Bahrain Development Bank B.S.C

Embracing the Digital Future: A Look Back at 2022

Annual Report 2022

البحرين
BAHRAIN

Contents

Bahrain Development Bank B.S.C. (c)
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Licensed by the Central Bank of Bahrain as a Conventional Retail Bank

www.bdb-bh.com

Late Amir

His Highness
Shaikh Isa bin Salman Al Khalifa

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 and Prime Minister of the Kingdom of Bahrain

Overview

Creating a digital future

Bahrain Development Bank (BDB) provides a variety of financial services that are tailored to meet the needs of Small and Medium Enterprises in Bahrain.

Bahrain Development Bank commenced its operations in 1992 as a specialist Bank. BDB's activities are focused on financing and developing Small and Medium Enterprises in addition to encouraging and supporting entrepreneurship activities in the Kingdom of Bahrain. Working in-line with Bahrain Economic Vision 2030, BDB adopts a dynamic and effective strategy for stimulating entrepreneurial activity in implementing its plans for financing and developing Small and Medium Enterprises.

This strategy is in line with the Bank's mission of being an active participant in national strategy by supporting this sector of the economy. BDB's role in this context is especially significant given the growing size and contribution of this important segment to domestic economic activity.

BDB adopts a dynamic and effective strategy for stimulating entrepreneurial activity.

Vision

Regional leader in Digital Solutions and Financial Services for SMEs.

Mission

Enable businesses to grow locally and internationally through access to finance and markets.

Guiding Principles

- Drive sustainable revenue
- In line with Bahrain National Development Plan and BoD & Shareholders' vision

Introduction

tijara, empowering the future with banking.

tijara is the digital platform of Bahrain Development Bank, Bahrain's leading development finance institute established in 1992.

tijara offers smart, efficient and simple banking solutions for businesses of all shapes and sizes, no matter where you are in your journey. From loans to financial support, our services are here to help you and your business on the path to success.

Powered by the smartest tech you can trust us to deliver the banking services you need, when you need them. No time wasting, no hassle. We'll work hard for you, so you can work hard on achieving your business ambitions.

tijara //BDB

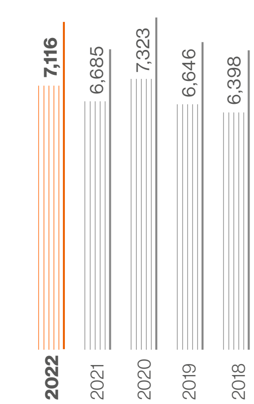
Financial Highlights

	2022	2021	2010	2019	2018
Income statement highlights (BD Thousands)					
Net islamic finance and interest income	**7,116**	6,685	7,323	6,646	6,398
Other income	**1,771**	2,135	1,370	1,969	3,788
Operating expenses	**8,571**	7,728	8,070	7,642	7,551
Expected credit losses / provision / impairment	**(175)**	1,013	112	(1)	4,074
Net profit (loss)	**502**	88	563	1,037	(1,326)
Dividend (%)	**-**	-	-	-	-
Financial statement highlights (BD Thousands)					
Total assets	**229,978**	246,379	226,483	151,260	158,205
Islamic financing and loans to customers	**134,034**	146,632	146,630	76,731	85,866
Investments (securities, properties, associates)	**67,864**	66,960	67,809	53,296	43,403
Total deposits	**132,863**	137,995	118,030	34,918	35,001
Customers' deposits	**132,863**	137,995	118,030	29,451	35,001
Total Equity	**62,865**	68,732	68,705	69,326	67,491
Profitability					
Return on average equity	**0.76%**	0.13%	0.82%	1.52%	-1.89%
Return on average assets	**0.21%**	0.04%	0.30%	0.67%	-0.79%
Earnings (Loss) per share (fils)	**8**	1	9	16	-20
Cost-to-income ratio	**96%**	88%	93%	89%	74%
Capital					
Equity/total assets	**27%**	28%	30%	46%	43%
Total deposits/equity (times)	**2.11**	2.01	1.72	0.50	0.52
Capital adequacy	**70.76%**	65.21%	63.84%	52.51%	46.56%
Business indicators					
Islamic financing and loans to customers/total assets	**58%**	60%	65%	51%	54%
Investments/total assets	**30%**	27%	30%	35%	27%
Islamic financing and loans to customers/customer deposits	**1.01**	1.06	1.24	2.61	2.45
Number of employees	**141**	154	162	157	166

Key Indicators

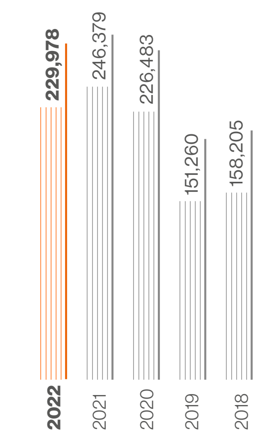
7,116

Net Islamic Financing and Interest Income (BD Thousands)



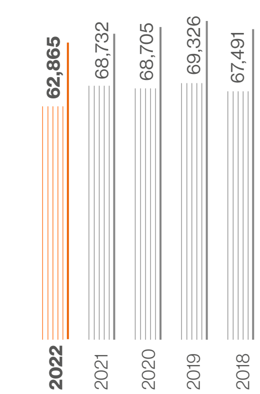
229,978

Total Assets
(BD Thousands)

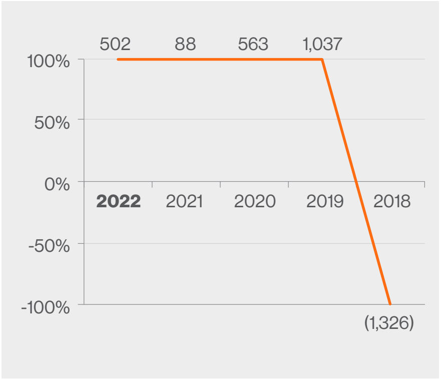


62,865

Total Equity
(BD Thousands)

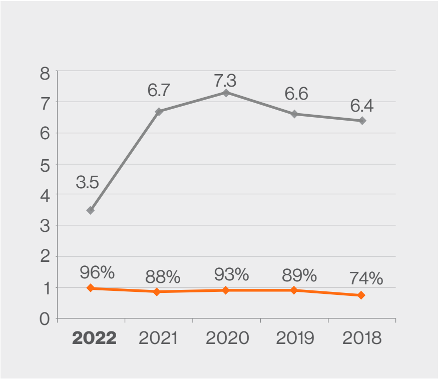


Net Profit (loss)
(BD Thousands)

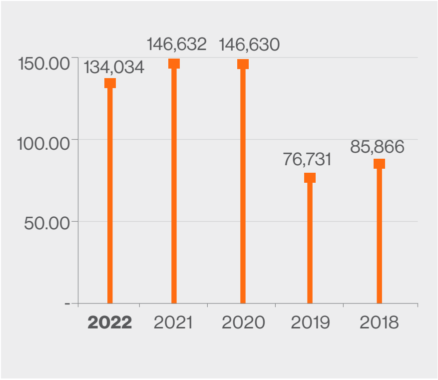


Net Interest Income
(BD Millions)

Cost to Income Ratio



Islamic Financing and Loans to Customers
(BD Thousands)



Financial Review

BDB continued making important strides in delivering products and services that enrich the start-up community, and creating substantial long-term value for the economy as a whole.

Overview

The Group recorded 470% year-on-year increase in consolidated net profit to BD502 thousands for the year ending 31st December 2022 compared to BD88 thousands in 2021. The increase in net profit mainly due to higher net interest income attributable to loans and investment securities.

At the end of 2022, total assets reduced by 7% to BD229.98 million compared to BD 246.38 million in 2021, mainly on account of strategic shift of a subsidiary related property (BBIC-Hidd) to Ministry of industry and Commerce (MOIC).

1 Net Islamic Finance and Interest Income

At the end of 2022, the net interest income of the Group increased by 6.5% to BD 7.12 million compared to BD 6.69 million in 2021, attributable to a larger volume of loans and investment securities. Consequently, the net interest income as a percentage of earning assets (NIM) increased to 3.5% in 2022 compared to 2.71% in 2021

2 Net fee and commission and other income

The net fee and commission and other income for 2022 was down to BD 1.77 million compared to BD 2.14 million in 2021 due to the loss of generated income from a subsidiary related property (BBIC-Hidd) transferred to Ministry of industry and Commerce (MOIC) and recorded lower Fair Value on Al Waha Investment and lower occupancy in Sitra Mall & Incubators)

3 Operating Expenses

Operating expenses increased by 10.9% to BD 8.57 million in 2022 from BD7.73 million in 2021 resulting mainly from investment in infrastructure and people in line with the Group digital transformation strategy.

4 Provision

Aggregate reversal towards allowance for Expected credit losses/Provisions and impairment BD 175 thousand for the year ended 31 December 2022 as against charges of BD 1.01 thousand in 2021 was on account of improvement in the quality of the financing portfolio/recovery from NPLs.

5 Capital Strength

The Group total equity attributable to shareholders decreased to BD 62.87 million, compared to BD 68.73 million in 2021 reflecting the cancellation of 1,331 thousand shares owned by the Ministry of Finance & National Economy (MOFNE) resulted from the transfer of subsidiary related property to the government transaction.

6 Capital Adequacy Ratio

the Group's capital adequacy ratio as at 31 December 2022 was 70.76%. The ratio has been calculated in accordance with the Basel III regulations and the Central Bank of Bahrain guidelines, incorporating credit, operational and market risks.

The Group's capital adequacy ratio is significantly above both the Basel Committee's requirement for internationally active banks and above the minimum level of 12.5% set by the Central Bank of Bahrain .

We are there, from anywhere

Reliable, Flexible and Innovative

Empowering the SME and start-up segments in the Kingdom of Bahrain through a simplified digital banking offering, and easier access to financing solutions to fuel their growth.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Board of Directors

Ghassan Ghaleb Abdulaal
Chairman

Marwa Khaled AlSaad
Director

Sandeep Bose
Director

Yousif Mohamed Al Nefaiei
Director

Amna Ali Alarayedh
Director

Aysha Mohamed Abdulmalek
Director

Hani Hussain Redha
Director

Manal Shawqi Al Bayat
Director

Ghassan Ghaleb Abdulaal
Chairman

Director since: March 2016

Years of Experience: 22 years

The Investcorp Private Wealth Head of Operations within the Investor Relationship Management team. Mr. Abdulaal rejoined Investcorp in 2012 having previously spent six years with the firm from 2003 to 2009. In the intervening period between 2009 and 2012, he worked as an Investment Manager with Bahrain Mumtalakat Holding Company. Prior to joining Investcorp in 2003, Ghassan worked at KPMG where he was a Consultant within the Business Performance Improvement Group. Mr. Abdulaal is also a Board member of various organizations including Investcorp Saudi Arabia Financial Investments Co. and several entities affiliated with Investcorp.

Qualifications
Holds a Master's of Science in Analysis, Design and Management of Information Systems from the London School of Economics and a Bachelor's degree (Honours) in Accounting and Finance from the University of Kent.

Marwa Khaled AlSaad
Director

Director since: November 2019

Years of Experience: 14 years

The Executive Director of Human Capital at Bahrain Mumtalakat Holding Company B.S.C (c), Ms. AlSaad brings over 11 years of experience in Human Resources management ranging from performance management, organizational development, and effectiveness. Ms. AlSaad has both international and local experience working for blue-chip companies such as General Mills Inc., Cummins Power Generation, KPMG, Tatweer Petroleum and YBA Kanoo Holdings W.L.L. where she was heading the group HR functions across the GCC.

Ms. Marwa was previously the Chairman of the Nomination & Remuneration Committee at AXA Gulf.

Qualifications
Holds a Master's degree from Purdue University, Krannert School of Management with a focus in Human Resources and a Bachelor's degree from Purdue University in Organizational Leadership and Supervision.

Sandeep Bose
Director

Director since: December 2022

Years of Experience: 32 years

A qualified accountant and a seasoned banker, Mr. Bose started his career with Ernst and Young, Bahrain and then joined Standard Chartered Bank (SCB) in 1993 which is where he spent his entire banking career. His banking career spans across Retail, Corporate and SME Banking businesses in several Global and Regional leadership roles, key amongst them being Global Head of Retail Deposits and Transaction Services, Regional Head of SME and Personal Banking, Africa and Middle East, CFO Corporate Banking Finance, Middle East and South Asia amongst others. He was the founding member of the team which rolled out SME banking business across SCB Group globally. Mr. Bose has also run large, full suite Consumer Banking businesses across multiple countries viz Bahrain and Bangladesh, amongst others. Mr. Bose is also Co-Founder and CEO of Ektar Technologies LLC and an advisor to Foundation Holdings.

Qualifications
Holds a Bachelor's degree from the University of Delhi in commerce and a Chartered Accountancy from the Institute of Chartered Accountants of India.

Yousif Mohamed Al Nefaiei
Director

Director since: December 2022

Years of Experience: Over 21 years

The Deputy Chief Executive at the BENEFIT Company, Mr. Yousif joined BENEFIT back in 2006 where he led a number of major accomplishments such as introducing the Electronic Cheques System, Trust Service Provider platform, Electronic Funds Transfer System, eCommerce Payment Gateway, and National Mobile wallet (BenefitPay) in Bahrain. Prior to that, Mr. Yousif held a number of senior positions in Sinnad WLL and Bank of Bahrain and Kuwait (BBK). Mr. Al Nafaiei is also a Board member in Sinnad WLL, Marshal FinTech Partners Ltd and Reload IT Services LLC

Qualifications
Holds a Master's of Science in Information Systems from Brunel University and Bachelor's of Science in Computer Science from the University of Bahrain.

Amna Ali Alarayedh
Director

Director since: December 2022

Years of Experience: 8 years

Assistant Undersecretary of Research and Studies at the Prime Minister's Office (PMO), Ms. Amna started her career at the PMO back in 2015 and is presently responsible for managing the research and briefing department, overseeing policy recommendations and studies and facilitating key government events and projects. Mr. Alarayedh is also a Board member in DANAT institute.

Qualifications
Holds a Master's of Science in Environmental Economics and Climate Changes from the London School of Economics and a Bachelor's of Science in Managerial Economics from Bentley University.

Aysha Mohamed Abdulmalek
Director

Director since: December 2022

Years of Experience: 15 years

Currently General Counsel at Bahrain Mumtalakat Holding Company where she joined the company back in 2012 and is presently responsible for overseeing the legal department affairs, parliamentary and government affairs department and ensuring the company's compliance with the laws and regulations. Prior to that, Ms. Aysha worked at Edamah where she also led the legal activities of the organization. Ms. Aysha also has extensive experience in private practice in areas such as commercial, corporate, mergers and acquisitions, real-estate, employment and regulatory matters.

Qualifications
Holds a Master's in Law (LLM) in Corporate and Commercial Law from Queen Mary University of London, Bachelor's degree in Law (Honours) from the University of Bahrain and a Graduate Diploma in Law from BPP University.

Hani Hussain Redha
Director

Director since: December 2022

Years of Experience: 24 years

The Managing Director and Portfolio Manager of Global Multi-Assets at PineBridge Investments, London, Mr. Redha joined the firm back in 2012 where he is responsible for leading the strategy and research function for the Global Multi-Asset team. Prior to joining the firm, Mr. Redha was an Investment Manager at Bahrain Mumtalakat, where he led their global multi-asset class investment portfolio and oversaw strategic and tactical asset allocation, as well as manager selection across all asset classes. Before that, Mr. Redha held a number of senior positions such as Deputy Head of Global Fixed Income and Deputy Head of Hedge Funds at NCB Capital.

Qualifications
Holds a Master's degree in Chemical Engineering from Imperial College London, a Diploma in Acturial Techniques from the Institute of Actuaries and is a CAIA (Chartered Alternative Investment Analyst) holder.

Manal Shawqi Al Bayat
Director

Director since: December 2022

Years of Experience: 24 years

As the Chief Engagement Officer of Expo 2020 Dubai, Ms. Al Bayat joined the organization in 2015 and is a member of the Expo 2020 Dubai Executive Committee, Programming Committee, SME Advisory Group and Commercial Awards Committee. Ms. AlBayat is an internationally experienced leader in various fields such as events, marketing, positioning and business development. She was the Group CEO of Falcon and Associates, in addition to working at companies such as Cateus Investment Company, Gulf International Bank and PNC Bank (USA). Ms. Al Bayat is also a Board member in the University of Wollongong Dubai.

Qualifications
Holds a Master's of Business Administration (MBA) from DePaul University, Kellstadt Graduate School of Business with a focus in Marketing and Change Management and a Bachelor's of Science in Organizational Management with a focus on Human Resources and Quality Assurance from Purdue University, School of Technology.

Sharia'a Supervisory Board

Sheikh Abdulnasser Almahmood

A well versed Islamic banking and finance with over 28 years of Islamic banking experience, and the head in the Sharia Coordination and Implementation department at Khaleeji Commercial Bank, Before joining Khaleeji Commercial Bank, Sheikh Abdul Naser was the Senior Manager in Sharia 'a Audit Department in the Ernst & Young – Bahrain, worked as the Head of Shari'a Internal Control Department in Bahrain Islamic Bank. Also a member of the Sharia 'a Supervisory Board of many Islamic banks and institutions. He holds a Master in Business Administration from the Gulf University, a Bachelor's degree in Sharia and Islamic Studies from Qatar University, ADIC Advanced Diploma in Islamic Commercial from BIBF, CSAA Certified Shari'a Adviser & Auditor from AAOIFI, Associate Diploma in Shari'a Control from Cambridge University for training- approved by British Council, and an Instructor Certified in BIBF.

Dr. Omar Abdulaziz Alaani

Dr. Omar Abdulaziz Alaani has taught Islamic Economy in many universities in Iraq, Russia, Yemen and Bahrain. He also participated globally in several conferences within his field.

He has been working as an academic teacher in the University of Bahrain since 2000 in several fields, such as Financial transactions, insurance, Islamic Jurisprudence rules and has retired in 2018.

He obtained a Bachelor's degree in 1984, Master in 1993 and a PhD in 1997 majoring in the Whole Islamic Economy field from the University of Baghdad.

Dr. Mohammed Burhan Arbouna

An Islamic finance expert with over 20 years of Islamic banking experience and head of Sharia Compliance and AlSalam Bank. Before joining Al Salam Bank Bahrain he was the Shari'a Head and Shari'a Board member in some other Islamic institutions.

He worked as a Shari'a researcher and consultant for the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). He lectures on Islamic banking and finance and gives consultancy on orientation and professional programmes for a number of professional and educational institutions.

He is a member of Editing Committee of International Islamic Financial Board (IFSB) and was a member of steering committee for International Liquidity Management Framework under the supervision of Central Bank of Bahrain.

He obtained an MA in Comparative Laws and a Ph.D. in laws with specialization in Islamic banking and finance from International Islamic University Malaysia. His B.A. degree in Shari'a and a higher Diploma in Education was obtained from Islamic University, Medina.

Chairman's Statement

Moving confidently into the future

"It was a year which saw substantial growth despite a volatile environment as BDB managed to once again deliver a strong performance, and further bolster its position as the leading provider of financial and incubation services to Small and Medium Enterprises (SMEs) across Bahrain.

Ghassan Ghaleb Abdulaal
Chairman

On behalf of the Board of Directors of the Bahrain Development Bank Group ("BDB" or the "Bank"), I am pleased to present the Annual Report and Consolidated Financial Statements for the year ended December 31, 2022. Despite operating amid a volatile landscape, the Bank continues to deliver strong performance, further solidifying its position as the premier provider of financial services to Micro, Small, and Medium Enterprises (MSMEs) in the Kingdom of Bahrain.

The year 2022 was a pivotal year in BDB's journey, as it marked the Bank's 30th anniversary as well as the launch of its ambitious four-year transformation strategy. With that, the Bank celebrates its journey towards being the leading provider of financial services to MSMEs in the Kingdom of Bahrain. Over the years, BDB has positioned itself as not only a success partner for its diverse clientele of entrepreneurs and business owners but also as a key ecosystem partner in Bahrain's MSMEs development landscape.

Building on its longstanding legacy, BDB's transformation strategy seeks to elevate the Bank's profile as a regional leader in digital solutions and financial services for MSMEs. Our objective is to enable businesses to grow both locally and internationally through access to finance and markets, while ensuring the Bank's financial sustainability aligns with Bahrain's national development plan and the vision of the Bank's Board of Directors and shareholders.

At the heart of our new strategy lie five strategic pillars that outline the roadmap for the Bank's long-term growth. These include cultivating a digital-ready workforce, driving revenue generation through innovative products, re-engineering processes to maximize customer-centricity and digitization, achieving cost optimization through operational efficiency initiatives, and amplifying rebranding and marketing efforts. These pillars provide the Bank with a renewed focus on revitalizing the ecosystem in which it operates, further enhancing the value it provides to its stakeholders.

I am delighted to report a 470% increase in our net profit, with BD 502,000 in 2022 compared to BD 88,000 in 2021. This remarkable achievement is a true testament to our strides towards executing our transformation strategy, including the launch of BDB's digital platform, Tijara, which offers expedited and seamless access to banking solutions. I am confident that we will continue to build on our successes and reach even greater heights, accelerating our growth and profitability in the coming years.

In addition to our banking products, we unveiled a new strategy and brand identity for Riyadat Mall, aimed at revitalizing the property to attract new commercial tenants. This project, a collaboration with the Supreme Council for Women (SCW), is designed to empower female entrepreneurs. Moreover, we initiated major renovation work at Sitra Mall, which will not only draw new tenants but also increase customer footfall at this appealing seafront property.

Our people are the driving force behind BDB's achievements, consisting of ambitious, diverse and high-caliber talent that serve as a vital asset in realizing our transformation strategy. I am especially proud of our workforce's diversity, extending to the Board of Directors, where 50% of our members are women.

I would like to express my gratitude to our outgoing Board members, including our former Chairman, H.E. Khalid Al Rumaihi, and acknowledge their invaluable contributions to the Bank. Their guidance has been instrumental in steering the Bank toward success and growth. I also extend a warm welcome to the new members of the Board, confident that they will bring fresh perspectives essential for actualizing our transformation strategy.

In closing, on behalf of all Board Members, I would like to extend our deepest appreciation to His Majesty King Hamad bin Isa Al Khalifa, the King of the Kingdom of Bahrain, His Royal Highness Prince Salman bin Hamad Al Khalifa, the Crown Prince and Prime Minister, the Ministry of Industry and Commerce, and the Central Bank of Bahrain for their unwavering support and visionary leadership.

