is the risk that the value of a financial instruments will fluctuate due to changes in foreign exchange rates. The Group's major exposure is in GCC currencies, which are primarily pegged to the US Dollars. The Group does not have significant net exposures denominated in other foreign currencies as at 31 December 2021 or 31 December 2020.

*Exposure to equity price risk*

Equity price risk is the risk that the fair values of equity investments decrease as a result of changes in the corresponding value of equity indices or the value of individual equity stocks. The Group's exposure to equity price risk is limited. The Group monitors these investment closely as part of its risk management.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the year ended 31 December 2021**

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**17 FINANCIAL RISK MANAGEMENT (continued)****d) Operational risk**

Operational risk is the risk of loss arising from systems and control failures, fraud and human error, which can result in financial and reputation loss, and legal and regulatory consequences. The Group manages operational risk through appropriate controls, internal checks and balances.

**18 CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS****Classification**

The Group's financial instruments have been classified as "at amortised cost"

**Fair value**

Fair value is 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.

The Group does not have any financial instruments at fair value.

The fair value of the Group's financial instruments are not materially different from their carrying values due to their short-term nature.

**19 CAPITAL MANAGEMENT**

The Group is required to follow the guidelines under Volume 4 of the rule book issued by CBB for capital adequacy purposes.

The Group's regulator 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 minimum capital required for 'Category 1' investment entity is US\$ 2.65 million.

The Group's regulatory capital is analysed into below tier:

- *Tier 1 capital*: includes ordinary share capital that meet the classification as common shares for regulatory purposes, general reserves including statutory reserves excluding revaluation reserves and unappropriated retained earnings brought forward.

The capital adequacy ratio calculated in accordance with capital adequacy guidelines of the CBB was as follow:

	<b>2021</b>	2020
Regulatory capital (A)	<b>26,521</b>	13,517
Regulatory capital requirement (B)	<b>16,778</b>	3,694
Capital adequacy ratio (A/B)	<b>158%</b>	366%

The Group has complied with all externally imposed capital requirements throughout the year.

**20 COMPARATIVE**

The comparative figures have been reclassified, where necessary, in order to conform to the current year's presentation. Such reclassifications do not affect the previously reported loss for the year or total equity.