I also wish to thank the members of the Board of Directors, the executive management team, shareholders, all partners, correspondent banks, and employees. Your dedication and combined efforts have been invaluable. We eagerly anticipate continuing our collaborative efforts, fostering synergy and unity, as we work towards our shared mission of building a sustainable economic future for the Kingdom of Bahrain.

Ghassan Ghaleb Abdulaal
Chairman

Chairman's Statement
(continued)

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	Others*	Total	Remunerations of the chairman and BOD	Bonus	Incentive plans	Others**	Total			
First: Independent Directors: N/A												
1- Ghassan Abdulaal	-	4,400	-	4,400	8,000	-	-	-	8,000	-	12,400	-
2- Sabah Almoayyed	-	2,400	-	2,400	8,000	-	-	-	8,000	-	10,400	-
Second: Non-Executive Directors												
1- Marwan Tabbara	-	5,000	-	5,000	8,000	-	-	-	8,000	-	13,000	-
2- Khalid Omar Alromaihi	-	-	-	–	12,000	-	-	-	12,000	-	12,000	-
3- Marwah Alsaad	-	4,500	-	4,500	8,000	-	-	-	8,000	-	12,500	-
4- Maryam Alansari	-	4,500	-	4,500	8,000	-	-	-	8,000	-	12,500	-
5- Tala Fakhro	-	4,500	-	4,500	8,000	-	-	-	8,000	-	12,500	-
6- Tariq Alsaffar	-	5,000	-	5,000	8,000	-	-	-	8,000	-	13,000	-
Third: Executive Directors: N/A												
Total	**-**	**30,300**	**-**	**30,300**	**68,000**	**-**	**-**	**-**	**68,000**	**-**	**98,300**	**-**

Note: All amounts must be stated in Bahraini Dinars.

Other Remunerations:
* It includes in-kind benefits – specific amount - remuneration for technical, administrative and advisory works (if any).
** It includes the board member's share of the profits - Granted shares (insert the value) (if any).

* 2020 Board Remuneration BD 63,100

Executive Management Remuneration Details

Executive management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/ in kind remuneration for 2022	Aggregate Amount
Top 6 remunerations for executives, including CEO* and Senior Financial Officer**	494,429	59,995	-	554,424

Note: All amounts must be stated in Bahraini Dinars.
* One time signing bonus paid during 2022 for an amount of BD 50,000.
** An amount of BD 344,187.009 was paid in the form of severance payments for 16 employees during 2022 with the highest highest total award to one individual being 47,499.990.
*** An amount of BD 428,800 was paid in the form of severance payments for 5 employees during e 2021 with the highest total award to one individual being BD 314,820.

Executive Management

1. **Dalal Ahmed Al Qais**
   Group Chief Executive Officer
2. **Ali Yusuf Ali Ebrahim Alaradi**
   Chief Banking Officer
3. **Yaser Ismaeel Mudhafar Ali**
   Chief Financial Officer
4. **Nada Mohamed Abdulrahman**
   Chief Technology Officer
5. **Hend Mohamed Mahmood**
   Chief Human Resources Officer
6. **Nada Medhat Najeeb Azmi**
   Chief Strategy & Transformation Officer
7. **Areije Karim Al-Shakar**
   Head of Development Services
8. **Vijay Kumar . T**
   Chief Risk Officer
9. **Siddharth Chaudhary**
   Head of Internal Audit
10. **Nareen Ahmed Agha**
    Head of Legal & Board Secretary
11. **Abdulrahman Rashed A. Rahman Mohamed Al-Asoomi**
    Head of Compliance Officer & AML
12. **Abdulla Abdullatif Al-Hazeem**
    Manager - Sharia

Management Profile

1. Dalal Ahmed Al Qais
Group Chief Executive Officer

Joined BDB: 2021

Dalal Al Qais is a proficient Banker with over 20 years of professional experience in the banking and financial industry covering retail, SME, digitization as well as risk across conventional, Islamic, and international banks. She earlier served as Chief Retail Banking Officer for the region in Standard Chartered Bank then as a Chief Retail Banking and Wealth Management Officer at the Bahrain Islamic Bank prior to joining Bahrain Development Bank as Group Chief Executive Officer on December 8, 2021.

Dalal holds a BSc in Management and Marketing from the University of Bahrain and a Master's in Finance. In 2020, she completed an Oxford Fintech Programme from the Oxford University and is currently pursuing a Business Doctorate from the Swiss Business School.

2. Ali Yusuf Ali Ebrahim Alaradi
Chief Banking Officer

Joined BDB: 2022

Mr. Ali has almost 19 years of experience in Banking field. He has commenced his career as Team leader in Consumer Banking in Standard Chartered Bank for 2 years and then Branch Sales Officer, then he moved to Ahli United Bank as Relationship Manager for 2 years. He worked for BMI Bank as Branch Manager for 6 years and Al Salam Bank as Branch Manager for 4 years. Prior joining BDB he worked as Acting Head of Retail Banking since November 2021, and Head of Branches and Sales in Retail Banking for Bahrain Islamic Bank from October 2018.

Mr. Ali is a qualified Bahraini Banker who has obtained an Oxford Fintech Program, Advanced Diploma in Islamic Banking, CMI Level 5, CII, Oxford Fintech Program and currently doing his MBA from Swiss Business School. Moreover, Ali also obtained Chartered Portfolio Manager and Chartered Wealth Manager certificates from American Academy of Financial Management.

3. Yaser Ismaeel Mudhafar Ali
Chief Financial Officer

Joined BDB: 2022

Mr. Yaser has almost 19 years of experience in the Banking field. He has commenced his career as a senior Auditor for almost 4 years after which he began his career in banking as an Assistant Manager in Financial Control at Kuwait Finance House for 3 years and then started heading the Financial Control Function and as Executive Senior Manager for 8 years at Khaleeji Commercial Bank, and later became CFO at the same Bank of 4 years. Mr. Yaser was as well the Head of Finance at AlBaraka Banking Group for almost 3 years, and his most recent post was CFO at Gulf Lifting Financial Leasing Company which he commenced last year.

Mr. Yaser is a qualified Bahraini Banker who has obtained a Chartered global Management Accountant certificate and has completed the Darden school of business Leadership Development Program, CPA, CIPA, and holds an EMBA and a bachelor's degree in Accounting from Bahrain University.

4. Nada Mohamed Abdulrahman
Chief Technology Officer

Joined BDB: 2020

Nada has vast experience in the Information Technology field having held various IT leadership roles in the banking sectors over her 23 year career. Prior to joining BDB as Chief Technology Officer in 2020, Nada has held various key position in the financial sector in Bahrain, she was the Head of Information Technology at Khaleeji Commercial Bank, prior to this she oversaw IT Infrastructure and Support at Bahrain Islamic Bank. Since joining BDB, Nada has supported the BDB's digital transformation journey based on her experience in managing, and delivering major projects related to Electronic Channels and Customer Facing Solutions, Security and Availability, Internal Systems, and automation.

Nada holds a BSc in Computer Science and a master's degree in Project Management along with number of professional certificates in IT.

5. Hend Mohamed Mahmood
Chief Human Resources Officer

Joined BDB: 2022

Mrs. Mahmood has an extensive HR experience in different sectors Heading HR function last 23 years. Before joining BDB she worked for Bahrain Airport Company as Vice President of HR and Admin, in this role she contributed heavily in restructuring aviation sector and worked with BAC team to deliver Bahrain International Airport new terminal expansion project. She also worked in the financial sector Tharawat Investment House as Human Resources Director & Board Secretary at and as Senior Manager Human Resources at Eskan Bank.

Mrs. Mahmood hold MSc degree in Work and Organizational Psychology from University of Nottingham, UK and BSc degree in Business Management from University of Bahrain. She has Professional Co-Active Coach (CPCC) certificate from USA and Certificate in Personnel Practice (CPP) from UK. She represented Bahrain as a Vice Chair in HR Committee at Airport Council International (ACI) Asia Pacific as Second Vice Chair for HR Committee.

6. Nada Medhat Najeeb Azmi
Chief Strategy & Transformation Officer

Joined BDB: 2022

Nada was appointed as the Chief Strategy and Transformation of Bahrain Development Bank with effect from March 2022.

Nada is a seasoned leader with over 20 years of experience in strategy development, policy making, FDI attraction, data analytics, and project management underpinned by solid stakeholder management.

Nada works closely with Group CEO and Management team to devise strategies aligned with the government of Bahrain economic priorities that drive growth and valuation for shareholders.

She oversees the execution of these strategies across the bank, ensuring alignment with the Bank's financial sustainability and growth objectives. She spearheads the Bank's transformation agenda to strengthen customer experience and bolster the Bank's growth prospects.

She continues to drive new business models through ecosystems partnerships, working with business units to create new businesses leveraging BDB's banking and technology capabilities, and scaling these businesses.

Prior to joining the Bank, she spent 15 years at the Bahrain Economic Development Board, an investment promotion agency tasked with channeling inward investments into the country. She held several senior roles including leading the economic planning and development department, competitiveness advocacy and the corporate strategy and planning department.

She holds a Bachelor's degree in Computer Science and Management Studies from the University of Maryland Global Campus. She earned certificates in "Disruptive Strategy" and "Changing the Game" from Harvard Business School.

7. Areije Karim Al-Shakar
Head of Development Services

Joined BDB: 2010

Areije has extensive expertise in banking and entrepreneurship, gained from over 19 years of experience in the field. Prior to joining BDB in 2010 where she currently serves as Head of Development Services and leads the Fund management team of Al Waha Venture Capital Fund of Funds, Areije served at Investcorp, Citibank, BNP Paribas, and Lehman Brothers.

Areije holds a Bachelor of Commerce in Finance from Concordia University, a Master of Science in Public Policy and Management from the University of London, a Business Coach and Mentor certification from the Chartered Management Institute, UK, and is a Kauffman Fellow. Areije plays an active role in the development of the startup and entrepreneurial ecosystem regionally.

8. Vijay Kumar . T
Chief Risk Officer

Joined BDB: 2016

Vijay brings to the Bank more than 26 years of regional and global banking and financial services industry experience across multiple streams of Financial Risk Management, Risk Analytics and Management Consulting. Prior to joining BDB as Chief Risk Officer in 2016, Vijay was the Head of Risk Analytics for United Arab Bank in the UAE and advised leading banks within the GCC and across the globe on a range of risk management practices. In his current role, he has led the conceptualization and implementation of a multi-dimensional bank wide Enterprise Risk Management (ERM) framework. He has held several senior positions in banks & management consulting firms including United Arab Bank, Dun & Bradstreet, Oracle FSS, and Indus Ind Bank in Risk Management & Analytics.

Vijay holds an MBA in Finance, is a keynote speaker at Risk Management events and has conducted several training programs.

9. Siddharth Chaudhary
Head of Internal Audit

Joined BDB: 2018

Siddharth offers more than 19 years of experience in internal audits, assurance engagements and other financial advisory services. Prior to his appointment at BDB in 2018, he worked with SICO in the Internal Audit Department, served BDO's Risk Consulting division where he led risk-based internal audits for various financial service companies, firms, and other entities, and had also worked at Ernst and Young India.

Siddharth holds a Master of Commerce degree from India, is a Chartered Accountant, a Certified Internal Auditor, and a member of the Institute of Internal Auditors (USA).

10. Nareen Ahmed Agha
Head of Legal & Board Secretary

Joined BDB: 2022

Mrs. Nareen brings with her over 10 years of international (GCC, MENA region, Europe and USA) and local experience in the legal field covering corporate, retail and investment banking, Company Law, Data Privacy Law and the Labour Law. Before joining BDB, she spent over 6 years in Al Salam Bank as Senior Legal Counsel where she provided the organization, its subsidiaries, affiliates and investments with legal support, risk mitigation strategies and regulatory and statutory guidance. Prior to moving in-house, Nareen commenced her career in private practice at Elham Ali Hasan & Associates (EAH Law).

Mrs. Nareen is a qualified Bahraini lawyer who holds an LLB in Law from Brunel University. Additionally, she also holds an Advanced Diploma in Islamic Finance from the BIBF.

11. Abdulrahman Rashed A. Rahman Mohamed Al-Asoomi
Head of Compliance Officer & AML

Joined BDB: 2022

Mr. Abdulrahman has over 10 years of experience in the Financial Services sector, Expertise includes compliance with the Central Bank of Bahrain requirements for Islamic Financial Institutions, Capital Market requirements for listed companies in Bahrain, UAE & Kuwait and Combating Financial Crime requirements for Financial Institutions. Prior to joining BDB he worked for GFH Financial Group as a Senior Compliance Director & MLRO and prior to that as Head of Compliance & MLRO at Turkiye Finans Katilim Bankasi Bahrain and also worked for the CBB as a Financial Analyst in the Islamic Financial Institutions Supervision Directorate.

Mr. Abdulrahman Al Asoomi is a holder of Bachelor of Science in Business Management from Swansea University (UK), Professional Advanced Diploma in Islamic Finance from BIBF, International Diploma in Compliance from University of Manchester & ICA and a Diploma in Compliance, AML and Financial Crime from Henley Business School, University of Reading, UK.

12. Abdulla Abdullatif Al-Hazeem
Manager - Sharia

Joined BDB: 2022

Mr. Abdulla has almost 16 years of experience in Islamic Banking field. He started his career as an external Sharia Auditor and consultant in Ernst & Young for almost 4 years, handled many projects for Islamic Banks and entities in and outside Bahrain. He moved to Bahrain Development Bank as the head of Sharia Audit Dept in 2011.

Mr. Abdulla is a certified Sharia Advisor and Auditor CSAA, has other valued qualification as CIMA diploma in Islamic Finance and ADICJ.

There for everyone

Diversity, Equity and Inclusion

Our responsible business framework enables us to deliver on our services, including our responsible investment agenda, diversity, equality and inclusion, community investment to build enduring value for our clients.


PAY

Group CEO's Statement

Successfully pursuing our digital strategy

"With the launch of our digital platform Tijara this year, our customers were able to benefit from a smart, efficient and convenient banking solutions available at the click of a button."

Dalal Al Qais
Group Chief Executive Officer

It is my honour to present the Annual Report for the Bahrain Development Bank Group, ("BDB, the bank and its subsidiaries") for the year ended 31 December, 2022.

BDB continued making important strides in delivering products and services that enrich the start-up community, and creating substantial long-term value for the economy as a whole. As an organization dedicated towards helping people embark on their entrepreneurial journey, we take pride in being able to offer wide variety of solutions to make those dreams possible.

Taking our cue from our corporate vision to see how best we can play our part as enablers for the business community, we launched a new four-year transformation strategy in 2022. This strategy was aimed at overhauling our operations to make it more responsive to the new dynamic economic environment we are in.

The new strategic framework, thus, will look towards greatly expanding our digital footprint and secure long term operational excellence at lower cost. It will examine different ways to stimulate revenue growth and inspire innovation, and bolster strategic partnerships that would make it possible to access new customers and segments.

The last two years have been marked with rapid change in the external economic environment. The pandemic, for instance, brought about major adjustments to consumer behavior, payment transactions and business operations. For an organization such as ours that is involved in providing financial services to small and medium eentreprises, these large-scale changes steered us towards digital transformation in a substantial way.

With the launch of our digital platform Tijara this year, our customers were able to benefit from a smart, efficient and convenient banking solutions available at the click of a button.

Customers using the new platform will be able to register and undergo biometric verification digitally on the website www.tijara.bh. Additionally, the platform allows customers to apply for BDB's newly launched 'Express' loan, which is a short-term financing of up to BHD 15,000 and track the progress of their application online. Currently available to selected customers during the initial phase but will expand to all BDB customers and will include additional products and services.

During the year, BDB extended 602 financing facilities aggregating to BD 26.9 million of which 226 were for new businesses. In addition, the Bank allowed deferment of installments to 755 loan facilities amounting to BD 16.7 million in line with Central Bank of Bahrain guidelines for the period of January 2022 to June 2022. This deferment provided relief to numerous SMEs which were affected by the Covid-19 pandemic.

Over 543 new jobs are expected to be created through these facilities along with value addition to the tune of BD 5.67 million. Amongst the group that benefited from these facilities were over 111 women and youth, and also, 48 individuals under the Fisheries & Agriculture schemes.

BDB's financial performance demonstrated positive results as net profit for 2022 rose to BD 502,000 compared to BD 88,000 earned in the previous financial year. The results indicated growth of over 470%, which was largely due to revisiting the different bank processes and reassessing financing portfolio and balance sheet.

During the year, the Bank has reduced its share capital from BD 65 million to BD 63.7 million due to the transfer of the Bahrain Business Incubator Centre property in Hidd to the Ministry of Industry and Commerce (MOIC) — reducing the bank's property portfolio to just three at the year end.

The bank has successfully achieved some recoveries for its impaired facilities and additionally has set up a conservative provisioning ECL policy. Moreover, the bank continues to maintain a good liquidity and maintains healthy Capital Adequacy Ratio (CAR) of 70.8%.

We would also like to take this opportunity to express our gratitude to our former Chairman, Mr. Khalid Al Rumaihi and other outgoing Board members. We truly appreciate their support and guidance that helped us in maintaining a powerful platform for the SME sector. We wish them the very best as they undertake their next assignment.

I would like to express my gratitude to His Majesty King Hamad bin Isa Al Khalifa, the King of the Kingdom of Bahrain, His Royal Highness Prince Salman bin Hamad Al Khalifa, the Crown Prince and Prime Minister for their wise leadership and continued support.

I would also like to welcome the new Chairman Ghassan Ghaleb Abdulaal along with new members who have been added to the Board of Directors. We look forward to working with them in achieving our goals.

My gratitude also goes to the Ministry of Finance and National Economy, The Economic Development Board, Bahrain Chamber of Commerce and Industry, the Ministry of Industry & Commerce as well as our strategic partners Tamkeen, National Initiative for Agricultural Development and the Supreme Council for Women for their guidance.

Dalal Al Qais
Group Chief Executive Officer

Total Financing

BD 26.9m

During the year, BDB extended 602 financing facilities aggregating to BD 26.9 million of which 226 were for new businesses.


PAY

Stimulate revenue growth and innovation

Our approach aims to blend a human and digital experience, ensuring that it operates seamlessly across Bahrain Development Bank, improving the quality of our services as well as our employees' experience.

Future focused

Management Review

For BDB, the digital transformation of its products and services has been a key focus through the year, and as such, made significant strides in achieving many of its technology objectives.

Business Banking

The Bahrain Development Bank is a leading provider of financial services to Small and Medium Enterprises (SMEs) across the Kingdom of Bahrain, and thus, ensures that they play a powerful role in both economic development and employment creation. BDB works closely with other governmental entities in identifying investment opportunities and in working towards creating a robust ecosystem for the SME sector. During the year of 2022, the Bank made a total disbursement of BD 26.9 million to the SME sector. This is expected to help in creating an additional 543 jobs, as well as incremental exports of BD 3.5 millionand contribute to value addition of BD 5.67 million. As a result of the Bank's ongoing financial assistance to primary sectors such as agriculture and fisheries, as well as support for professional services such as doctors, training, and consulting firms, self-employment opportunities and improvement of livelihoods are provided, enabling the entrepreneur to become self-sufficient. The Bank also contributes towards enhancing the level of education of Bahraini nationals through the Education Finance Scheme. The Bank continues to provide a wide range of financing solutions to the SME sector while also offering them all possible assistance in the case of difficulties or challenges due to the pandemic. In a partnership with Tamkeen, the Bank supports women empowerment through its "BDB Riyadat" program, which assists women-owned enterprises to grow and achieve their business objectives. There was a disbursement of BD 0.646 millionunder this scheme during the year, while the total disbursements made since initiation totaled BD 7.8 million.

Asset Management

The Asset Management is responsible for managing the Bank's Investments which comprise diverse asset classes whether invested directly or through the bank's subsidiaries and include Private Equity, Venture Capital & Start-ups, Managed Funds and other Properties.

Many of those investments originated as support to SMEs and main fundamental sectors which are both aligned to the Kingdom of Bahrain as well as BDB goals. The currently held investment portfolio is spread across several industries and includes health care, food security, manufacturing, venture capital, technology, transportation services, micro-finance and financial institutions along with technology enabled startups. The banks partners with several governmental entities in order to realize merits of value creation to the society and the general public through these investments. Additionally, many of those initiatives have a direct impact on the community whether through provision of capital, growth of the Kingdom's agricultural sector and farmers, nurturing Women Entrepreneurship or supporting families through Micro finances. During the year the bank has started execution of Riyadat and Sitra Malls revitalization strategy and contributed to the support of over 50 Bahraini Farmers, Bahraini Productive Families and Woman Bahraini Businesses through its properties. The economic aim of the division is to maximize the value of the portfolio and execute exit plans once investments have saturated and the intended goals were met.

543

Total number of additional jobs

BDB's financing is expected to create an additional 543 jobs over the next two years.

BD 26.9m

Total amount of Disbursements

During 2022, the Bank supported the SME sector and other sectors with total disbursements amounting to BD 26.9 million.

Information Technology

For BDB, the digital transformation of its products and services has been a key focus through the year, and as such, made significant strides in achieving many of its technology objectives.

The Bank partnered with Tata Consultancy Services in implementing a complete banking technology stack, which includes a new core banking system with AML, Treasury, reconciliation, and payments modules, as well as an Enterprise Resource Management tool from Microsoft Dynamics to manage payments and vendors. The first release of this technology stack was launched in Q2 2022.

Additionally, the year also saw the successful launch of Tijara, a digital platform solution that enables corporate clients to monitor their accounts, borrow money, and conduct other business online, including an electronic onboarding and financing product called "Express."

BDB's commitment to provide an enriched customer experience saw the launch of a Microsoft Customer Relationship Management solution that provides a 360-degree view of customers' details and their relationship with the bank. To further enhance customer support, the Bank has also revamped its call center, and empowering agents to provide first-line support for newly launched services. BDB's digital offerings also include interfaces with other entities in the financial ecosystem, such as the Central Bank of Bahrain, the Ministry of Industry and Commerce, and the BENEFIT Company.

In terms of infrastructure and security, BDB has relocated its Disaster Recovery Site to a new location with enhanced controls. Network control and security have been improved with the introduction of Privilege Access Management, Palo Alto Firewall,

Management Review
(continued)

Cisco Umbrella DNS Security, and Network Monitoring tools. The Bank has also prioritized security awareness in 2022, providing ongoing e-learning security training and awareness sessions for employees to ensure that customers' information and systems are well secured and protected against cybercrime.

Al Waha & Innovation

Al Waha Venture Capital Fund of Funds is a government-led initiative geared towards addressing the nascent venture capital community in the MENA region. It was established in 2018 and focuses on investing in venture capital funds that intend to invest directly in Bahrain and the broader region — or have strategic interest to do so through seed, early and growth stages of funding.

With the Bahrain Development Bank (BDB) as the investment manager for this $100m fund, the team responsible for handling it oversees a portfolio of 14 funds. For venture capitalists, the support given by the team helps them gain access to a trusted partner, avail of general ecosystem support in Bahrain through partnership opportunities and networks.

The Innovation Team drives organizational innovation through various projects and initiate concepts. The team leverages its ties to Al Waha Fund through its underlying portfolio, giving it access to new technologies and innovative ideas that will help support the bank's overall mission and digital transformation.

The team was involved in the project management of Tijara Express, a digital lending platform that was launched in late 2022.

Disaster Recovery and Business Continuity Plan

To ensure that the Bank›s critical activities can continue in the aftermath of a disaster, the Bahrain Development Bank has implemented a Business Continuity (BC) and Disaster Recovery (DR) Policy and Plan that is constantly being updated and tested. Disaster Recovery Site has been relocated to Sitra Mall, with the necessary infrastructure and systems in place to ensure business continuity. A restoration operation in the case of a Disaster was conducted successfully in 2022 and additionally, the BCP and DR tests were also conducted successfully as per Central Bank of Bahrain requirement. The DR and BCP tests included cloud hosted services both in AWS and Microsoft Azure to ensure continuity of the hosted services on the cloud as well as those in the DR premise.

Compliance

BDB remains committed towards ensuring that its operations are in compliance with all applicable laws, regulations and best practice — including requirements stipulated by the Central Bank of Bahrain. Using a Regulatory Compliance solution to regularly monitor and assess the adequacy and effectiveness of controls and systems in place, BDB is able to quickly address deficiencies in any platform and ensure that all business activities subscribe to recognized standards and requirements. The Compliance Department operates independently within the organization and reports directly to the Board Audit and the Governance Committee.

Human Resources

The Human Resources Department plays a key role in fostering and cultivating a positive work environment where talented individuals are able to grow and achieve their potential. BDB's aim is to emerge as an employer of choice and with that in mind, the Bank recognizes how important it is to invest in skilled workers who in return will invest in the economy. It is through this powerful system that BDB has been able to provide much needed support to Bahraini owned businesses. BDB has achieved 92% of Bahrainization out of which 46% are women who play a substantial role in the country›s development. As in any organization, the main pillar of any business strategy is its People and Culture Strategy. The Organizational Transformation journey is taking shape as the Bank begins to prioritize its focus on people engagement, development and creating an optimum operating model that moves away from traditional structures to one that's agile. Supporting this move is the increased focus to emerge as a market leader in Bahrain for multiple digital products through the contribution of talented individuals.

Operations

The Operations Department played a crucial role in aggressively supporting loan activities for clients who were struggling financially due to COVID-19. The assistance provided included disbursement made under the Liquidity Assistance Funds Scheme, as required by the Ministry of Finance and National Economy, while also ensuring that installment deferral programs were carried out operationally and in accordance with CBB›s instructions.

BDB has achieved 92% of Bahrainization out of which 46% are women who play a substantial role in the country's development. At BDB, women play prominent roles in the field of Compliance, Human resources, Management, SME, Business Development and others.

In addition, the Bank has made significant strides in aligning its operations and streamlining its processes to maximize the impact on a positive customer experience and ensure compliance with regulatory changes. The department is also increasingly serving as a central processing unit for the Loan Processing transactions, money transfers, and the generation of past-due letters.

With the implementation of the new core banking system, it was also able to automate payments between various systems, which decreased the need for manual work and improved accuracy and efficiency.

A number of measures were also put into place to automate the operational manual processes, including alerts to customers for time deposits, dormancy treatment, and notifications for the manager cheques and unclaimed balances.

Anti-Money Laundering

The Anti-Money-Laundering framework is routinely evaluated, updated and enhanced in order to reflect changes in business activities, as well as to ensure that applicable supervisory standards and legal requirements are met. From a policy and procedure standpoint, the BDB has ensured that systems are in place to actively detect, report and prohibit any money laundering activity. In addition, adequate measures, processes and controls are in place to fight terrorism, curb proliferation financing and combat prohibited activities.

The Bank continues to adopt rigorous due diligence measures on a risk-based approach to ensure that the financial activities of BDB customers are in accordance with the guidelines issued by the regulatory authorities. In other words, establishing a solid and profound customer base on the foundations of security and transparency.

Strategy & Transformation

As part of BDB's transformation journey, the Strategy & Transformation division was established to drive the development and execution of BDB's growth strategy. The transformation was driven by the need to respond to changing market conditions, emerging trends, and evolving customer needs.

In line with the Kingdom of Bahrain national economic priorities, BDB's strategy is anchored on continuing to serve Micro, Small and Medium sized enterprises (MSMEs) financial and market access needs, through tailored and innovative solutions, with customer centricity and digitization at the core of our strategy.

As part of #TeamBahrain, we have strengthened our ecosystem collaboration and partnerships, working with key stakeholders to help nurture an enabling business environment that supports the growth and sustainability of MSMEs.

The new division includes three departments that have achieved significant progress towards the realization of the Bank's key objectives as outlined below:

I Strategy: The department has developed a comprehensive growth strategy that is well-aligned with the bank's mission and vision, and global best practices in the MSMEs landscape. The strategy includes ambitious targets for expanding the bank's customer base, growing revenue, and increasing profitability. The department has also strengthened bank-wide governance and monitoring tools to ensure effective and agile strategy execution.

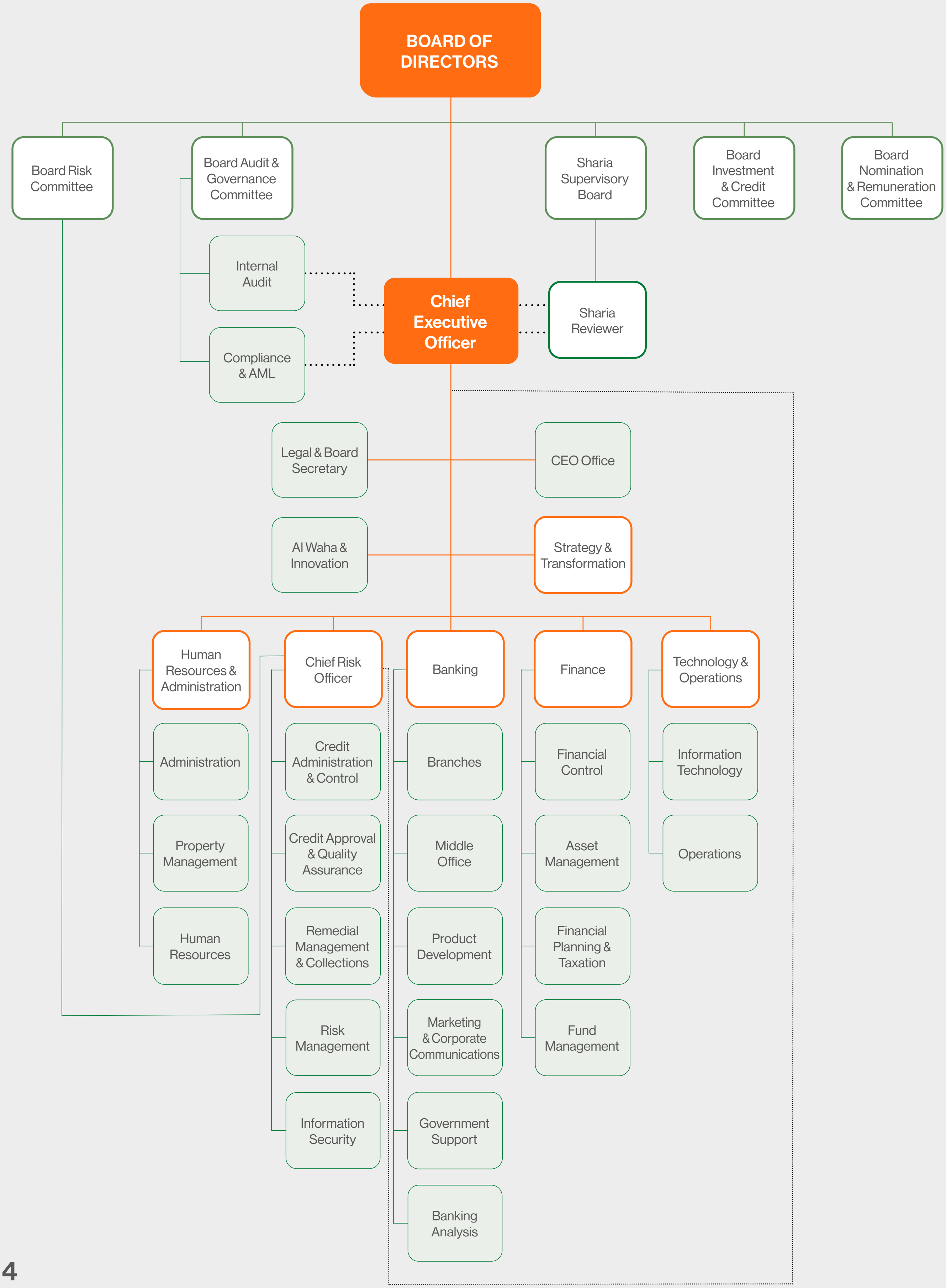
II Transformation Management Office: The department has overseen the implementation of bank-wide transformation initiatives, resulting in improved operational efficiency, cost savings, and new revenue streams. The department has also fostered a culture of continuous development, encouraging all bank employees to identify opportunities for innovation and efficiency gains.

III Data Analytics: The department has strengthened data-driven decision-making and predictive analysis across the bank. It has implemented new techniques for collecting, analyzing, and visualizing data, enabling the team to make more informed decisions and identify new opportunities for growth.

Looking forward, the division will continue to play an instrumental role in ensuring the bank's continued success and to further enable MSMEs growth and contribution to the economic development of the country while solidifying the financial sustainability of the bank.

Organization Chart

As of 31 December 2022.



Corporate Governance

1. Corporate Governance Structure

As a Closed Stock Shareholding Company, the Bank's corporate governance framework is based on the guidelines issued by the

Ministry of Industry and Commerce ("MOIC") under the Commercial Companies Law promulgated by Decree No. (21) for the year 2001 as amended ("CCL"), the regulations of the MOIC's Corporate Governance Code and volume 1 of the Central Bank of Bahrain ("CBB").

The Bank is committed to full compliance with best international practices and standards of personal and professional ethics and acknowledges its responsibility to all its stakeholders. Fulfilling this commitment requires that all activities conducted by the group, collectively or individually, are consistent with the highest standards of corporate governance.

The Bank's Board Directors have validated the Corporate Governance principles and practices in the Bank's policy documents.

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2. Code of Conduct

The Bank has adopted a Code of Conduct and other internal policies and guidelines designed to guide all employees and directors through best practices in compliance with all laws, rules and regulations that govern the Bank's business operations. The Code of Conduct contains rules on conduct and ethics on avoiding conflict of interest applicable to all the employees and Directors of the

Bank. The Bank's Board of Directors have validated the Corporate Governance principles and practices in the policy documents; (1) Commitment by Board of Directors & Management of BDB Group to the Code of Conduct and (2) the Code of Ethics & Business Conduct, which is endorsed by the Bank's employees.

The Bank has an Annual Declaration for employees and directors, whereby each member is responsible to disclose any material interest related to business transactions and agreements.

The Bank has no individuals who are occupying controlled functions and who are relatives of any approved persons.

3. Shareholding

Shareholders as of 31 December 2022.

No.	Shareholder Name	Nationality	No. of Shares	%
1	Government of the Kingdom of Bahrain	Bahraini	57,002,333	89.5290
2	General Organisation For Social Insurance	Bahraini	3,333,333	5.2350
3	Pension Fund Commission	Bahraini	1,866,667	2.9320
4	Pension Fund Commission (Military)	Bahraini	1,466,667	2.3040
Total			**63,669,000**	**100**

4. Board of Directors

The Board is guided by its charter framed in accordance with applicable regulations. The Board establishes the objectives of the Bank, provides guidance, approves and monitors the implementation of strategy by the management, budgets for achievement of the Bank's objectives, adopts and reviews the systems and controls framework, monitors overall group and management performance, ensures accurate preparation along with disclosure of the financial statements and monitors conflicts of interest in preventing improper related party transactions. The Board also assists in securing funding from government and semigovernment institutions and continues to focus on long term strategic issues; growth and diversification of the Bank's activities, and the achievement of its vision and mission. Furthermore, other matters such as strategic decisions, provisions, large credit transactions, write-off limits or credit and exposure limits may require Board approval in accordance with the Bank's authority limits.

As of 31 December 2022, the Bank's Board of Directors consists of eight non-executive Directors, nominated by way of Edict No. 2 of 2022 restructuring the Board of Directors of Bahrain Development Bank for a three-year term commencing from 8 December 2022. The table below provides information regarding the current Directors.

Corporate Governance
(continued)

4. Board of Directors (continued)

Name	Experience
Ghassan Ghaleb Abdulaal Chairman Independent Director Director since March 2016 with 22 years of experience.	The Investcorp Private Wealth Head of Operations within the Investor Relationship Management team. Mr. Abdulaal rejoined Investcorp in 2012 having previously spent six years with the firm from 2003 to 2009. In the intervening period between 2009 and 2012, he worked as an Investment Manager with Bahrain Mumtalakat Holding Company. Prior to joining Investcorp in 2003, Ghassan worked at KPMG where he was a Consultant within the Business Performance Improvement Group. Mr. Abdulaal is also a Board member of various organizations including Investcorp Saudi Arabia Financial Investments Co. and several entities affiliated with Investcorp. **Qualifications** Holds a Master's of Science in Analysis, Design and Management of Information Systems from the London School of Economics and a Bachelor's degree (Honours) in Accounting and Finance from the University of Kent.
Marwa Khaled AlSaad Independent Director Director since November 2019 with 13 years of experience.	Ms. Marwa Al Saad is the Managing Director of Human Capital at Bahrain Mumtalakat Holding Company B.S.C (c), with over 13 years of experience in many areas of the field of Human Resources management including talent management and development and organizational design and effectiveness. Ms. Marwa has worked for a number of international and local blue-chip organizations such as General Mills Inc., Cummins Power Generation, KPMG, Tatweer Petroleum and YBA Kanoo Holdings W.L.L. where she was heading the group HR functions across the GCC. Ms. Marwa was previously the Chairman of the AXA Gulf's Nomination & Remuneration Committee. **Qualifications** Holds a Master's degree from Purdue University, Krannert School of Management, USA and a Bachelor's degree from Purdue University in Organizational Leadership and Supervision.
Sandeep Bose Independent Director Director since December 2022 with 32 years of experience.	A qualified accountant and a seasoned banker, Mr. Bose started his career with Ernst and Young, Bahrain and then joined Standard Chartered Bank (SCB) in 1993 which is where he spent his entire banking career. His banking career spans across Retail, Corporate and SME Banking businesses in several Global and Regional leadership roles, key amongst them being Global Head of Retail Deposits and Transaction Services, Regional Head of SME and Personal Banking, Africa and Middle East, CFO Corporate Banking Finance, Middle East and South Asia amongst others. He was the founding member of the team which rolled out SME banking business across SCB Group globally. Mr. Bose has also run large, full suite Consumer Banking businesses across multiple countries viz Bahrain and Bangladesh, amongst others. Mr. Bose is also CoFounder and CEO of Ektar Technologies LLC and an advisor to Foundation Holdings. **Qualifications** Holds a Bachelor's degree from the University of Delhi in commerce and a Chartered Accountancy from the Institute of Chartered Accountants of India.
Hani Hussain Redha Independent Director Director since December 2022 with 24 years of experience.	The Managing Director and Portfolio Manager of Global Multi-Assets at PineBridge Investments, London, Mr. Redha joined the firm back in 2012 where he is responsible for leading the strategy and research function for the Global Multi-Asset team. Prior to joining the firm, Mr. Redha was an Investment Manager at Bahrain Mumtalakat, where he led their global multi-asset class investment portfolio and oversaw strategic and tactical asset allocation, as well as manager selection across all asset classes. Before that, Mr. Redha held a number of senior positions such as Deputy Head of Global Fixed Income and Deputy Head of Hedge Funds at NCB Capital. **Qualifications** Holds a Master's degree in Chemical Engineering from Imperial College London, a Diploma in Acturial Techniques from the Institute of Actuaries and is a CAIA (Chartered Alternative Investment Analyst) holder.

Corporate Governance
(continued)

Name	Experience
Manal Shawqi Al Bayat Independent Director Director since December 2022 with 24 years of experience.	As the Chief Engagement Officer of Expo 2020 Dubai, Ms. Al Bayat joined the organization in 2015 and is a member of the Expo 2020 Dubai Executive Committee, Programming Committee, SME Advisory Group and Commercial Awards Committee. Ms. AlBayat is an internationally experienced leader in various fields such as events, marketing, positioning and business development. She was the Group CEO of Falcon and Associates, in addition to working at companies such as Cateus Investment Company, Gulf International Bank and PNC Bank (USA). Ms. Al Bayat is also a Board member in the University of Wollongong Dubai. **Qualifications** Holds a Master's of Business Administration (MBA) from DePaul University, Kellstadt Graduate School of Business with a focus in Marketing and Change Management and a Bachelor's of Science in Organizational Management with a focus on Human Resources and Quality Assurance from Purdue University, School of Technology.
Yousif Mohamed Al Nefaiei Independent Director Director since December 2022 with 21 years of experience.	The Deputy Chief Executive at the BENEFIT Company, Mr. Yousif joined BENEFIT back in 2006 where he led a number of major accomplishments such as introducing the Electronic Cheques System, Trust Service Provider platform, Electronic Funds Transfer System, eCommerce Payment Gateway, and National Mobile wallet (BenefitPay) in Bahrain. Prior to that, Mr. Yousif held a number of senior positions in Sinnad WLL and Bank of Bahrain and Kuwait (BBK). Mr. Al Nafaiei is also a Board member in Sinnad WLL, Marshal FinTech Partners Ltd and Reload IT Services LLC. **Qualifications** Holds a Master's of Science in Information Systems from Brunel University and Bachelor's of Science in Computer Science from the University of Bahrain.
Aysha Mohamed Abdulmalek Independent Director Director since December 2022 with 15 years of experience.	Currently General Counsel at Bahrain Mumtalakat Holding Company where she joined the company back in 2012 and is presently responsible for overseeing the legal department affairs, parliamentary and government affairs department and ensuring the company's compliance with the laws and regulations. Prior to that, Ms. Aysha worked at Edamah where she also led the legal activities of the organization. Ms. Aysha also has extensive experience in private practice in areas such as commercial, corporate, mergers and acquisitions, real-estate, employment and regulatory matters. **Qualifications** Holds a Master's in Law (LLM) in Corporate and Commercial Law from Queen Mary University of London, Bachelor's degree in Law (Honours) from the University of Bahrain and a Graduate Diploma in Law from BPP University.
Amna Ali Alarayedh Independent Director Director since December 2022 with 8 years of experience.	Assistant Undersecretary of Research and Studies at the Prime Minister's Office (PMO), Ms. Amna started her career at the PMO back in 2015 and is presently responsible for managing the research and briefing department, overseeing policy recommendations and studies and facilitating key government events and projects. Mr. Alarayedh is also a Board member in DANAT institute. **Qualifications** Holds a Master's of Science in Environmental Economics and Climate Changes from the London School of Economics and a Bachelor's of Science in Managerial Economics from Bentley University.

* The qualifying criteria for 'Independent Directors' are as per the Corporate Governance guidelines of the CBB.

The following members' terms ended in December 2022:

1. Khalid Al Rumaihi
2. Tariq Jaleel Al Saffar
3. Sabah Khalil Al Moayyed
4. Marwan Khalid Tabbara
5. Tala Abdulrahman Fakhro
6. Maryam Adnan Al Ansari

Corporate Governance
(continued)

5. Induction And Orientation for New Directors

On joining the Board, all Directors are provided with a Directors' Induction File that includes the Bank's incorporation documents, the Charters of the Board and its Sub-Committees, key policies, the latest annual report, the Corporate Governance Policy and the Bank's strategy document. Induction sessions are also held with the Chairman and Chief Executive Officer, which focus on a broad overview of the Bank, its direction, products and services, challenges and opportunities. Select meetings may then be arranged with members of the senior management on an as needed basis, as well as a tour of the Bank's facilities.

6. Board Committees

The Board of Directors is assisted by four Committees where the Committees' responsibilities for oversight are governed by their respective charters, terms of reference and functions under their supervision which are reviewed and updated periodically in line with market best practice and applicable regulations:

Board Nomination and Remuneration Committee (BNRC)

Provides a formal and transparent procedure for developing a remuneration policy for the Board; ensures that remuneration offered is competitive, in line with the market standard and consistent with the duties and responsibilities assigned to the member of the Committee.

Board Audit and Governance Committee (BAGC)

Reviews controls for financial audit and reporting, internal controls, audit activities, legal, regulatory compliance including antimoney laundering, and oversees financial reporting and disclosures process.

Board Risk Committee (BRC)

Assists the Board in its oversight of the management's responsibility to implement an effective global risk management framework reasonably designed to identify, assess and manage the Bank's strategic, credit, market and operational risks.

Board Investment and Credit Committee (BICC)

Assists the Board in its oversight of the Bank's credit and investment related activities, reviews and recommends the Bank's business strategy and operational plan, reviews and approves appropriate asset allocation strategy and evaluates the investment and credit portfolio of the Bank.

In addition, the Board Committees also assist the Board in conducting self-evaluations of the Board and its Committees, achieving a high level of involvement and understanding among Board members of their roles and responsibilities along with suggestions for further improvements as to their contribution and effectiveness.

7. Board and Board Committee Meetings and Attendance

The Board and each of the Committees are required to meet at least four times per year. A schedule for the Board and its Committees are submitted to the Directors annually in advance. Performance assessments of the Board and Committees are done on a self-assessment basis and submitted to the Board for their review and action annually. Additional meetings may be convened on an ad hoc basis at the invitation of the Chairman. Details of meetings held during 2022 and attendance of directors are as follows:

No.	Name	23 Feb	9 May	22 June	5 Sept	14 Nov
1	Khalid Al Rumaihi (Chairman)	✓	✓	✓	✓	✓
2	Sabah Khalil Al Moayyed	✓	✓	✓	✓	✓
3	Tariq Jaleel Al Saffar	✓	✓	✓	×	✓
4	Tala Abdulrahman Fakhro	✓	✓	✓	✓	✓
5	Marwan Khalid Tabbara	✓	✓	✓	✓	✓
6	Ghassan Ghaleb Abdulaal	✓	✓	✓	✓	✓
7	Maryam Adnan Al Ansari	✓	✓	✓	✓	✓
8	Marwa Khaled AlSaad	✓	✓	✓	✓	✓

Board Audit and Governance Committee

No.	Name	14 Feb	27 April	27 July	30 Oct
1	Ghassan Ghaleb Abdulaal	✓	✓	✓	✓
2	Marwan Khalid Tabbara	✓	✓	✓	✓
3	Maryam Adnan Al Ansari	✓	✓	✓	✓

Board Risk Committee

No.	Name	13 Feb	26 April	8 June	6 July	31 Oct
1	Marwan Khalid Tabbara	✓	✓	✓	✓	✓
2	Maryam Adnan Al Ansari	✓	✓	✓	✓	✓
3	Ghassan Ghaleb Abdulaal	×	✓	✓	✓	✓

Corporate Governance
(continued)

Board Investment and Credit Committee

No.	Name	7 Feb	18 April	7 July	23 Oct
1	Sabah Khalil Al Moayyed	✓	✓	✓	✓
2	Tariq Jaleel Al Saffar	✓	✓	✓	✓
3	Marwan Khalid Tabbara	✓	✓	✓	✓
4	Tala Abdulrahman Fakhro	✓	✓	✓	✓

Board Nomination and Remuneration Committee

No.	Name	16 Feb	19 April	28 June	28 Aug	24 Oct
1	Tariq Jaleel Al Saffar	✓	✓	✓	✓	✓
2	Tala Abdulrahman Fakhro	✓	✓	✓	✓	✓
3	Marwa Khaled AlSaad	✓	✓	✓	✓	✓

* A total of 4 BNRC meetings were held during the financial year-ended 31 December 2021.

** The aggregate fees paid to the Nomination and Remuneration Committee members for 2022 amounted to BD 8,000 and BD 6,400 for 2021.

8. Shari'a Supervisory Board

The Bank is guided by a Shari'a Supervisory Board comprising of three distinguished scholars. The Board provides guidance, reviews and supervises the Bank's Islamic financing activities to ensure that they are in compliance with Islamic Sharia's rules and principles. The Board meets at least four times a year. Its members are remunerated by annual retainer fee and sitting fees per meeting attended. Performance assessment of the Shari'a Supervisory Board is done on a self-assessment basis and submitted to the Board for their review and action.

Sheikh Abulnasser Almahmood

Well versed in Islamic banking and finance with over 30 years of Islamic banking experience, and the head in the Sharia'a Coordination and Implementation Department at Khaleeji Commercial Bank.

Prior to joining Khaleeji Commercial Bank, Sheikh Abdul Naser was a Senior Manager of the Sharia'a Audit Department in Ernst & Young - Bahrain. He also worked as the Head of the Sharia'a Internal Control Department in Bahrain Islamic Bank and was a member of the Sharia'a Supervisory Board in many Islamic banks and institutions.

Mr. Almahmood holds a Master's degree in Business Administration from the Gulf University, a Bachelor's degree in Sharia'a and Islamic Studies from Qatar University, ADIC Advanced Diploma in islamic Commercial from BIBF, CSAA Certified Sharia Adviser & Auditor from AAOIFI, Associate Diploma in Shari a Control from Cambridge University for training- approved by British Council, and an Instructor Certified in BIBF.

Dr. Omar Abdulaziz Alaani

Dr. Omar Abdulaziz Alaani has taught Islamic Economy in many universities in Iraq, Russia, Yemen and Bahrain. He also participated globally in several conferences within his field. He has been working as an academic teacher in the University of Bahrain since 2000 in several fields, such as Financial transactions, insurance, Islamic Jurisprudence rules and has retired in 2018.

He obtained a Bachelor's degree in 1984, Master's Degree in 1993 and a PhD in 1997 majoring in the Whole Islamic Economy field from the University of Baghdad.

Dr. Mohamed Burhan Arbouna

An Islamic finance expert with over 22 years of Islamic banking experience and is currently the Head of the Sharia Compliance Department in Al Salam Bank. Prior to joining Al Salam Bank Bahrain, he was the Shari'a Head and Shari'a Board member in a number of other Islamic institutions. He also worked as a Shari'a researcher and consultant for the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Dr. Arbouna lectures on Islamic banking and finance and gives consultancy on orientation and professional programs for a number of professional and educational institutions.

He Is a member of the Editing Committee of International Islamic Financial Board (IFSB) and was a member of the steering committee for International Liquidity Management Framework under the supervision of the Central Bank of Bahrain.

He obtained a Master's degree in Comparative Laws and a PhD in laws with specialization in Islamic banking and finance from International Islamic University Malaysia. He also has a Bachelor's degree in Shari a and a higher Diploma in Education from Islamic University, Medina.

Sharia Board Meetings and Attendance

No.	Name	16 Feb	10 May	1 Aug	10 Oct
1	Shaikh A.Nasser Almahmood	✓	✓	✓	✓
2	Shaikh Mohammed Arbouna	✓	✓	✓	✓
4	Shaikh Omar Al Aani	✓	✓	✓	✓

Corporate Governance
(continued)

9. Executive Management Committees

The Board of Directors delegates the authority of the day-to-day management of the business to the Chief Executive Officer who is responsible towards achieving the strategic goals within the pre-defined risk appetite and approved strategy as a whole. Accordingly, the CEO manages the Bank through the following management committees:

Committee	Primary Responsibility
Management Committee	Entrusted with the role of supporting the CEO to determine and implement the Bank's strategic plan as approved by the Board of Directors. The responsibilities of the Committee include approving and monitoring the Bank's various business activities in accordance with the strategic plan approved by the Board.
Asset & Liability Management Committee	Mainly responsible for defining long-term strategic plans and short-term tactical initiatives for directing asset and liability allocation prudently for the achievement of the Bank's strategic goals. The Committee monitors the Bank's risk profile in the context of economic developments and market fluctuations, to ensure that the Bank's ongoing activities are compatible with the risk/reward guidelines approved by the Delegated Approval Authority/Board.
Credit Committee	The Committee has the responsibly to grant and approve credit facilities as within their delegated authority and also make decisions relating to the execution of investments in line with the Bank's investment strategy and management of credit and concentration risks. Proposals exceeding the Committee's delegated authority are escalated to the Board Investment and Credit Committee.
Risk Executive Committee	The Committee has the primary responsibility of overseeing the Bank's activities in managing credit risk, market risk, operational risk, liquidity risk, legal risk and other risks. The Committee must ensure that the Bank has adequate risk management framework, policies, procedures and processes in place in order to identify, measure, monitor, mitigate and manage risks across all of its operations.

10. Executive Management

Name	Joining Date	Experience	Qualifications
Dalal Ahmed Al Qais Group Chief Executive Officer	December 2021	20 years	BSc in Management and Marketing and Master's in Finance, University of Bahrain. Currently pursuing Business Doctorate from Swiss Business School.
Ali Yusuf Al Aradi Chief Banking Officer	October 2022	19 years	Professional Advanced Diploma in Islamic Finance from BIBF, CMI Level 5 & CII. Currently pursuing MBA from Swiss Business School.
Yaser Ismaeel Mudhafar Chief Finance Officer	October 2022	23 years	Certified Public Accountant certificate, CGMA, CIPA and holds an MBA and a Bachelor's degree in Accounting from University of Bahrain.
Nada Mohamed Abdulrahman Chief Technology Officer	October 2020	20 years	BSc in Computer Science and a Master's degree in Project Management.
Hend Mohamed Mahmood Chief Human Resources Officer	February 2022	25 years	MSc in Work and Organizational Psychology, University of Nottingham.BSc in Business Management from University of Bahrain. Professional Co-Active Coach (CPCC) certificate from USA and Certificate in Personnel Practice (CPP) from UK.
Nada Medhat Azmi Chief Strategy & Transformation Officer	March 2022	20 years	BA in Computer Science and Management Studies, University of Maryland Global Campus
Areije Karim Al-Shakar Head of Al Waha Fund & Innovation	2010	19 years	Kauffman Fellow with Bachelor of Commerce in Finance, Concordia University and MSc in Public Policy and Management, University of London. Business Coach and Mentor certification from the Chartered Management Institute.
Vijay Kumar Chief Risk Officer	2016	25 years	Master of Commerce from India.
Siddarth Chaudhary Head of Internal Audit	July 2018	19 years	Master of Commerce from India, Chartered Accountant, Certified Internal Auditor and member of the Institute of Internal Auditors.
Nareen Ahmed Agha Head of Legal & Board Secretary	May 2022	10 years	Bachelor's degree (LLB) in Law (Honours), Brunel University. Professional Advanced Diploma in Islamic Finance, BIBF. Qualified Bahraini lawyer.
Abdulrahman Rashed Al Asoomi Head of Compliance & AML	September 2022	12 years	BSc in Business Management, Swansea University. Professional Advanced Diploma in Islamic Finance, BIBF. International Diploma in Compliance, University of Manchester, ICA and Diploma in Compliance, AML and Financial Crime, University of Reading.

Corporate Governance
(continued)

11. Related Party Transactions

Directors are required to declare any conflict of interest or any potential conflict of interest that exists, or that Directors become aware of, to the Chairman of the Board and the Board Secretary as soon as they become aware of them. Should any Director have any doubts with respect to conflicts of interest or potential conflict of interest, the Director is requested to consult the Chairman of the Board, or in the case of the Chairman, the Chairman of the Audit & Governance Committee, and in each case the Board Secretary prior to taking any action that might compromise the Bank. All Directors and other Approved Persons have declared all of their interests in other entities or activities which were duly submitted and reviewed by the Board.

Note 26 of the Bank's audited consolidated financial statements for the year ended 31 December 2022, sets out the relevant disclosures of related party transactions. All related party transactions are approved by the Board of Directors and disclosed to the shareholders in the Annual General Meeting.

12. Remuneration of Board Members, Executive Management and External Auditors

Aggregate remuneration paid to board members and executive management personnel are disclosed in detail in the Board of Directors Report which includes all required regulatory disclosures in this regard. During the AGM held on 14 March 2022, the shareholders approved the re-appointment of Ernst and Young ("**EY**") as external auditors for the year ending 31 December 2022 and authorized the Board of Directors to determine their remuneration where the reasons for their appointment was discussed during the AGM held on 14 March 2022. During the financial year ended 31 December 2022 an amount of BD 24,200 was charged for audit services provided by EY and an amount of BD 18,650 was charged by EY for non-audit services provided in relation to CBB mandatory review requirements under the Agreed Upon Procedures.

The Bank believes that employees are crucial assets to the bank, therefore it follows a total rewards approach to compensate and reward performance, the rewards approach includes both intrinsic and extrinsic benefits. The Bank strives to offer competitive packages to attract, engage and retain talent. These rewards elements of fixed compensation support achieving the objectives through balancing between short term results and long-term sustainable performance. The strategy is designed to share the success of the bank and to align employee's incentives with the risk framework and risk outcomes. The quality and long-term commitment of all the employees is fundamental to the success of the Bank.

A robust and effective governance framework ensures that the Bank operates within clear parameters of its remuneration strategy and policy. All remuneration matters, and overall compliance with regulatory requirements, are overseen by the Board Nomination and Remuneration Committee (BNRC). The BNRC ensures that all persons must be remunerated fairly and responsibly.

The Bank's remuneration policy, in particular, considers the role of each employee and sets the criteria to determine 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 his role within the Bank, 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 have a material impact on the Bank's risk profile. In order to ensure alignment between what we pay our people and our business strategy, we assess individual performance against annual financial and non-financial objectives, summarised in our annual plans. Furthermore, any variable pay will be determined based on risk adjusted targets set at each unit level aggregated to the Bank level where the variable pay computation process is designed in a way that ensures that it does not impact the Bank's capital and liquidity ratios and is aligned with the Bank's budget and strategy.

The BNRC has oversight of all reward policies for the Bank's employees. The BNRC is the supervisory and governing body for compensation policy, practices, and plans. It is responsible for determining, reviewing, and approving fixed and variable remuneration policy. It is responsible for setting the principles and governance framework for all remuneration decisions. The remuneration policy is reviewed annually to reflect changes in market practices, the business plan, and the risk profile of the Bank.

There is no separate policy for business and controlling staff of the bank. As such, the need to "defer" variable remuneration does not apply to the organization. Consequently, there are no "claw-back" or "malus" stipulations as well. The exceptions were approved by the Central Bank of Bahrain. As per the Remuneration Policy approved by the shareholders, the structure and level for the compensation for the Board of Directors and all employees consist of fixed and variable remunerations in the form of cash only. Short term incentives including approved persons are aligned to the Bank's performance, department and individual performance, but in all cases, shall be made at the Bank's sole discretion.

13. Conflicts of Interest

The Bank has a documented procedure for dealing with situations involving conflicts of interests of Directors and employees. Should a conflict of interest arise, the Director would abstain from voting and/or discussions along with leaving the meeting for the duration of the discussions. Furthermore, such events are recorded in the relevant Committee and/or Board minutes of meeting. For the financial year ended 31 December 2022, there were no recorded events of abstention from voting due to a conflict of interest. The Bank has an Annual Declaration for Directors and employees whereby each individual is required to disclose any (potential) conflicts of interest in their activities with, and commitments to, other organizations, transactions and agreements. Presently, the Bank does not attain any individuals who are occupying controlled functions and who are relatives of any approved persons.

Corporate Governance
(continued)

14. Internal Control

The Bank has developed and implemented stringent internal controls to protect its customers, assets and operations. The internal controls in place are designed to ensure compliance with all applicable laws and regulations, mitigate financial risk of the organization, ensure an adequate system of controls is in place and ensure accurate financial reporting. The Bank has communication channels in place between employees, Board members and external stakeholders regarding any identified issues or changes. The Bank also maintains an official website in relation to any of the aforementioned matters. This ensures that the most appropriate corrective actions are taken in a timely manner by proactively rooting out any potential issues that may arise. Furthermore, the Bank has fostered a culture which gives priority to risk management amongst all staff, where the implementation of adequate internal controls measures is applicable on all staff within their respective work context. As a supporting governance measure, the Board also relies on the ongoing reviews performed by internal and external auditors on the Bank's internal control functions.

15. Disclosure on HC Module

Status of compliance with CBB's Corporate Governance guidelines (high-level controls module)

In line with the CBB's Corporate Governance guidelines, banks are required to comply with the CBB's High-level Controls (HC) Module of the CBB Rulebook. The HC Module contains both Rules and Guidance, where Rules must be complied with, but Guidance may either be complied with or not, which is to be explained by way of the annual report to the shareholders and to the CBB.

Contrary to Paragraph LR-1A.1.1 of the CBB Rulebook Volume 1, the members of Board of Directors of the bank are appointed as per the Royal Decree resolution No. 5 of 2019, issued on 28 November 2019 and subsequent Edict No. 2 of 2022 restructuring the Board of Directors of Bahrain Development Bank.

Paragraph HC-5.3.1A states that members of the remuneration committee must have independence of any risk-taking function or committees. It is to be noted that two (2) Nomination and Remuneration Committee members Mr. Tariq Al Saffar and Ms. Tala Fakhro during the previous board composition were also represented on the Board Investment & Credit Committee of the Board.

16. Remuneration Report

BDB believes that employees are crucial assets to the banks, therefore it follows a total reward approach to compensate and reward performance, reward approach include both intrinsic and extrinsic benefits. BDB strive to offer competitive packages to attract, engage and retain the talents. These rewards elements of fixed compensation support achieving the objectives through balancing between short-term results and long-term sustainable performance. The strategy is designed to share the success of the bank and to align employees' incentives with the risk framework and risk outcomes. The quality and long-term commitment of all of the employees is fundamental to the success of the bank.

The bank, therefore aims to attract, retain and motivate the people who are delivering high results and committed to maintaining a career with the bank, and who perform their role in the long-term interests of its shareholders. The bank adopted regulations concerning sound remuneration practices issued by the Central Bank of Bahrain. The revised policy framework and incentive components were approved by the shareholders in the Annual General Meeting. Unlike commercial banks, BDB is a "not-for-profit" development banking institution, with core objective of supporting economic development of Bahrain in line with Bahrain 2030 Vision. The performance reward will be paid at the discretion of the Board of Directors. There is no separate policy for business and controlling staff of the bank. As such, the need to "defer" variable remuneration does not apply in case of BDB. Consequently, there are no "claw-back" or "malus" stipulations as well. The exceptions were approved by the Central Bank of Bahrain. The Remuneration Policy for all staff (including the approved persons) consist of fixed and variable remunerations in the form of cash only. Bonus entitlement including approved persons are aligned to the bank's performance, department and individual performance, but in all cases, it shall be made at Bank's sole discretion.

Corporate Governance
(continued)

Details of Remuneration Paid for the Financial Year Ended 2022

Categories	No.	Fixed Remuneration (BD)			Variable Remuneration (BD)	Total (BD)
		Salaries and Wages	Other Benefits/ Allowances	Total	Performance Bonuses (in cash)	
1. Members of the Board	11		36,300	36,300	77,000	113,300
2. Approved Persons (not incl in 1,3, to 7)	8	517,451	122,981	640,432	110,570	751,002
3. Approved Persons in Risk Management, Internal Audit, Operations, Financial Control, AML, Compliance Functions	6	184,916	75,167	260,084	26,560	286,644
4. Employees Engaged in Risk taking activities (Business Areas)	43	753,274	170,966	924,240	83,072	1,007,312
5. Employees other than approved persons engaged in functions under 3	47	591,234	127,714	718,948	110,725	829,674
6. Other Employees	37	605,782	136,890	742,672	71,077	813,749
7. Outsourced Empl./Service providers (engaged in risk taking activities)	0*	25,881		25,881		25,881
Total	**152**	**2,678,539**	**670,017**	**3,348,556**	**479,004**	**3,827,560**

1. 2022 Board Remuneration is BD 68,000 which is subject to Shareholder and MOICT approval.

2. The amount paid to the Board Nomination and Remuneration Committee during the year 2022 was BD 8,000/-.

* Outsourced employee was engaged from Jan to Oct 2022.

Details of Remuneration Paid for the Financial Year Ended 2021

Categories	No.	Fixed Remuneration (BD)			Variable Remuneration (BD)	Total (BD)
		Salaries and Wages	Other Benefits/ Allowances	Total	Performance Bonuses (in cash)	
1. Members of the Board	11		53,350	53,350	77,000	130,350
2. Approved Persons (not incl in 1,3, to 7)	8	518,142	142,586	660,728	19,410	680,138
3. Approved Persons in Risk Management, Internal Audit, Operations, Financial Control, AML, Compliance Functions	5	144,026	66,986	211,012	7,935	218,947
4. Employees Engaged in Risk taking activities (Business Areas)	41	669,947	146,577	816,525	35,872	852,397
5. Employees other than approved persons engaged in functions under 3	40	465,090	93,098	558,188	24,338	582,526
6. Other Employees	60	951,785	209,484	1,161,269	47,651	1,208,920
7. Outsourced Empl./Service providers (engaged in risk taking activities)						
Total	**165**	**2,748,991**	**712,082**	**3,461,073**	**212,206**	**3,673,279**

1. 2021 Board Remuneration is BD 68,000 which is subject to MOICT approval.

2. The amount paid to the Board Nomination and Remuneration Committee during the year 2021 was BD 8,000/-

Financial Statements 2022

Contents

Corporate Information

Commercial Registration No.	26226 obtained on 20 January 1992
Directors	Mr. Khalid Al Rumaihi – Chairman Ms. Sabah Khalil Almoayyed – Board Member Mr. Tariq Abduljalil Al Saffar – Board Member Mr. Marwan Khalid Tabbara – Board Member Ms. Tala Abdulrahman Fakhro – Board Member Mr. Ghassan Ghaleb Abdulaal – Board Member Ms. Maryam Adnan Al Ansari – Board Member Ms. Marwa Khaled Al Saad – Board Member
Registered Office	Building 170 Road 1703 Diplomatic Area P.O. Box 20501 Manama Kingdom of Bahrain
External Auditors	Ernst & Young P.O. Box 140 Manama Kingdom of Bahrain

Independent Auditors' Report to the Shareholders

Bahrain Development Bank B.S.C.(c)
Manama, Kingdom of Bahrain

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Bahrain Development Bank B.S.C. (c) (the "Bank") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as modified by the Central Bank of Bahrain ("CBB").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) 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 IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Other information consists of the information included in the Group's 2022 Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information. Prior to the date of this auditors' report, we obtained the Board of Directors' report which forms part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

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

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

Responsibilities of the Board of Directors for the consolidated financial statements

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

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.

Independent Auditors' Report to the Shareholders (Continued)

Bahrain Development Bank B.S.C.(c),
Manama, Kingdom of Bahrain

Report on the Audit of the Consolidated Financial Statements (Continued)

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

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

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

Report on Other Legal and Regulatory Requirements

As required by the Bahrain Commercial Companies Law and Volume 1 of the Central Bank of Bahrain (CBB) Rule Book, we report that

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;

b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements;

c) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2022 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position; and

d) satisfactory explanations and information have been provided to us by the Board of Directors in response to all our requests.

Ernst & Young

Partner's registration no. 45
23 February 2023
Manama, Kingdom of Bahrain

Consolidated Statement of Financial Position

As at 31 December 2022

	Notes	2022 BD '000	2021 BD '000
ASSETS			
Cash and balances with Central Bank of Bahrain	7	**4,865**	3,027
Placements with banks and other financial institutions	7	**13,893**	22,312
Islamic financing and loans to customers	8	**134,034**	146,632
Investment securities	9	**62,340**	55,996
Investment in associated companies	10	**394**	383
Investment properties	11	**5,130**	10,581
Property and equipment	12	**3,042**	3,102
Other assets	13	**6,280**	4,346
TOTAL ASSETS		**229,978**	246,379
LIABILITIES AND EQUITY			
Liabilities			
Term loans	14	**27,803**	34,803
Deposits	15	**132,863**	137,995
Other liabilities		**6,447**	4,849
Total liabilities		**167,113**	177,647
Equity			
Share capital	16	**63,669**	65,000
Statutory reserve	17	**1,186**	1,186
Other capital contribution	18	**-**	4,048
Other reserves		**(305)**	703
Accumulated losses		**(2,000)**	(2,525)
Equity attributable to owners of the Bank		**62,550**	68,412
Non-controlling interest		**315**	320
Total equity		**62,865**	68,732
TOTAL LIABILITIES AND EQUITY		**229,978**	246,379

Ghassan Ghaleb Abdulaal
Chairman

Yousif AlNefaiei
Board Member

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

Consolidated Statement of Profit or Loss

For the year ended 31 December 2022

	Notes	2022 BD '000	2021 BD '000
Income			
Islamic financing and interest income	19	8,066	7,787
Islamic financing and interest expense	20	(950)	(1,102)
Net Islamic financing and interest income		7,116	6,685
Fee and commission income	21	321	343
Investment income	22	394	682
Rental income		878	989
Other income		178	121
Total operating income		8,887	8,820
Expenses			
Staff costs		(4,684)	(4,187)
Other operating expenses		(3,887)	(3,541)
Total operating expenses before allowance for expected credit losses		(8,571)	(7,728)
Reversal of / (charge for) expected credit losses	23	175	(1,013)
Net operating income		491	79
Share of profit from associated companies	10	11	9
Net profit for the year		502	88
Net profit for the year attributable to:			
- Owners of the Bank		525	131
- Non-controlling interest		(23)	(43)
		502	88

Ghassan Ghaleb Abdulaal
Chairman

Yousif AlNefaiei
Board Member

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

Consolidated Statement of other Comprehensive Income

For the year ended 31 December 2022

	2022 BD '000	2021 BD '000
Net profit for the year	502	88
Other comprehensive loss:		
Items that will not be reclassified to profit or loss in subsequent periods:		
Changes in fair value through other comprehensive income reserve on equity instruments	(49)	-
Items that will be reclassified to profit or loss in subsequent periods:		
Net unrealized gain (loss) in cash flow hedges	13	(136)
Changes in fair value of investments classified as fair value through other comprehensive income on debt instruments	(972)	(307)
Total comprehensive loss for the year	(506)	(355)
Total comprehensive loss attributable to:		
- Owners of the Bank	(483)	(312)
- Non-controlling interest	(23)	(43)
	(506)	(355)

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

	Equity attributable to owners of the Bank							
	Share capital BD '000	Statutory reserve BD '000	Other capital contribution BD '000	Other reserves BD '000	Accumulated losses BD '000	Total BD '000	Non - controlling interest BD '000	Total equity BD '000
As at 1 January 2022	65,000	1,186	4,048	703	(2,525)	68,412	320	68,732
Net profit for the year	-	-	-	-	525	525	(23)	502
Other comprehensive loss for the year	-	-	-	(1,008)	-	(1,008)	-	(1,008)
Total comprehensive (loss) / income	-	-	-	(1,008)	525	(483)	(23)	(506)
Capital reduction (note 16)	(1,331)	-	(4,048)	-	-	(5,379)	-	(5,379)
Minority interest movement	-	-	-	-	-	-	18	18
As at 31 December 2022	**63,669**	**1,186**	**-**	**(305)**	**(2,000)**	**62,550**	**315**	**62,865**

	Equity attributable to owners of the Bank							
	Share capital BD '000	Statutory reserve BD '000	Other capital contribution BD '000	Other reserves BD '000	Accumulated losses BD '000	Total BD '000	Non - controlling interest BD '000	Total equity BD '000
As at 1 January 2021	65,000	1,186	4,048	1,146	(2,656)	68,724	(19)	68,705
Net profit for the year	-	-	-	-	131	131	(43)	88
Other comprehensive loss for the year	-	-	-	(443)	-	(443)	-	(443)
Total comprehensive (loss) / income	-	-	-	(443)	131	(312)	(43)	(355)
Minority interest movement	-	-	-	-	-	-	382	382
As at 31 December 2021	65,000	1,186	4,048	703	(2,525)	68,412	320	68,732

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	Notes	2022 BD '000	2021 BD '000
OPERATING ACTIVITIES			
Net profit for the year		502	88
Adjustments for:			
Depreciation		848	1,050
(Reversal of) / charge for expected credit losses	23	(175)	1,013
Changes in fair value of investments classified as FVTPL	22	(165)	(637)
Changes in discounted value of loans and deposits		2,353	6,010
Dividend income	22	(229)	(45)
Share of profit from associated companies	10	(11)	(9)
(Loss) / gain on foreign currency translation		(154)	5
Operating profit before changes in operating assets and liabilities		2,969	7,475
Changes in operating assets and liabilities:			
Placement with banks and other financial institutions having original maturity of more than 90 days		(10,231)	(357)
Islamic financing and loans to customers		(15,927)	(6,957)
Other assets		1,963	(462)
Deposits		(3,571)	19,936
Other liabilities		1,598	442
Net cash flow (used in) / from operating activities		(23,199)	20,077
INVESTING ACTIVITIES			
Net additions to property and equipment	12	(61)	(1,724)
Purchase of investment securities		(40,523)	(30,997)
Proceeds from sale of investment securities		33,572	31,694
Dividend income received	22	229	45
Liquidation of Investment Securities		-	101
Net cash flow used in investing activities		(6,783)	(881)
FINANCING ACTIVITIES			
Repayment of term loans	14	(7,000)	(501)
Cash flow used in financing activity		(7,000)	(501)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(36,982)	18,695
Cash and cash equivalents at beginning of the year		22,675	3,980
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	7	(14,307)	22,675
Additional information:			
Islamic financing and interest received		10,361	6,828
Islamic financing and interest paid		1,199	780

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

Notes to the Consolidated Financial Statements

31 December 2022

1. INCORPORATION AND ACTIVITIES

Bahrain Development Bank B.S.C. (c) ("the Bank" or "BDB") was established as a Bahraini closed shareholding company by Legislative Decree number 19 dated 11 December 1991 and commenced operations on 20 January 1992. The Bank is registered with the Ministry of Industry and Commerce ("MOIC") under Commercial Registration ("CR") number 26226. The Bank's registered office is in the Kingdom of Bahrain. The Bank is operating as a retail bank with special waivers under a license issued by the Central Bank of Bahrain ("CBB"). The majority shareholding of the Bank is owned by the Government of the Kingdom of Bahrain ("Parent") and it's related entities ("Pension Funds").

The core activities of the Bank consist of advancing loans for project finance, working capital, premises and equipment for developing industries and service sectors such as Tourism, Health and Education in the Kingdom of Bahrain, and also invests in the share capital of such entities. As part of this activity, the Bank also renders management consultancy services and subscribes to ordinary and preference shares in locally incorporated companies. Additionally, loans are advanced for Agriculture, Fisheries and Higher Education purposes. Other activities of the Bank comprise making a direct contribution towards the economic development of the Kingdom of Bahrain.

These consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors of the Bank on 22 February 2023.

2. BASIS OF PREPARATION

2.1 Framework and basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and are in conformity with the Bahrain Commercial Companies Law ("BCCL") and the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives. The comparative information included in the 31 December 2021 consolidated financial statements were reported in accordance with the IFRS as modified by CBB. The transition from "IFRS as modified by CBB" to IAS 34 and "IFRS as issued by IASB" has not resulted in any material changes to the previously reported numbers in the consolidated financial statements for the year ended 31 December 2021.

These consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries. All intra-group transactions and balances including unrealised gains and losses on transactions between the Group companies have been eliminated on consolidation.

2.2 Statement of compliance

The consolidated financial statements have been prepared in accordance with the IFRS and in conformity with the Bahrain Commercial Companies Law and the CBB and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, and the terms of the Bank's memorandum and articles of association.

2.3 Accounting convention

These consolidated financial statements are prepared on a historical cost basis, except for certain investment securities carried at fair value through profit or loss, or through other comprehensive income, that have been measured at fair value.

These consolidated financial statements are prepared in Bahraini Dinars which is the functional and presentation currency of the Bank.

2.4 Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries (the "Group"), all of which have 31 December as their year end and are incorporated in the Kingdom of Bahrain. The Bank has the following principal subsidiaries:

	Ownership Interest		
Name	2022	2021	Principal Activity
Bahrain Business Incubator Centre S.P.C.	100%	100%	Development and assistance to emerging Bahraini entrepreneurs
Al-Waha Venture Capital Fund Company	99%	99%	Trusts, Funds and Similar Financial Entities - Fund Company
Neotech W.L.L.	78%	78%	Management consultancy activities
Middle East Corner Consultancy Co. W.L.L. (MECC) *	-	28.60%	Consultancy to small and medium enterprises

*During the year ended 31 December 2022, the Bank liquidated its ownership in Middle East Corner Consultancy Co. W.L.L.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

2. BASIS OF PREPARATION (Continued)

2.4 Basis of consolidation (continued)

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

a) Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
b) Exposure, or rights, to variable returns from its involvement with the investee; and
c) The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

a) The contractual arrangement with the other vote holders of the investee;
b) Rights arising from other contractual arrangements; and
c) The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of Other Comprehensive Income ("OCI") are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

a) Derecognises the assets (including goodwill) and liabilities of the subsidiary;
b) Derecognises the carrying amount of any non-controlling interests;
c) Derecognises the cumulative translation differences recorded in equity;
d) Recognises the fair value of the consideration received;
e) Recognises the fair value of any investment retained;
f) Recognises any surplus or deficit in profit or loss; and
g) Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

3. SIGNIFICANT ACCOUNTING JUDGMENT AND ESTIMATES

In the process of applying the Group's accounting policies, management has exercised judgment and estimates in determining the amounts recognised in the consolidated financial statements. The most significant uses of judgment and estimates are as follows:

Going concern

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, these are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is applied to establish fair values. These judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

3. SIGNIFICANT ACCOUNTING JUDGMENT AND ESTIMATES (Continued)

Business model in classifying financial instruments

In making an assessment of whether a business model's objective is to hold assets in order to collect contractual cash flows, the Group considers at which level of its business activities such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to management.

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows, the Group considers:

a) Management's stated policies and objectives for the portfolio and the operation of those policies in practice;

b) Management's evaluation of the performance of the portfolio; and

c) Management's strategy in terms of earning contractual interest revenues or generating capital gains.

Impairment of financial instruments

Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of Expected Credit Losses (ECL). Refer to note 6 for further details.

The measurement of the ECL for financial assets measured at amortised cost and FVTOCI is an area that requires the use of complex models and significant assumptions about future economic conditions, credit behavior (e.g. the likelihood of customers defaulting and the resulting losses), estimation of the amount and timing of the future cash flows and collateral values. These estimates are driven by a number of factors, changes which can result in different levels of allowances.

The Group's ECL calculation are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

a) The Group calculates PiT PD estimates under three scenarios, a base case, good case and bad case. An appropriate probability weighted ECL is then calculated by assigning probabilities, based on current market conditions, to each scenario;

b) Determining criteria for significant increase in credit risk;

c) Choosing appropriate models and assumptions for the measurement of ECL;

d) Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;

e) Selection and relative weightings of forward-looking scenarios to derive the economic inputs into the ECL models;

f) Establishing segments of similar financial assets for the purposes of measuring ECL; and

g) Determining relevant period of exposure with respect to the revolving facilities and facilities undergoing restructuring at the time of the reporting date.

COVID-19 pandemic has spread across various geographies globally, causing disruption to business and economic activities.The fiscal and monetary authorities, both domestic and international, have announced various support measures across the globe to counter possible adverse implications. In addition, the Group's operations are mainly based in economies that are relatively more dependent on the price of crude oil and natural gas.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, 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 expert credit assessment and including forward-looking information.

In determining whether credit risk has increased significantly since initial recognition, the Group uses delinquency status of accounts, expert credit judgement and relevant historical experience. The Group may also determine that an exposure has undergone a Significant Increase in Credit Risk ("SICR") 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.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

4. NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

4.1 IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach); and
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

4.2 Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement.
- That a right to defer must exist at the end of the reporting period.
- That classification is unaffected by the likelihood that an entity will exercise its deferral right; and
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

4.3 Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Group.

4.4 Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary. The amendments are not expected to have a material impact on the Group.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

4. NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (Continued)

4.5 Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognised for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

The Group is currently assessing the impact of these amendments.

5. NEW AND AMENDED STANDARDS AND INTERPRETATIONS ISSUED AND EFFECTIVE

The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements in previous year, except for the transition from “IFRS as modified by CBB” to “IFRS” as detailed in section 2.1 and the adoption of the following new and amended standards and interpretation applicable to the Group, which became effective for annual periods beginning on or after 1 January 2022. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

5.1 Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments did not have any impact on the consolidated financial statements of the Group.

5.2 Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments did not have any impact on the consolidated financial statements of the Group.

5.3 Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and was applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments did not have any impact on the consolidated financial statements of the Group.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

5. NEW AND AMENDED STANDARDS AND INTERPRETATIONS ISSUED AND EFFECTIVE (Continued)

5.4 IFRS 9 Financial Instruments - Fees in the '10 per cent' test for derecognition of liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received by the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group has applied the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the amendment is applied.

5.5 IAS 41 Agriculture – Taxation in fair value measurements

The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

These amendments had no impact on the consolidated financial statements of the Group as it did not have assets in scope of IAS 41 as at the reporting date.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

6.1 Investment in associated companies

The Group's investments in its associated companies are accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost.

The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate is eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is charged to the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss in the consolidated statement of profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6.2 Property and equipment

All items of property and equipment are initially recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of all premises and equipment, other than freehold land which is deemed to have an indefinite life.

6.2.1 Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated Impairment losses.

If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised within other income in the consolidated statement of profit or loss.

6.2.2 Subsequent measurement

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

6.2.3 Depreciation

Depreciation is calculated to write off the cost of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in the consolidated statement of profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated. The estimated useful lives of significant items of property and equipment are as follows:

Buildings on freehold premises	15 - 40 years
Furniture, fixtures, vehicles, computers and office equipment	3 - 5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

6.2.4 Reclassification to investment property

When the use of a property changes from owner occupied to investment property, the property is classified to investment property and carried at cost in line with the accounting policy as per note 6.4.

6.3 Leases - Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

a) Right of use assets

The Group recognises right of use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment. The carrying value of right-of-use assets are recognised under premises and equipment in the consolidated statement of financial position.

b) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable, in this case BIBOR. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset and is recognised under other liabilities in the consolidated statement of financial position.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6.4 Investment property

Investment properties are those which are held by the Group to earn rental income or for capital appreciation or both. Investment properties are stated at cost less accumulated depreciation and any impairment losses. Depreciation is calculated on cost using the straight-line method at annual rates which are intended to write off the cost of the investment property over their estimated useful lives that range from 10 to 40 years. Any gain or loss on disposal of the investment property (calculated as the difference between the net proceed form the disposal and the carrying amount of the item) is recognized in the consolidated statement of profit or loss.

6.5 Trade receivables

Accounts receivable are stated at original invoice amount net of discounts and provisions for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

6.6 Term loans

Term loans are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the Effective Interest Rate ("EIR") method.

6.7 Deposits

Deposits are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

6.8 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.

6.9 Employees' end of service benefits

Pension rights (and other social benefits) for Bahraini employees are covered by the General Organisation for Social Insurance scheme to which employees and employers contribute monthly on a fixed-percentage-of salaries basis. The Group's share of contributions to this scheme, which is a defined contribution scheme under IAS 19 - Employees Benefits, is recognised as an expense in the consolidated statement of profit or loss.

Expatriate employees are entitled to leaving indemnities payable under the Bahraini Labour law for the Private Sector 2012, based on length of service and final remuneration. Provision for this which is unfunded has been made by calculating the notional liability had all employees left at the reporting date. These charges are recognised as an expense in the consolidated statement of profit or loss.

6.10 Income recognition

Interest income and expense are recognised in profit or loss using the EIR method. The effective interest ratio is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period to the carrying amount of the financial asset or financial liability). When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition of a financial asset or financial liability.

6.11 Dividend income

Dividend income is recognised when the right to receive income is established.

6.12 Fee and commission income

Fee and commission income and related expenses that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate.

Other fee and commission income including account servicing fees, investment management fees, sales commission, placement fees and syndication fees are recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment.

Other fee and commission expense relate mainly to transaction and service fees, which are expensed as the service is received.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6.13 Rental income

Rental income from investment property is recognised as revenue on a straight line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

6.14 Foreign currencies

Transactions in foreign currencies are translated into the functional currency at the spot exchange rates at the date 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 that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. 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 transaction.

Foreign currency differences arising on translation are generally recognised in the consolidated statement of profit or loss.

6.15 Cash and cash equivalents

Cash and cash equivalents includes notes and coins on hand, unrestricted balances held with the Central Bank and highly liquid financial assets with original maturities of three months or less from the date of acquisition 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. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

6.16 Derivatives

In the ordinary course of business, the Bank enters into transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payment is dependent upon movements in price in one or more underlying financial instruments, reference rate or index. Derivative financial instruments include forward exchange contracts.

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

6.17 Financial assets and financial liabilities

The Bank's key accounting policies in compliance with IFRS 9 are summarised below:

6.17.1 Recognition and initial measurement

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. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

6.17.2 Classification

Financial assets

On initial recognition, a financial asset is classified as at amortised cost, FVOCI or FVTPL. A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets 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.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6.17.2 Classification (continued)

Financial assets (continued)

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; 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.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets designation at fair value through profit or loss

The Group designated certain financial assets as at FVTPL because the assets were managed, evaluated and reported internally on a fair value basis.

Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, realising cash flows through the sale of the assets and holding it for liquidity purposes;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition, which may change over the life of the financial asset. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6.17.3 Derecognition

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

A financial asset (in whole or in part) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- 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 (a) the Group has transferred substantially all the risks and rewards of ownership or (b) when it has neither transferred or retained substantially all the risks and rewards and when it no longer has control over the financial asset, but has transferred control of the asset.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled ,or expired.

6.17.4 Impairment of financial assets

Impairment of financial assets are determined using an "expected credit loss' model ("ECL") as required under IFRS 9. This impairment model is also applied to certain loan commitments and financial guarantees. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the change in the ECLs over the life of the asset. Under IFRS 9, credit losses are recognized earlier than under the previous standard.

6.17.5 Expected credit loss (ECL)

The Bank recognises ECL on the following financial assets that are not measured at fair value through profit or loss:

a) Debt investments;
b) Placements with banks and other financial institutions;
c) Islamic financing and loans to customers;
d) Letters of credit and bank guarantees; and
e) Irrevocable undrawn commitments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the other financial assets on which credit risk has not increased significantly since their initial recognition, for which ECL is measured as 12-month ECL. 12-month ECL are the portion of ECL that result from default events on a financial asset that is possible within the 12 months after the reporting date.

6.17.6 Presentation of allowance for ECL in the statement of financial position

Allowances for ECL are presented in the statement of financial position as follows:

a) financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets; and

b) where a financial instrument includes both a drawn and an undrawn component (as in the case of overdraft, letter of credit / bank guarantee limits etc.), the Bank presents a loss allowance for the approved limit of the facility in 'other liabilities'.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6.17.7 Write-offs

Financial assets are written off either partially or in their entirety only when the Bank has thoroughly explored most avenues of recovery and it is recognized thereafter that the outstanding amount of the debt is clearly not recoverable. However, in all written-off cases, the Bank's efforts towards the recovery of the outstanding amount continues and periodic updates are provided to the Board of Directors. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to 'other income'.

Refer to note 28 for further details.

6.18 Non-controlling interests

Non-controlling interests represents the portion of profit or loss and net assets in the subsidiaries not attributable to the Bank's equity shareholders. Any change in Group's ownership interest in the subsidiary that does not result in a loss of control is accounted for as an equity transaction.

7. CASH AND CASH EQUIVALENTS

	2022 BD '000	2021 BD '000
Cash and balances with Central Bank of Bahrain	4,865	3,027
Placements with banks and other financial institutions	13,893	22,312
	18,758	25,339
Less: reserve with Central Bank of Bahrain	(4,452)	(2,667)
Add: allowance for expected credit losses	1	3
Cash and cash equivalents at end of the year	14,307	22,675
Cash and balances with Central Bank of Bahrain (excluding reserves)	413	360
Placements with banks and other financial institutions having original maturity of 90 days or less	13,894	22,315
	14,307	22,675

8. ISLAMIC FINANCING AND LOANS TO CUSTOMERS

	2022 BD '000	2021 BD '000
Project finance - Islamic	130,887	137,701
Project finance - conventional	14,073	18,987
Fisheries and agriculture	3,276	3,388
Other loans	2,064	2,249
	150,300	162,325
Less: expected credit losses*	(16,266)	(15,693)
	134,034	146,632

* This includes credit losses of BD 10,661 thousand (31 December 2021: BD 11,243 thousand) against Islamic financing to customers.

Included in Islamic financing and loans to customers are certain facilities at zero interest rate, which are carried at a discount of BD 10,575 thousand (31 December 2021: BD 13,002 thousand) with an undiscounted amount of BD 54,000 thousand (31 December 2021: BD 54,000 thousand).

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

8. ISLAMIC FINANCING AND LOANS TO CUSTOMERS (Continued)

Below is the movement for expected credit losses on Islamic financing and loans to customers:

	2022			
	Stage 1 12-months ECL BD '000	Stage 2 Life time ECL not credit impaired BD '000	Stage 3 Lifetime ECL credit-impaired BD '000	Total BD '000
Balance at 1st January	1,403	543	13,747	15,693
Changed due to financial assets recognised in opening balances that have:				
- transferred to 12-month ECL	57	(57)	-	-
- transferred to Stage 2 (lifetime ECL not credit-impaired)	(41)	176	(135)	-
- transferred to Stage 3 (lifetime ECL credit-impaired)	(58)	(9)	67	-
Net re-measurement of loss allowance	1,099	258	1,095	2,452
Recoveries / write-backs	(311)	(410)	(1,146)	(1,867)
Allowance for expected credit losses - net	746	(42)	(119)	585
Amount written offs during the year	-	-	(12)	(12)
Balance at 31 December	2,149	501	13,616	16,266

	2021			
	Stage 1 12-months ECL BD '000	Stage 2 Life time ECL not credit impaired BD '000	Stage 3 Lifetime ECL credit-impaired BD '000	Total BD '000
Balance as at 1st January	962	429	13,974	15,365
Changed due to financial assets recognised in opening balances that have:				
- transferred to Stage 2 (lifetime ECL not credit-impaired)	(35)	48	(13)	-
- transferred to Stage 3 (lifetime ECL credit-impaired)	(11)	(4)	15	-
Net re-measurement of loss allowance	569	205	1,289	2,063
Recoveries / write-backs	(82)	(135)	(420)	(637)
Allowance for expected credit losses - net	441	114	871	1,426
Amount written offs during the year	-	-	(1,098)	(1,098)
Balance at 31 December	1,403	543	13,747	15,693

At 31 December 2022, interest in suspense on past due loans that are credit impaired amounted to BD 1,336 thousand (31 December 2021: BD 1,849 thousand) and are treated as a memorandum account.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

8. ISLAMIC FINANCING AND LOANS TO CUSTOMERS (Continued)

The following table sets out information about the credit quality of Islamic financing and loans to customers:

	31 December 2022			
	Stage 1 12-months ECL BD '000	Stage 2 Life time ECL not credit impaired BD '000	Stage 3 Lifetime ECL credit-impaired BD '000	Total BD '000
Corporate	70,395	9,111	13,549	93,055
SME	27,177	2,967	9,003	39,147
Small business	8,119	922	3,291	12,332
Overdrafts	1,510	1	544	2,055
Education loans	39	-	236	275
Others	2,108	364	964	3,436
	109,348	13,365	27,587	150,300
Less: expected credit losses	(2,149)	(501)	(13,616)	(16,266)
	107,199	12,864	13,971	134,034

	31 December 2021			
	Stage 1 12-months ECL BD '000	Stage 2 Life time ECL not credit impaired BD '000	Stage 3 Lifetime ECL credit-impaired BD '000	Total BD '000
Corporate	76,047	3,674	16,543	96,264
SME	38,472	974	5,746	45,192
Small business	11,318	443	3,066	14,827
Overdrafts	1,437	-	535	1,972
Education loans	125	-	280	405
Others	2,300	146	1,219	3,665
	129,699	5,237	27,389	162,325
Less: expected credit losses	(1,403)	(543)	(13,747)	(15,693)
	128,296	4,694	13,642	146,632

The fair value of the collateral consisting of cash, securities and real estate that the Group holds relating to loans individually determined to be impaired at 31 December 2022 amounts to BD 13,292 thousand (31 December 2021: BD 16,821 thousand).

The contractual amount outstanding on financing assets written off by the Group as at 31 December 2022 and that are still subject to enforcement activity was BD 27,791 thousand (31 December 2021: BD 14,080 thousand).

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

8. ISLAMIC FINANCING AND LOANS TO CUSTOMERS (Continued)

A reconciliation of changes in gross carrying amount by stage is as follows:

	Stage 1	Stage 2	Stage 3	Total
1 January 2022	**129,699**	**5,237**	**27,389**	**162,325**
Loan discount	**(10,575)**	**-**	**-**	**(10,575)**
New assets originated	**14,044**	**4,770**	**3,291**	**22,105**
Payments and assets derecognised	**(10,652)**	**(2,123)**	**(10,768)**	**(23,543)**
Transfers to Stage 1	**1,106**	**(1,106)**	**-**	**-**
Transfers to Stage 2	**(6,252)**	**6,924**	**(672)**	**-**
Transfers to Stage 3	**(8,022)**	**(337)**	**8,359**	**-**
Amounts written-off during the year	**-**	**-**	**(12)**	**(12)**
At 31 December 2022	**109,348**	**13,365**	**27,587**	**150,300**

	Stage 1	Stage 2	Stage 3	Total
1 January 2021	130,047	3,243	28,705	161,995
Loan discount	(13,002)	-	-	(13,002)
New assets originated	33,931	1,221	1,547	36,699
Payments and assets derecognised	(17,844)	(213)	(4,212)	(22,269)
Transfers to Stage 2	(1,217)	1,243	(26)	-
Transfers to Stage 3	(2,216)	(257)	2,473	-
Amounts written-off during the year	-	-	(1,098)	(1,098)
At 31 December 2021	129,699	5,237	27,389	162,325

9. INVESTMENT SECURITIES

	2022 BD '000	2021 BD '000
At fair value through profit or loss:		
Conventional equities	**7,553**	6,932
Islamic equities	**23**	24
	7,576	6,956
At fair value through other comprehensive income:		
Conventional equities	**22**	25
Conventional debt securities*	**19,526**	17,907
Sukuk*	**4,524**	3,207
	24,072	21,139
At amortized cost:		
Conventional debt securities*	**30,692**	27,901
	62,340	55,996

*These are sovereign exposures based in Kingdom of Bahrain, with low risk profile and fully recoverable and hence, ECL is assumed to be minimal.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

10. INVESTMENT IN ASSOCIATES

	Ownership interest		
	2022	2021	**Principal activity**
Arabian Taxi Company ("ATC")*	**20.00%**	20.00%	Operating and managing taxi services.
EBDA Bank ("EBDA")	**21.13%**	21.13%	Providing microfinance and related advisory services.

* As a 31 December 2022, the Group carried its share in Arabian Taxi Company at cost (31 December 2021: same).

Associates are incorporated in Kingdom of Bahrain and accounted for using the equity method in these consolidated financial statements.

	2022 BD '000	2021 BD '000
The carrying amount of investment in associated companies		
At 1 January	**383**	374
Share of profit from associated companies	**11**	9
At 31 December	**394**	383

11. INVESTMENT PROPERTIES

	2022 BD '000	2021 BD '000
At 1 January	**10,581**	11,071
Addition to investment property	**58**	-
Transferred to MOIC	**(5,238)**	-
Reclassification to property and equipment	**-**	(17)
Capital expenditure	**101**	-
Depreciation charge for the year	**(372)**	(473)
At 31 December	**5,130**	10,581

As of 31 December 2022, the fair value of 3 buildings included in the investment properties (2021: 4 buildings) approximate their carrying values (2021: same).

The fair value measurement of the investment properties has been categorized as a Level 3 fair value based on the inputs to the valuation technique used by the management. The discounted cash flows model considers the present value of net cash flows to be generated from the property, taking into account the expected rental growth rate, void periods, occupancy rate, lease incentive costs such as rent-free periods and other costs not paid by tenants. The expected net cash flows are discounted using risk-adjusted discounted rates. Among other factors, the discount rate estimation considers quality of a building and its location, tenant credit quality and lease terms.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

12. PROPERTY AND EQUIPMENT

2022	Freehold land BD '000	Right of Use assets BD '000	Freehold premises BD '000	Furniture, fixtures, vehicles computers and office equipment BD '000	Work in process BD '000	Total BD '000
Cost:						
At 1 January 2022	293	737	1,659	2,609	2,093	7,391
Additions	-	9	-	346	429	784
Disposals / write offs	-	(419)	-	(426)	-	(845)
Transfers	-	-	-	1,613	(1,613)	-
At 31 December 2022	293	327	1,659	4,142	909	7,330
Depreciation:						
At 1 January 2022	-	478	1,586	2,225	-	4,289
Charge for the year	-	74	73	205	-	352
Disposals / write offs	-	(232)	-	(277)	-	(509)
Transfers	-	-	-	156	-	156
At 31 December 2022	-	320	1,659	2,309	-	4,288
Net book values:						
At 31 December 2022	293	7	-	1,833	909	3,042

2021	Freehold land BD '000	Right of Use assets BD '000	Freehold premises BD '000	Furniture, fixtures, vehicles computers and office equipment BD '000	Work in process BD '000	Total BD '000
Cost:						
At 1 January 2021	293	731	1,659	2,520	464	5,667
Additions	-	6	-	106	1,647	1,759
Disposals / write offs	-	-	-	-	(18)	(18)
Reclassification from investment properties	-	-	-	(17)	-	(17)
At 31 December 2021	293	737	1,659	2,609	2,093	7,391
Depreciation:						
At 1 January 2021	-	315	1,407	2,019	-	3,741
Charge for the year	-	163	179	237	-	579
Disposals / write offs	-	-	-	-	-	-
Reclassification from investment properties	-	-	-	(31)	-	(31)
At 31 December 2021	-	478	1,586	2,225	-	4,289
Net book values:						
At 31 December 2021	293	259	73	384	2,093	3,102

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

13. OTHER ASSETS

	2022 BD '000	2021 BD '000
Rent and other accounts receivable	6,947	3,158
Profit / interest receivable	535	2,830
Receivable related to Sitra Mall	542	542
Receivable from Ministry of Finance and National Economy	417	407
Prepayments and other assets	1,018	540
Gross carrying amount	9,459	7,477
Provision for impairment	(3,179)	(3,131)
Net carrying amount	6,280	4,346

14. TERM LOANS

	2022 BD '000	2021 BD '000
Saudi Fund for Development	6,502	7,018
Arab Fund for Economic and Social Development	21,301	27,785
	27,803	34,803

The movement of the term loans during the year is as follows:

	2022 BD '000	2021 BD '000
At 1 January	34,803	35,304
Repayment of loans	(7,000)	(501)
At 31 December	27,803	34,803

Saudi Fund for Development

During 2012, the Bank obtained a loan of SAR 100 million from Saudi Fund for Development. The facility has been fully availed and is repayable semi-annually over 25 years (5 years grace period for principal) at an interest rate of 2.0%. The Ministry of Finance is a guarantor to the loan.

Arab Fund for Economic and Social Development

During 2013, the Bank had obtained a loan of USD 30 million from Arab Fund for Economic and Social Development (AFESD). The facility has been fully availed and is repayable semi-annually over 10 years (3 years grace period for principal) at an interest rate of 3.0%. During 2014, the Bank had obtained a second loan of USD 50 million from AFESD. The facility has been fully availed and is repayable semi-annually over 10 years (3 years grace period for principal) at an interest rate of 3.0%. During 2016, the Bank had obtained a third loan of USD 50 million from AFESD. The facility has been fully availed and is repayable semi-annually over 10 years (3 years grace period for principal) at an interest rate of 3.0%. During the year ended 31 December 2021, Arab Fund had allowed an interim grace period for one year as concessionary measure in response of COVID-19 pandemic.

15. DEPOSITS

	2022 BD '000	2021 BD '000
Deposits from non-banks	132,863	137,995
	132,863	137,995

Deposits from customers include BD 676 thousand (31 December 2021: BD 837 thousand) kept as margin deposits against financings provided.

Included in the deposits, a deposit with zero interest rate provided by Ministry of Finance and National Economy and carried at a discount of BD 10,418 thousand (31 December 2021: BD 12,952 thousand) while the undiscounted amount is BD 63,000 thousand (31 December 2021: BD 63,000 thousand).

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

16. SHARE CAPITAL

	2022 BD '000	2021 BD '000
Authorized:		
100 million (2021: 100 million) shares of BD 1 each	100,000	100,000
Issued and fully paid-up:		
63.7 million (2021: 65 million) shares of BD 1 each	63,669	65,000

The shareholders of the Bank in the Extraordinary General Meeting held on 14 March 2022 approved the transfer of the investment property, Bahrain Business Incubator Centre at Hidd, to the Government of Bahrain by cancelling 1,331 thousand shares owned by one of the shareholders, with the remaining balance adjusted against other capital contribution. The legal formalities were completed and the transfer agreement was signed on 7 July 2022, effective 1 August 2022.

The names and countries of the shareholders and the number of equity shares held of outstanding shares are as follows:

	Country	Number of shares ('000)	% of total outstanding shares
31 December 2022			
Government of the Kingdom of Bahrain	Bahrain	57,002	89.53%
General Organisation for Social Insurance	Bahrain	3,333	5.23%
Pension Fund Commission (Military)	Bahrain	1,467	2.31%
Pension Fund Commission	Bahrain	1,867	2.93%
		63,669	100.00%

	Country	Number of shares ('000)	% of total outstanding shares
31 December 2021			
Government of the Kingdom of Bahrain	Bahrain	58,333	89.74%
General Organisation for Social Insurance	Bahrain	3,333	5.13%
Pension Fund Commission (Military)	Bahrain	1,467	2.26%
Pension Fund Commission	Bahrain	1,867	2.87%
		65,000	100.00%

17. STATUTORY RESERVE

In accordance with the provisions of the Bahrain Commercial Companies Law and the Bank's articles of association, an amount equivalent to 10% of the net profit for the year is transferred to the statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital. This reserve is not distributable, but can be utilised for the purposes of a distribution in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the CBB. No such transfers have been made during the years ended 31 December 2022 and 2021, as the Bank is having accumulated losses.

18. OTHER CAPITAL CONTRIBUTION

Other capital contribution mainly includes a contribution by the majority shareholder for a non-monetary asset in the form of a commercial property to the Bank. The property has been classified as an investment property (refer note 11) that was recognised at its fair value on the date of transfer and as a capital contribution in the statement of changes in equity of BD 3,623 thousand. During the year ended 31 December 2022, the bank transferred BD 3,623 thousand to the Government of Bahrain due to the transfer of the investment property, Bahrain Business Incubator Centre at Hidd.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

19. ISLAMIC FINANCING AND INTEREST INCOME

	2022 BD '000	2021 BD '000
Profit on Islamic financing	4,955	4,633
Interest on conventional loans	938	1,311
Profit and interest on securities	1,887	1,687
Profit and interest on placements	286	156
	8,066	7,787

20. ISLAMIC FINANCING AND INTEREST EXPENSE

	2022 BD '000	2021 BD '000
Interest on term loans	852	988
Interest on deposits from non-banks	91	109
Profit on deposits from Islamic banks	4	4
Interest on deposits from conventional banks	3	1
	950	1,102

21. FEE AND COMMISSION INCOME

	2022 BD '000	2021 BD '000
On Islamic financing and loans to customers	273	282
On contingent liabilities	48	61
	321	343

22. INVESTMENT INCOME

	2022 BD '000	2021 BD '000
Changes in fair value of investments classified as FVTPL	165	637
Dividend income	229	45
	394	682

23. REVERSAL OF / (CHARGE FOR) EXPECTED CREDIT LOSSES

	2022 BD '000	2021 BD '000
Placement with banks and other financial institutions	(2)	(2)
Islamic financing and loans to customers	585	1,426
Other assets	48	79
Contingent liabilities and commitments	16	(37)
Recoveries from fully provided loans written-off in previous years	(822)	(453)
	(175)	1,013

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

24. CONTINGENT LIABILITIES AND COMMITMENTS

The Bank issues letters of credit and guarantees to its existing customers. These instruments commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import of goods.

Irrevocable commitments to extend credit are the Islamic financing and loans, which have been approved by the Bank but have not been disbursed as of the reporting date.

Details of contingent liabilities and commitments are given below:

	2022 BD '000	2021 BD '000
Contingent liabilities:		
Letters of guarantee *	1,529	1,272
Letters of credit *	299	24
	1,828	1,296
Commitments:		
Irrevocable commitments to extend credit *	1,203	1,044
Commitment to invest in equity **	1,253	1,754
Capital expenditure	311	1,317
	2,767	4,115
	4,595	5,411

* The Bank carries an allowance of ECL of BD 73 thousand (31 December 2021: 57 thousand) against these off-balance sheet items which is classified under other liabilities.

** This represents the Bank's commitment to invest a 10% equity portion in Al-Waha Venture Capital Fund established with a total value of USD 100 million (equivalent BD 37.7 million). During the year, the Bank paid BD 502 thousand (2021: 563 thousand) toward this commitment. The Net Asset Value (NAV) based on the latest financial information of the Fund, as at reporting date was BD 36,420 thousand (31 December 2021: BD 27,992 thousand).

As at 31 December 2022, the Bank had an outstanding loan exposure of BD 9,137 thousand (2021: nil), which is managed in a fiduciary capacity on behalf of another entity, and is not included in the consolidated financial statements.

25. FAIR VALUES OF FINANCIAL INSTRUMENTS

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 fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability, the principal or the most advantageous market must be accessible to by the Group.

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.

The Group measures fair values of financial instruments using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes instruments where the valuation technique includes inputs not based on market observable data.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

25. FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Term loans obtained by the Bank are from Development Funds in Kuwait and the Kingdom of Saudi Arabia. There is no secondary market for such loans which are at lower than market rates due to the nature of these loans. The Bank has estimated that its financing rates and terms are comparable to that of the objectives of other similar development banks in the region and accordingly believes the carrying value of term loans obtained are a close approximation of their fair values.

The fair value of deposits approximates the carrying value as at the reporting date given their short term nature.

There is no change in the valuation techniques used for valuation of investments during the year as compared to the year ended 31 December 2021.

The valuation technique for Level 2 financial assets is arrived on the basis of the market multiples approach and discounted cash flows. The key inputs used include a range of weighted average cost of capital used for discounting cash flows, discount for lack of marketability, control premium etc.

The bank uses various valuation techniques such as discounted cash flows, market multiples and adjusted net assets value to arrive at the fair value of Level 3 financial assets. The key inputs used are discount rate and growth rate, price earning multiple and net assets value. The reasonable potential shift in any of the above mentioned inputs will not have any significant effect on the consolidated statement of profit and loss.

The table below analyses financial instruments, measured at fair value as at both reporting dates, in the fair value hierarchy into which the fair value measurement is categorised. The fair values of financial assets and financial liabilities carried at amortised cost approximate their carrying values as at the reporting dates.

Financial assets measured at fair value:	Level 1 BD '000	Level 2 BD '000	Level 3 BD '000	Total fair value BD '000	Total carrying value BD '000
31 December 2022					
Investment securities - equity	**-**	**23**	**7,575**	**7,598**	**7,598**
Investment securities - debt	**24,050**	**-**	**-**	**24,050**	**24,050**
31 December 2021					
Investment securities - equity	-	24	6,957	6,981	6,981
Investment securities - debt	21,114	-	-	21,114	21,114

The Bank has outstanding forward forex contracts to buy USD, BD and SAR from Central Bank of Bahrain ("CBB") and other local banks with a nominal value of BD 27,672 thousand (2021: BD 36,449 thousand) with tenors of one year and less.

There were no transfers between level 1 and level 2 during the years ended 31 December 2022 and 2021.

Below is the reconciliation of Level 3 financial assets carried at fair value:

	2022 BD '000	2021 BD '000
At beginning of the year	**6,957**	5,701
Changes in fair value recognised in the statement of profit or loss	**165**	793
Additions during the year	**503**	563
Redemptions made during the year	**(50)**	-
Written off during the year	**-**	(100)
At end of the year	**7,575**	6,957

Sensitivity analysis

FVTPL investments comprises investments in private equity entities and funds. The main principles, estimates and assumptions adopted to arrive at fair value include estimated future cash flows which have been provided by the management of the investee companies but have been reviewed for reasonableness by the Group and the external valuer. Cash flows have been projected for an initial period of five years or over the project life in certain cases and then a terminal value has been estimated at a growth rate of 2% to 3% (2021: same).

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

25. FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

The potential effect of using reasonable possible alternative assumptions for fair valuing the investments at FVTPL are summarised below:

Valuation technique used	Key unobservable inputs	Fair value at 31 December 2022 BD '000	Reasonable possible shift +/- (in any input)	Impact on profit or loss BD '000
Discounted cash flow	Discount rate	2,714	+/- 0.5%	(61) / 67
	Growth rate		+/- 0.5%	42 / (38)
Adjusted Net Assets Value	NAV	4,764	+/- 5%	(68) / 68

Valuation technique used	Key unobservable inputs	Fair value at 31 December 2021 BD '000	Reasonable possible shift +/- (in any input)	Impact on profit or loss BD '000
Discounted cash flow	Discount rate	2,714	+/- 0.5%	(61) / 67
	Growth rate		+/- 0.5%	42 / (38)
Adjusted Net Assets Value	NAV	4,107	+/- 5%	74 / (34)

26. RELATED PARTY TRANSACTIONS

The Group enters into transactions with related parties which comprise major shareholders, associates, directors, senior management and entities controlled jointly or significantly influenced by such related parties in the ordinary course of business at agreed rates. Amounts due from related parties are unsecured.

The year end balances in respect of related parties included in the consolidated statement of financial position are as follows:

	Directors and key management personnel BD '000	Shareholders and related companies BD '000	Total BD '000
31 December 2022			
Islamic financing and loans to customers	1	-	1
Investment in associated companies	-	394	394
Other assets	-	417	417
Deposits	-	127,143	127,143

	Directors and key management personnel BD '000	Shareholders and related companies BD '000	Total BD '000
31 December 2021			
Islamic financing and loans to customers	1,104	-	1,104
Investment in associated companies	-	383	383
Other assets	-	407	407
Deposits	64	114,285	114,349

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

26. RELATED PARTY TRANSACTIONS (Continued)

The transactions with related parties included in the consolidated statement of profit or loss are as follows:

	Directors and key management personnel BD '000	Shareholders and related companies BD '000	Total BD '000
2022			
Islamic financing and interest income	**28**	**-**	**28**
Islamic financing and interest expense	**-**	**22**	**22**
Share of profit for associated companies	**-**	**11**	**11**

	Directors and key management personnel BD '000	Shareholders and related companies BD '000	Total BD '000
2021			
Islamic financing and interest income	52	-	52
Islamic financing and interest expense	-	18	18
Share of profit for associated companies	-	9	9

During the year ended 31 December 2022, the Group has not recorded ECL towards amounts owed by related parties (2021: nil).

Compensation of key management personnel is as follows:

	2022 BD '000	2021 BD '000
Board remuneration	**117**	113
Salary and short-term employee benefits	**1,089**	977
Termination benefits	**184**	90
	1,390	1,180

27. RISK MANAGEMENT

Risk is inherent in the Bank's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. In the course of its regular business, the Bank is exposed to multiple risks notably credit risk, liquidity risk, market risk, operational risk and other risks like compliance risk, strategic risks and reputational risks. A well-established risk governance and ownership structure ensures oversight and accountability of the effective management of risk at the Bank. The Bank's risk governance is manifested in a set of established policies, procedures and controls through which the existing organizational structure meets its strategic targets. This philosophy revolves around the knowledge of various risks and their willingness to accept the same commensurating with their risk appetite and strategic plan approved by the Board of Directors.

a) Organizational structure

A cohesive organizational structure is established within the Bank in order to identify, assess, monitor, and mitigate risks.

b) Board of Directors

The Board of Directors ("BOD") is responsible for the overall direction, supervision and control of the Bank. Oversight of the day-to-day management of the Bank is conducted by the BOD committees, the Chairman and the Chief Executive Officer ("CEO"). The BOD has overall responsibility for the Bank including approving and overseeing the implementation of its strategic objectives, risk strategy, corporate governance and corporate values within the agreed framework in accordance with relevant statutory and regulatory structures. The BOD currently comprises eight members.

c) Audit & Governance Committee of the board

The Audit & Governance Committee ("AGC") comprises three members of the Board and the Head of Internal Audit is the AGC's Secretary. This AGC is principally responsible for reviewing the internal audit program and assist the Board in carrying out its duties regarding the integrity of the Bank's financial reporting system, adequacy of the Bank's internal control and risk management processes, to oversee the external and internal audit functions, and the Bank's compliance with legal and regulatory requirements.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

27. RISK MANAGEMENT (Continued)

d) Nomination & Remuneration Committee of the board

The Nomination & Remuneration Committee ("NRC") comprises three members of the BOD (including the Chairman) and the Head of Human Resources & Corporate Communications is the committee's Secretary. NRC has the overall responsibility of setting the criteria and processes for identification of candidates for the Board level committees and senior management. The Committee also assists the Board of Directors in establishing a fair and transparent process for the remuneration of directors, other Board Committees and the Chief Executive Officer and of the Executive Management. The Committee approves and oversees reward design and ensures that the reward is appropriate and consistent with the Bank's culture, business and risk strategy, performance as well as with any legal or regulatory requirements. NRC also overseas the Bank's HR policies and rewards policy framework, corporate governance practices.

e) Investment & Credit Committee of the Board

The Investment & Credit Committee ("ICC") comprises four members of the BOD. The Committee has overall responsibility of setting the criteria for managing credit and investment risks and oversee the investment and credit strategies and objectives of the Bank. The Committee assists the Board of Directors in managing credit risk and reviews internal credit policies, grants approvals for credit and investment facilities in addition to reviewing the quality and performance of the Bank's lending portfolio and investment in line with the agreed risk appetite and best credit risk management practices.

f) Risk Committee of the Board

The Risk Committee ("RC") comprises three members of the BOD. The Committee has overall responsibility of overseeing the Bank's enterprise risk management framework, approach and pertinent policies. The Committee recommends to the Board, guidelines in relation to the Bank's current and potential future risk exposures and risk strategy, determination of risk appetite including risk limits and tolerance levels as well as the Bank's capital and liquidity strategy.

g) Executive Management

Executive Management is responsible for the day to day operations towards achieving the strategic goals within the pre-defined risk appetite and approved strategy as a whole.

h) Management Executive Committee

The Management Executive Committee ("MEC") is a senior management level committee that has been entrusted with the role of supporting the CEO to determine and implement the Bank's strategic plan as approved by the BOD. The responsibilities of MEC include approving and monitoring the Bank's various business activities in accordance with the strategic plan approved by the Board.

In order to fulfil its responsibilities, the Committee has appointed other Sub-Committees and delegated specific tasks and adequate powers and authorities for effectively and efficiently carrying out the responsibilities assigned to them. The composition, guiding principles and detailed roles and responsibilities of MEC are covered in the MEC's charter.

i) Risk Executive Committee

The Risk Executive Committee ("REC") has the primary responsibility of overseeing the Bank's activities in managing credit risk, market risk, liquidity risk, operational risk, legal risk and other risks. REC has to ensure that the Bank has adequate risk management framework, policies, procedures and processes in place in order to identify, measure, monitor, mitigate and manage risks across all of its operations.

j) Asset and Liability Committee

The Assets and Liabilities Committee ("ALCO") is mainly responsible for defining long-term strategic plans and short-term tactical initiatives for directing asset and liability allocation prudently for the achievement of the Bank's strategic goals. ALCO monitors the Bank's liquidity and market risks and the Bank's risk profile in the context of economic developments and market fluctuations, to ensure that the Bank's ongoing activities are compatible with the risk / reward guidelines approved by the Delegated Approval Authority / Board.

k) Credit Committee

The Credit Committee ("CC") has the responsibility to grant / approve credit facilities as within their Delegated Authority and also makes decisions relating to the execution of investments in line with the Banks investment strategy and management of credit and concentration risks. Proposals exceeding their Delegated Authority are escalated to the ICC for consideration.

l) Risk management

Risk Management Department is an independent function responsible for the preparation, implementation and updating the policies and procedures within the framework of the Bank's strategy and in line with the guidelines of the CBB. They are also responsible for the identification and continuous evaluation of all significant risks, design and implementation of appropriate internal controls to mitigate the risks and the processes involved in the remedial function. The risk management department is overseen by the Chief Risk Officer.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

27. RISK MANAGEMENT (Continued)

m) Legal Department

The Bank has engaged a panel of external legal counsels to handle all legal cases initiated for recovery of difficult loan cases. The progress and outcomes on such cases are monitored by the Head of Legal.

n) Internal Audit Department

Risk Management processes are audited annually by Internal Audit, which examines the adequacy of the controls in place in addition to compliance with the policies by the respective departments. The internal audit results are discussed with the MEC and the findings, together with recommendations, to mitigate the findings are presented to the Audit & Governance Committee of the Board.

o) Treasury Department

The Treasury Department is responsible for the day to day operations necessary to fund banking activities and implement ALCO's strategies in managing / optimizing interest rate and liquidity risks.

p) Risk Measurement and Reporting Systems

Monitoring and controlling risks is primarily performed based on the approved limits and the strong internal control structures established by the Board. The limits reflect the business strategy and the market environment in which the Bank operates as well as the level of risk that the Bank is willing to accept.

Strict assessment processes are factored during the review and approval processes. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities. Specifically tailored risk reports are prepared and distributed to ensure that all business divisions have access to extensive, necessary and up-to-date information.

Quarterly updates are provided to the BOD and on a monthly basis to all other members of the management on the utilization of market limits, proprietary investments, liquidity and other developments.

q) Risk Mitigation

Significant risk mitigation activities are focused in the credit area. The risk mitigation process comprises of an appropriate and adequate structure for the credit facilities at the initial stage followed by ongoing and regular monitoring, enforceable documentation and collateral.

The various risks to which the Group is exposed and how the Group manages them is discussed in the notes below.

28. 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 loans and Islamic financing to customers, placements and debt securities.

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

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

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

28.1 Credit risk

Credit risk is considered to be the most significant and pervasive risk for the Bank. The Bank takes on exposure to credit risk, which is the risk that the counter-party to a financial transaction will fail to discharge an obligation causing the Bank to incur a financial loss. Credit risk arises principally from financing (credit facilities provided to customers), deposits held with other banks and investments made in debt type instruments. Further, there is credit risk in certain off-balance sheet financial instruments, including guarantees relating to the purchase and sale of foreign currencies, letters of credit, acceptances and commitments to extend the credit. Credit risk monitoring and control is performed by the Credit Risk Management Unit (CRMU) which sets parameters and thresholds for the Bank's financing activities.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

28. CREDIT RISK (Continued)

28.2 Significant Increase In Credit Risk (SICR)

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

Using its expert credit judgment and, where possible, relevant historical experience, the Bank 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 an increase and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis. The Bank monitors the effectiveness of the criterion used to identify SICR by regular reviews and validations.

The Bank classifies its financial instruments into Stage 1, Stage 2 and Stage 3, based on the applied methodology, as described below:

Stage 1: for financial instruments where there has not been a SICR since initial recognition and that are not credit-impaired on origination, the Bank recognises an allowance based on the 12-month ECL. All accounts at origination are classified as Stage 1.

Stage 2: for financial instruments where there has been a SICR since initial recognition but are not credit-impaired, the Bank recognises an allowance for the lifetime ECL for all financings and loans categorised in this stage based on the actual / expected maturity profile including restructuring or rescheduling of facilities.

Stage 3: for credit-impaired financial instruments, the Bank recognises the lifetime ECL. A customer is classified under Stage 3 based on a default identification process i.e. Days Past Due (DPD) of 90 days or more.

28.3 Measurement of ECL

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

Type of financial instrument	Measurement basis
a) Financial assets 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 Bank expects to receive).
b) Financial assets that are credit-impaired at the reporting date	As the difference between the gross carrying amount and the present value of estimated future cash flows.
c) Irrevocable undrawn commitments	As the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive.
d) Letters of credit and bank guarantees	As the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

The Bank measures an ECL at an individual instrument level taking into account the projected cash flows, Probability of Default (PD), Loss Given Default (LGD), Credit Conversation Factor (CCF) and discount rate.

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

a) Probability of Default (PD);

b) Loss Given Default (LGD); and

c) 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.

Linear Regression has been used to develop macroeconomic models specific to portfolios of the bank. Department variable has been the default rate specific to portfolios and independent variables considered are Macro variables.

The Modelling methodology adopted by the Bank involved a systematic approach with statistically rigorous analyses' to arrive at the final model for each of the portfolios. The underlying development process involved steps of data transformation, variable reduction, model performance, check for variable collinearity etc.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

28. CREDIT RISK (Continued)

28.3 Measurement of ECL (continued)

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

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

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

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

For facilities that include both a drawn and an undrawn commitment component, the Bank measures ECL over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management but only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and / or turning the outstanding balance into a loan with fixed repayment terms.

28.4 Generating the term structure of PD

The Bank collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading.

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

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: gross domestic product / economic growth, interest rates, unemployment rates and inflation.

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

For the financing portfolio, through the yearly review of the corporate portfolio, the Bank observes yearly performances to compute a count based PD over the one year horizon for the past 5 years.

PDs for each segment are measured using observed default estimation and PD is calculated based on a DPD bucket level for each segment separately. Under this analysis, the delinquency status of accounts is tracked at an interval of one year with a moving month cycle. A minimum of 5 year DPD data is considered.

28.5 Restructured financial assets

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

In project finance, there could be delays in implementation of the project and in some cases, the projects may take a longer time to generate surplus. The Bank has in such cases, where there is a genuine need and commitment from the customer, approved a restructuring.

Maximum tenor of the facility post restructuring does not exceed 15 years from the first disbursement of the facility. As has been prescribed by the CBB, restructured accounts are transferred to Stage 2 directly for a minimum period of 12 months.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

28. CREDIT RISK (Continued)

28.6 Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset 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.

28.7 Definition of ‘Default’ and ‘Cure’

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

a) significant financial difficulty of the issuer or the obligor;

b) material breach of facility covenants, conditions and contract (subject to management discretion);

c) grant to the borrower a concession that the lender would not otherwise consider except for economic or legal reasons relating to the borrower’s financial difficulty;

d) imminent bankruptcy or other financial reorganization of the borrower;

e) significant downgrading in credit rating by an external credit rating agency;

f) disappearance of an active market because of financial difficulties;

g) presence of past due contractual payments of either principal or profit; and

h) deterioration in the value of security and likelihood of successfully realising it.

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

A financial instrument is considered as ‘cured’ and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least twelve consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit review, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

28.8 Incorporation of forward looking assumptions

The Bank incorporates forward-looking assumptions into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Bank annually sources macro-economic forecast data for various variables from many databases including the International Monetary Fund (IMF) database for Bahrain, Bloomberg, Reuters and World Bank.

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

i) Limits and concentrations

Limits are assigned for each individual counterparty group and for each industrial segment. The Bank also monitors credit exposures, and continually assesses the creditworthiness of counterparties to the transactions. In addition, the Bank obtains security, where appropriate, enters into master netting agreements and collateral arrangements with counterparties, and limits the duration of exposures.

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

In order to avoid excessive concentrations of risk, the Bank’s policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

28. CREDIT RISK (Continued)

28.8 Incorporation of forward looking assumptions (continued)

ii) Maximum exposure to credit risk without taking account of any collateral

The table below shows the maximum exposure to credit risk as at the reporting date.

	2022 BD '000	2021 BD '000
Balances with Central Bank of Bahrain	4,787	2,869
Placement with banks and other financial institutions	13,893	22,312
Islamic financing and loans to customers	134,034	146,632
Investment securities	54,764	49,015
Other assets	5,897	4,104
	213,375	224,932
Contingent liabilities	1,828	1,296
Commitments	1,203	1,044
	3,031	2,340
Maximum credit risk exposure	216,406	227,272

iii) External credit assessment

The Bank does not use any external credit assessment institutions and the risk rating for the exposures are based on the internal credit framework and policy guidelines of the Bank.

iv) Concentration of credit risk

Since the Group's operations are restricted only to the Kingdom of Bahrain, it is primarily effected by the changes in the economic and other conditions prevailing in the Kingdom of Bahrain.

	2022 BD '000	2021 BD '000
Industry sector		
Banks and financial institutions	73,444	74,196
Government	44,489	41,097
Trading and manufacturing	32,362	53,260
Hospitality, media and transportation	11,062	14,787
Food processing	9,342	8,523
Fisheries, agriculture and dairy	5,851	5,190
Education and health	5,451	7,034
Others	34,405	23,185
	216,406	227,272

v) Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the facility structure and the associated credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are cash margin, bank guarantees and real estate title deeds.

Market value of collateral is closely monitored by the Bank in addition to requesting additional collateral in accordance with the underlying agreement and evaluation of the adequacy of the allowance for impairment / ECL.

It is the Bank's policy to normally dispose off repossessed collateral in an orderly fashion after due notice has been provided to the defaulting customer. The proceeds are used to reduce or settle the outstanding claim. The Bank did not occupy repossessed properties for its own business use, as at the reporting date.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

28. CREDIT RISK (Continued)

28.8 Incorporation of forward looking assumptions (continued)

v) Collateral and other credit enhancements (continued)

The Group holds collateral and other credit enhancements against certain of its credit exposures. The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of the collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

	2022				
	Gross Exposures BD 000	Expected Credit Loss BD 000	Carrying Amount BD 000	Fair Value of Collateral Held BD 000	Guarantee Available BD 000
Project finance - Islamic	22,768	9,864	12,904	13,292	2,908
Project finance - conventional	3,311	3,215	96	-	-
Fisheries and agriculture	964	-	964	-	964
Other loans	544	537	7	-	-
Total	27,587	13,616	13,971	13,292	3,872

	2021				
	Gross exposure BD 000	Expected Credit Loss BD 000	Carrying Amount BD 000	Fair Value of Collateral Held BD 000	Guarantee Available BD 000
Project finance - Islamic	15,955	9,998	5,957	6,461	4,244
Project finance - conventional	9,681	3,222	6,459	10,360	-
Fisheries and agriculture	1,219	-	1,219	-	1,219
Other loans	534	527	7	-	-
Total	27,389	13,747	13,642	16,821	5,463

vi) Carrying amount per class of financial assets whose terms have been renegotiated

The Group sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Group considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy. The table below shows the carrying amount for renegotiated financial assets during the year.

	2022 BD '000	2021 BD '000
Islamic financing and loans to customers	6,480	2,883

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

28. CREDIT RISK (Continued)

28.8 Incorporation of forward looking assumptions (continued)

vii) Credit quality per class of financial assets

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

	2022			
	Stage 1 12-months ECL BD '000	Stage 2 Life time ECL not credit impaired BD '000	Stage 3 Lifetime ECL credit impaired BD '000	Total BD '000
Placement with banks and other financial institutions	13,894	-	-	13,894
Less: expected credit losses	(1)	-	-	(1)
	13,893	-	-	13,893
Islamic financing and loans to customers				
Corporate	70,395	9,111	13,549	93,055
SME	27,177	2,967	9,003	39,147
Small business	8,119	922	3,291	12,332
Overdrafts	1,510	1	544	2,055
Education loans	39	-	236	275
Others	2,108	364	964	3,436
	109,348	13,365	27,587	150,300
Less: expected credit losses	(2,149)	(501)	(13,616)	(16,266)
	107,199	12,864	13,971	134,034
Contingent liabilities and commitments				
Letters of credit and bank guarantees	1,828	-	-	1,828
Undrawn commitments	1,203	-	-	1,203
Capital expenditure	311	-	-	311
Less: expected credit losses	(73)	-	-	(73)
	3,269	-	-	3,269
Other assets	-	5	3,186	3,191
Less: expected credit losses	-	(3)	(3,176)	(3,179)
	-	2	10	12

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

28. CREDIT RISK (Continued)

28.8 Incorporation of forward looking assumptions (continued)

vii) Credit quality per class of financial assets (continued)

	2021			
	Stage 1 12-months ECL BD '000	Stage 2 Life time ECL not credit impaired BD '000	Stage 3 Lifetime ECL credit impaired BD '000	Total BD '000
Placement with banks and other financial institutions	22,315	-	-	22,315
Less: expected credit losses	(1)	-	-	(3)
	22,312	-	-	22,312
Islamic financing and loans to customers				
Corporate	76,047	3,674	16,543	96,264
SME	38,472	974	5,746	45,192
Small business	11,318	443	3,066	14,827
Taxi loans	-	-	-	-
Overdrafts	1,437	-	535	1,972
Education loans	125	-	280	405
Others	2,300	146	1,219	3,665
	129,699	5,237	27,389	162,325
Less: expected credit losses	(1,403)	(543)	(13,747)	(15,693)
	128,296	4,694	13,642	146,632
Contingent liabilities and commitments				
Letters of credit and bank guarantees	1,296	-	-	1,296
Undrawn commitments	1,044	-	-	1,044
Capital expenditure	1,317	-	-	1,317
Less: expected credit losses	(57)	-	-	(57)
	3,600	-	-	3,600
Other assets	5	36	3,132	3,173
Less: expected credit losses	(4)	(10)	(3,117)	(3,131)
	1	26	15	42

29. MARKET RISK

Market risk is the risk of loss attributable to adverse changes in the values of financial instruments, whether on or off-balance sheet, as a result of changes in market rates (such as interest rates and foreign exchange rates) or price.

i) Interest rate risk

Interest rate risk arises from the possibility that changes to the interest rates will affect future profitability or the fair values of the financial instruments. The Bank is exposed to interest rate risk due to mismatches of interest rate repricing of assets and liabilities. Positions are monitored periodically to ensure that this is maintained within the established limits.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

29. MARKET RISK (Continued)

i) Interest rate risk (continued)

The Bank primarily deals with 4 currencies, namely Bahraini Dinars, Kuwaiti Dinars, Saudi Riyals and United States Dollars, in which the Bank's interest sensitive financial instruments are denominated predominantly. The following table demonstrates the Bank's sensitivity to a reasonable possible change in interest rates, with all other variables held constant.

	Change in basis points	Impact of change on net interest Income		Change in basis points	Impact of change on net interest Income	
		2022	2021		2022	2021
		BD '000	BD '000		BD '000	BD '000
Bahraini Dinars	+100	706	979	-100	(706)	(979)
Kuwaiti Dinars	+100	6	-	-100	(6)	-
Saudi Riyals	+100	(3)	(70)	-100	3	70
United States Dollars	+100	(208)	(222)	-100	208	222

ii) Currency risk

Currency risk is the risk that the value of the financial instrument will fluctuate due to changes in foreign exchange rates. Net open positions are monitored on a daily basis to ensure compliance within the established limits.

The Bank views the Bahraini Dinar as its functional currency. In the opinion of the Bank's management, the currency risk for any position held in US Dollar is insignificant since the Bahraini Dinar is pegged to the US Dollar. The Bank had the following significant net open exposures denominated in foreign currencies as of 31 December 2022 and 2021:

	Equivalent long / (short)	
	2022	2021
Kuwaiti Dinars	10	9
US Dollars	7,832	169
Euro	6	1
GBP	6	6
Saudi Riyals	(408)	(141)
UAE Dirhams	(18)	16

iii) Derivatives

A derivative is a financial contract between two parties where payments are dependent upon movements in the price of one or more underlying financial instrument, reference rate or index. In the ordinary course of business, the Group enters into forex forward contracts. The use of derivatives is governed by the Group's policies approved by the Board of Directors. The Group enters into derivative contracts for the purpose of reducing risks from potential movements in foreign exchange rates. The Group has entered into forex forward contracts with the Central Bank of Bahrain and other local banks with a nominal value of BD 27,672 thousand (31 December 2021: BD 36,449 thousand). The positive and negative fair values on derivative contracts as at 31 December 2022 was BD 303 thousand (31 December 2021: BD 279 thousand) and BD 15 thousand (31 December 2021: BD 4 thousand), respectively.

30. EQUITY PRICE RISK

Equity price risk is the risk that the fair values of equities or managed funds decrease as a result of changes in the corresponding value of equity indices or the value of individual equity stocks. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

During the year ended 31 December 2022, the effect on profit or loss (as a result of a change in the fair value of equity instruments held as FVTPL) due to a reasonably possible change (i.e. +/-5%) in the value of equity investments, with all other variables held constant is BD 379 thousand (31 December 2021: BD 348 thousand).

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

31. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the Group's assets and liabilities as at 31 December 2022 and 2021 based on expected maturities.

	Up to 1 month BD '000	1 to 3 months BD '000	3 to 6 months BD '000	6 months to 1 year BD '000	1 to 3 years BD '000	Over 3 years BD '000	Total BD '000	Carrying amount BD '000
31 December 2022								
Assets								
Cash and balances with Central Bank of Bahrain	4,865	-	-	-	-	-	4,865	4,865
Placements with banks and other financial institutions	13,893	-	-	-	-	-	13,893	13,893
Islamic financing and loans to customers	4,828	9,204	13,370	29,055	70,340	29,379	156,176	134,034
Investment securities	54,742	-	-	-	-	7,598	62,340	62,340
Investment in associated companies	-	-	-	-	-	394	394	394
Investment properties	-	-	-	-	-	5,130	5,130	5,130
Property and equipment	-	-	-	-	-	3,042	3,042	3,042
Other assets	-	-	6,280	-	-	-	6,280	6,280
Total assets	78,328	9,204	19,650	29,055	70,340	45,543	252,120	229,978
Liabilities								
Term loans	-	251	3,242	3,493	11,710	9,107	27,803	27,803
Deposits	11,445	2,659	265	251	-	118,243	132,863	132,863
Other liabilities	-	-	6,447	-	-	-	6,447	6,447
Total liabilities	11,445	2,910	9,954	3,744	11,710	127,350	167,113	167,113
Net liquidity gap	66,883	6,294	9,696	25,311	58,630	(81,807)		
Cumulative liquidity gap	66,883	73,177	82,873	108,184	166,814	85,007		

	Up to 1 month BD '000	1 to 3 months BD '000	3 to 6 months BD '000	6 months to 1 year BD '000	1 to 3 years BD '000	Over 3 years BD '000	Total BD '000	Carrying amount BD '000
31 December 2021								
Assets								
Cash and balances with Central Bank of Bahrain	3,027	-	-	-	-	-	3,027	3,027
Placements with banks and other financial institutions	22,312	-	-	-	-	-	22,312	22,312
Islamic financing and loans to customers	1,876	4,413	6,860	26,301	69,048	56,282	164,780	146,632
Investment securities	49,015	-	-	-	-	6,981	55,996	55,996
Investment in associated companies	-	-	-	-	-	383	383	383
Investment properties	-	-	-	-	-	10,581	10,581	10,581
Property, plant and equipment	-	-	-	-	-	3,102	3,102	3,102
Other assets	-	-	4,346	-	-	-	4,346	4,346
Total assets	76,230	4,413	11,206	26,301	69,048	77,329	264,527	246,379
Liabilities								
Term loans	-	251	3,242	3,493	13,972	13,845	34,803	34,803
Deposits	11,754	2,663	358	668	29	122,523	137,995	137,995
Other liabilities	-	-	4,849	-	-	-	4,849	4,849
Total liabilities	11,754	2,914	8,449	4,161	14,001	136,368	177,647	177,647
Net liquidity gap	64,476	1,499	2,757	22,140	55,047	(59,039)		
Cumulative liquidity gap	64,476	65,975	68,732	90,872	145,919	86,880		

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

32. LIQUIDITY RISK

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

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2022 and 2021 based on the contractual undiscounted repayment obligations. See note 31 for the expected maturities of these liabilities.

	On demand BD '000	Up to 1 month BD '000	1 to 3 months BD '000	3 to 6 months BD '000	6 months to 1 year BD '000	1 to 3 years BD '000	Over 3 years BD '000	Total BD '000
31 December 2022								
Term loans	629	-	316	3,625	3,882	12,947	9,653	31,052
Deposits	10,389	1,061	2,714	270	258	-	118,244	132,936
Other liabilities	-	-	-	4,987	-	-	-	4,987
Total liabilities	11,018	1,061	3,030	8,882	4,140	12,947	127,897	168,975

	On demand BD '000	Up to 1 month BD '000	1 to 3 months BD '000	3 to 6 months BD '000	6 months to 1 year BD '000	1 to 3 years BD '000	Over 3 years BD '000	Total BD '000
31 December 2021								
Term loans	-	-	321	3,659	3,929	14,452	15,602	37,963
Deposits	11,704	53	2,686	364	678	30	122,523	138,038
Other liabilities	-	-	-	3,769	-	-	-	3,769
Total liabilities	11,704	53	3,007	7,792	4,607	14,482	138,125	179,770

The table below summarises the maturity profile of the Bank's contingent liabilities and commitments at 31 December 2022 and 2021 based on the contractual undiscounted repayment obligations.

	On demand BD '000	Less than 3 months BD '000	3 to 12 months BD '000	1 to 5 years BD '000	Total BD '000
31 December 2022					
Contingent liabilities	1,012	163	531	122	1,828
Commitments	1,975	321	160	-	2,456
Capital expenditure	311	-	-	-	311
Total	3,298	484	691	122	4,595
31 December 2021					
Contingent liabilities	643	172	184	297	1,296
Commitments	1,044	-	54	1,700	2,798
Capital expenditure	-	-	286	1,031	1,317
Total	1,687	172	524	3,028	5,411

	2022	2021
Liquidity Coverage Ratio (%)	2186%	1662%

The Bank expects that not all of the commitments will be drawn before expiry of the commitments.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

33. OPERATIONAL RISK

Operational risk is the exposure to loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Group has clearly defined operations procedures for each of its products and services. It also has computer systems that enable it to run operations with speed and accuracy. The operational risk management unit operates independently from other units of the Bank and reports to the Chief Risk Officer. It conducts regular reviews of all business areas of the Bank and reports control deficiencies and exceptions to the Bank's policies and procedures. It also recommends measures to mitigate operational risk, which are implemented by management immediately. The Bank also has a contingency plan to take care of any failure of its computer systems. Regular back-ups are made for all important datasets, and stored outside the Bank's premises. This ensures that in case of any system failure, the Bank will be able to continue its operations without losing critical data or business transactions. As part of its disaster recovery plan, the Bank has established a back-up site which would operate during an emergency.

Legal risk is the risk arising from the potential that unenforceable contracts, lawsuits or adverse judgments can disrupt or otherwise negatively affect the operations of the Group. The Group has developed controls and procedures to identify legal risks and believes that losses, if any will not be material.

The Bank has a specific Business Continuity Plan ("BCP") team. The main objective of the BCP is to ensure that in the event of full or partial disaster, the Bank should be able to continue providing essential services to customers minimizing any adverse effects on the Bank's business, through business impact analysis, business restoration plans and procedures, for the identified critical functions. The Bank is conducting risk and control self assessments and capturing operational loss data in accordance with Basel III / CBB guidelines.

34. CAPITAL ADEQUACY

The risk asset ratio, calculated in accordance with the capital adequacy guidelines approved by the CBB, for the Bank is as follows:

	2022 BD '000	2021 BD '000
Capital base		
Tier 1 capital	61,003	71,851
Tier 2 capital	879	1,182
Total capital base (a)	61,882	73,033
Risk-weighted exposures (b)	87,455	112,004
Capital adequacy ratio (a/b*100)	70.76%	65.21%
Minimum requirement	12.5%	12.5%

The CBB sets and monitors capital requirements for the Bank as a whole. In implementing current capital requirements, the CBB requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets. The capital adequacy regulations of the CBB are based on the principles of Basel III of the IFSB guidelines.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

34. CAPITAL ADEQUACY (Continued)

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 CA module, these deductions would be effective in a phased manner through transitional arrangements from 2015 to 2018. The regulations prescribe higher risk weights for certain exposures that exceed materiality thresholds. These regulatory adjustments are 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 share 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.

Capital management

The primary objectives of the Bank's capital management are i) to ensure that the Bank complies with externally imposed capital requirements ii) maintain healthy capital ratios in order to support its business and iii) to maximise shareholders' value. The Bank manages its capital structure and makes adjustments to it in the light of changes in business conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders or issue capital securities.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

35. CLASSIFICATION OF ASSETS AND LIABILITIES

The following table provides a reconciliation between line items in the consolidated statement of financial position and categories of financial assets and liabilities:

	Designated as at FVTPL BD '000	FVOCI – debt instruments BD '000	FVOCI – equity instruments BD '000	Amortised cost BD '000	Total BD '000
31 December 2022					
Assets					
Cash and balances with Central Bank of Bahrain	-	-	-	4,865	4,865
Placements with banks and other financial institutions	-	-	-	13,893	13,893
Islamic financing and loans to customers	-	-	-	134,034	134,034
Investment securities	7,576	24,050	22	30,692	62,340
Investment in associates companies	-	-	-	394	394
Investment properties	-	-	-	5,130	5,130
Property and equipment	-	-	-	3,042	3,042
Other assets	-	-	-	6,280	6,280
Total assets	7,576	24,050	22	198,330	229,978
Liabilities					
Term loans	-	-	-	27,803	27,803
Deposits	-	-	-	132,863	132,863
Other liabilities	-	-	-	6,447	6,447
Total liabilities	-	-	-	167,113	167,113

	Designated as at FVTPL BD '000	FVOCI – debt instruments BD '000	FVOCI – equity instruments BD '000	Amortised cost / others BD '000	Total BD '000
31 December 2021					
Assets					
Cash and balances with Central Bank of Bahrain	-	-	-	3,027	3,027
Placements with banks and other financial institutions	-	-	-	22,312	22,312
Islamic financing and loans to customers	-	-	-	146,632	146,632
Investment securities	6,956	21,114	25	27,901	55,996
Investment in associates companies	-	-	-	383	383
Investment properties	-	-	-	10,581	10,581
Property and equipment	-	-	-	3,102	3,102
Other assets	-	-	-	4,346	4,346
Total assets	6,956	21,114	25	218,284	246,379
Liabilities					
Term loans	-	-	-	34,803	34,803
Deposits	-	-	-	137,995	137,995
Other liabilities	-	-	-	4,849	4,849
Total liabilities	-	-	-	177,647	177,647

36. DEPOSIT PROTECTION SCHEME

Deposits held with the Bahrain operations of the Bank are covered by the Deposit Protection Scheme established by the CBB regulation concerning the establishment of the Deposit Protection Scheme and Deposit Protection Board. This scheme covers eligible "natural persons" (individuals) up to a maximum of BD 20,000 as set by the CBB requirements. A periodic contribution, as mandated by CBB, is paid by the Bank under this scheme.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

37. NET STABLE FUNDING RATIO

The Net Stable Funding Ratio ("NSFR") ratio is calculated in accordance with the Liquidity Risk Management Module guidelines, issued by the CBB. The minimum NSFR ratio limit as per CBB is 100%. However, as per CBB circulars OG/106/2020 dated 17 March 2020, OG/296/2020 dated 26 August 2020, OG/431/2020 dated 29 December 2020, OG/170/2021 dated 27 May 2021 and OG/417/2021 dated 23 December 2021, the limit was reduced to 80% until 30 June 2022, to contain the financial repercussions of COVID-19. The Group's consolidated NSFR ratio as of 31 December 2022 was 150% (31 December 2021: 152%).

The NSFR (as a percentage) as at 31 December 2022 is calculated as follows:

	Unweighted Values (i.e. before applying relevant factors)				
Item	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	61,003	-	-	879	61,882
Wholesale funding:					
Other wholesale funding	-	17,862	3,744	139,060	149,863
Other liabilities:					
All other liabilities not included in the above categories	-	6,447	-	-	-
Total ASF	61,003	24,309	3,744	139,939	211,745
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	59,992	-	-	-	2,742
Performing financing and loans / securities:					
Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing to loans financial institutions	-	13,600	-	-	2,040
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	4,138	5,190	-	4,664
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	110,736	94,120
Other assets:					
All other assets not included in the above categories	36,322	-	-	-	36,322
Off-Balance sheet items	32,267	-	-	-	1,613
Total RSF	128,581	17,738	5,190	110,736	141,501
NSFR (%) - As at 31 December 2022					150%

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2022

37. NET STABLE FUNDING RATIO (Continued)

The NSFR (as a percentage) as at 31 December 2021 is calculated as follows:

	Unweighted Values (i.e. before applying relevant factors)				
Item	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	71,651	-	-	1,182	72,832
Wholesale funding:					
Other wholesale funding	-	15,026	4,161	153,611	163,205
Other liabilities:					
All other liabilities not included in the above categories	-	4,848	-	-	-
Total ASF	71,651	19,874	4,161	154,793	236,037
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	52,332	-	-	-	2,459
Performing financing and loans / securities:					
Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing to loans financial institutions	-	22,197	-	-	3,330
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	11,061	2,553	-	6,807
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	119,575	101,639
Other assets:					
All other assets not included in the above categories	38,660	-	-	-	38,660
Off-Balance sheet items	41,882	-	-	-	2,094
Total RSF	132,874	33,258	2,553	119,575	154,989
NSFR (%) - As at 31 December 2021					152%

38. COMPARATIVE FIGURES

Certain of the prior year figures have been reclassified to conform to the current year presentation. Such reclassifications did not affect previously reported net income, total assets, total liabilities and total equity of the Group.

Risk and Capital Management Disclosures

For the period ended 31 December 2022

1. EXECUTIVE SUMMARY

This report has been prepared in accordance with Pillar 3 disclosure requirements prescribed by the Central Bank of Bahrain, herein referred to as "CBB". The report has been designed to provide Bahrain Development Bank B.S.C. (c) ("BDB" or the "Bank") and its subsidiaries (together, the "Group"), stakeholders with detailed information on the Bank's approach in managing capital and risk, having due regard to the operating environment.

The Bank applies the Basel framework in the measurement of its capital adequacy, and in its capital management strategy and risk management framework. 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.

BDB has adopted the Standardized Approach for Credit Risk, Market Risk and the Basic Indicator Approach for Operational Risk to determine the capital requirement.

The disclosures in this report are in addition to the disclosures set out in the interim condensed consolidated financial statements for the period ended 30th June 2022 presented in accordance with the International Financial Reporting Standards (IFRS).

2. INTRODUCTION TO THE BASEL III FRAMEWORK

The CBB's capital adequacy framework is based on three pillars consistent with the Basel III framework developed by the Basel Committee, as follows:-

- Pillar 1: calculation of the Risk Weighted Assets (RWAs) and capital requirement.
- Pillar 2: the supervisory review process, including the Internal Capital Adequacy Assessment Process (ICAAP).
- Pillar 3: rules for the disclosure of risk management and capital adequacy information.

CBB CAPITAL ADEQUACY RULES:

CBB minimum required total capital adequacy ratio (including CCB) increased from 12 percent to 12.5 percent, compared to 10.5 percent recommended by the Basel Committee. Moreover, the capital conservation buffer is newly introduced limits and minima by Basel III, such as minimum Common Equity Tier 1 Capital Ratio "CET1" of 9 percent (including CCB) and minimum T1 Capital Ratio of 10.5 percent (including CCB).

The table below summarizes the approaches available for calculating RWAs for each risk type in accordance with the CBB's capital adequacy framework:

Credit Risk	Market Risk	Operational Risk
Standardised Approach	Standardised Approach	Basic Indicator Approach
	Internal Models Approach	Standardised Approach

i) Credit Risk

Credit Risk represents the potential financial loss as a consequence of a customer's inability to honour the terms and conditions of a credit facility. Such risk is measured with respect to counterparties for both on-balance sheet assets and off-balance sheet items. The bank has a robust credit risk management architecture which is explained in greater detail in Note 2 of the consolidated financial statements.

The Bank does not use any external credit assessment institutions and the risk rating for the exposures are based on the internal credit framework and policy guidelines of the Bank.

For regulatory reporting purposes, BDB is using the Standardised Approach for credit risk.

ii) Market Risk

Market Risk is the risk of potential losses arising from movements in market prices of financial instruments as a result of changes in market rates (such as interest rates and foreign exchange rates).

For the regulatory market risk capital requirement, BDB is using the Standardised Approach for the calculation of regulatory market risk capital.

iii) Operational Risk

Operational Risk is the risk of monetary loss on account of human error, fraud, systems failures or the failure to record transactions. In order to manage and mitigate such risks, the Bank ensures that proper systems and resources (financial and personnel) are available to support the Bank's operations. Proper segregation of duties and other controls (including reconciliation, monitoring and reporting) are implemented to support the various operations and activities.

For the regulatory operational risk capital requirement, BDB is using the Basic Indicator Approach for the calculation of regulatory operational risk capital.

Regulatory Reforms

The Bank is operating as a retail bank with special waivers under a license issued by the Central Bank of Bahrain ("CBB"), with headquarters and branches in Bahrain. The Bank's capital adequacy requirements are computed on a consolidated basis.

Risk and Capital Management Disclosures (Continued)

For the year ended 31 December 2022

3. GROUP STRUCTURE

The Group's financial statements are prepared and published on a full consolidation basis, with all subsidiaries being consolidated in accordance with IFRS. As at 31st December 2022, the Group consists of the Bank and its following subsidiaries:

Name	Country of incorporation
Bahrain Business Incubator Centre WLL	Kingdom of Bahrain
Al-Waha Venture Capital Fund Company BSC	Kingdom of Bahrain
Neotech WLL	Kingdom of Bahrain
Middle East Corner Consultancy CO. WLL*	Kingdom of Bahrain

*During the year ended 31 December 2022, the Bank liquidated its ownership in Middle East Corner Consultancy Co. W.L.L.

Restrictions on capital and transfer of funds within the Group

Since the Bank's subsidiaries are not regulated financial institutions, there is no regulatory impediment to the transfer of retained earnings to the Bank. However, as a separate legally incorporated entity, the transfer of paid in capital and mandatory reserves would require shareholder action. As the major shareholder (either direct or indirect) in the entity, the Bank has the power to undertake the legal processes for the transfer of such capital. The Bank's subsidiaries are registered and domiciled in Bahrain and there are no exchange controls or other restrictions on the transfer of funds.

4. CAPITAL STRUCTURE AND CAPITAL ADEQUACY

The Bank's regulatory capital base comprises of (a) CET 1 capital which includes share capital, reserves and retained earnings. (b) Tier 2 capital which consist of general loan loss provisions.

Capital structure, minimum capital and capital adequacy

The Bank's paid up capital consists only of ordinary shares and does not have any other type of capital instruments.

The bank's shareholders are Ministry of Finance (89.53%), SIO (5.23%) and Pension Fund (5.24% each).

The Bank's regulatory capital base is as detailed below:

	As at 31 December 2022
Common Equity Tier 1 (CET1)	
Issued and full paid ordinary shares	63,669
Legal / Statutory reserve	1,186
Accumulated losses	(2,525)
Other reserves	
Current period Profit	525
Cumulative fair value changes on FVOCI investments (Debt)	(305)
Intangibles	(1,547)
Total Common Equity Tier 1 (CET1) (A)	61,003
Additional Tier 1 (AT1)	-
Total Tier 1 (T1)	61,003
Tier 2 Capital (T2)	
Expected Credit Losses (ECL)	883
Total Tier 2 (T2) (B)	883
Total Capital Base (Tier 1 + Tier 2) (C=A+B)	61,886

Risk and Capital Management Disclosures (Continued)

For the year ended 31 December 2022

4. CAPITAL STRUCTURE AND CAPITAL ADEQUACY (Continued)

Capital Requirement for Risk Weighted Exposure

	Credit Exposure before credit risk mitigant	Eligible financial collateral	Credit Exposure after risk mitigant	Risk weighted exposure	Capital Requirement at 12.5%
As at 31 December 2022					
Cash items	78	-	78	-	-
Sovereigns	91,772	-	91,772	-	-
Banks	6,727	-	6,727	6,551	819
Corporates	124,782	51,337	73,445	28,919	3,615
Past due exposures	13,971	10,906	3,065	3,066	383
Investment in securities	6,838	-	6,838	10,651	1,331
Holding of Real Estate	6,584	-	6,584	12,868	1,609
Others assets	8,605	-	8,605	8,605	1,076
Total Credit Risk Exposure	259,357	62,243	197,114	70,660	8,833
Market Risk				625	78
Operational Risk				16,545	2,068
Total Risk Weighted Assets (D)				87,830	10,979
Capital Adequacy Ratio (C)/(D)				70.46%	
CET1 Capital Adequacy Ratio (A)/(D)				69.46%	

5. CREDIT RISK – PILLAR 3 DISCLOSURES

This section describes BDB's exposure to credit risk, and provides detailed disclosures on credit risk in accordance with the CBB's Basel III framework, in relation to Pillar 3 disclosure requirements.

Definition of exposure classes

The Bank has a diversified funded and unfunded credit exposure. These exposures are classified as standard portfolio per CBB's capital adequacy requirements.

Brief description of applicable standard portfolio is as follows:

a. Claims on sovereigns:

These pertain to exposures to governments and their central banks. Claims on Bahrain and GCC sovereigns are risk weighted at 0%. Claims on all other sovereigns are given a risk weighting of 0% where such claims are denominated and funded in the relevant domestic currency of that sovereign. Claims on sovereigns, other than those mentioned above are risk weighted based on their credit ratings.

b. Investment in securities and sukuk:

Investments in listed equities are risk weighted at 100% while unlisted equities are risk weighted at 150%.

c. Claims on banks:

Claims on banks are risk weighted based on external rating agencies (S&P, Moody's, Fitch and Capital intelligence). Short-term claims on locally incorporated banks are assigned a risk weighting of 20% where such claims on the banks are of an original maturity of three months or less and the claims are denominated and funded in either Bahraini Dinars or US Dollar.

Preferential risk weighting that is one category more favourable than the standard risk weighting is assigned to claims on foreign banks licensed in Bahrain of an original maturity of three months or less denominated and funded in the relevant domestic currency. Such preferential risk weight for short-term claims on banks licensed in other jurisdictions are allowed only if the relevant supervisor also allows this preferential risk weighting to short-term claims on its banks.

No claim on an unrated bank would receive a risk weight lower than that applied to claims on its sovereign of incorporation.

Risk and Capital Management Disclosures (Continued)

For the year ended 31 December 2022

5. CREDIT RISK – PILLAR 3 DISCLOSURES (Continued)

d. Claims on corporates:

Claims on corporates are risk weighted based on credit ratings. Risk weighting for unrated (corporate) claims are assigned at 100%.

e. Impairment of assets:

The Bank assesses at each reporting date whether there is any objective evidence that a specific financial asset is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'impairment event') and that impairment event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include indications that the borrower is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that it will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

f. Restructured financing facilities:

Where possible, the Bank seeks to restructure facilities. This may involve extending the payment arrangements and the agreement of new financing facility conditions. Management continuously reviews renegotiated financing facilities to ensure that all criteria are met and that future payments are likely to occur. The financing facilities continue to be subject to impairment assessment, calculated using the facility's original effective interest rate.

g. Past due exposures:

This includes claims, for which the repayment is overdue for more than 90 days. The risk weighting for such loans is either 100% or 150% that is applied depending on the level of provisions maintained against the assets.

h. Equity Portfolio:

Investment in securities and financial entities are risk weighted at a minimum risk weight of 100% for listed entities or 150% for unlisted entities, unless such investments exceed 10% of the eligible capital of investee entity, in which case they are deducted from the Bank's capital.

i. Other assets:

These are risk weighted at 100%.

j. Holding of real estate:

All other holdings of real estate by banks (i.e. owned directly, subsidiaries or associate companies or other arrangements such as trusts, funds or REITs) are risk-weighted at 200%. Investment in listed real estate companies and investment in unlisted real estate companies are risk-weighted at 300% and 400% respectively. Premises occupied by the Group are risk-weighted at 100%.

k. Related party transactions and balances:

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 Bank exercises significant influence, major shareholders, directors and executive management of the Bank. Such related parties in the ordinary course of business at commercial interest and commission rates (Refer note 15 of the interim condensed consolidated financial statements as at 31 December 2022). All related party transactions are approved by Board of Directors.

Amounts due from related parties are unsecured.

l. Highly leveraged counterparties:

The Bank does not lend to highly leveraged and other high risk counterparties as defined in PD-1-3-24(e).

6. FUNDED AND UNFUNDED TOTAL CREDIT EXPOSURE

	Total funded credit exposure	Total un-funded credit exposure	Average quarterly credit exposure
Sovereigns	70,547	21,225	93,634
Banks	3,293	6,437	9,509
Corporates	122,713	3,031	130,352
Past due exposures	13,971	-	13,995
Other assets and Cash items	8,300	-	7,533
Total credit risk	218,824	30,693	255,023

Risk and Capital Management Disclosures (Continued)

For the year ended 31 December 2022

7. CONCENTRATION OF CREDIT RISK BY INDUSTRY & REGION (EXPOSURES SUBJECT TO RISK WEIGHTING)

	Government & public sector	Banks and financial institutions	Trading and Manufacturing	Educational Institutions & Healthcare	Hospitality, media and transportation	Fisheries, agriculture & dairy	Food processing	Others	Total
2022									
Assets									
Balances with Central Bank of Bahrain	15,805	-	-	-	-	-	-	-	15,805
Balances with banks and other financial institutions	-	3,293	-	-	-	-	-	-	3,293
Islamic financing and loans to customers	44,526	-	32,715	5,623	11,154	5,858	9,458	27,350	136,684
Investment securities	54,742	-	-	-	-	-	-	-	54,742
Other assets and Cash items	-	-	-	-	-	-	-	8,300	8,300
Total funded credit exposures	115,073	3,293	32,715	5,623	11,154	5,858	9,458	35,650	218,824
Unfunded credit exposures	21,225	6,437	1,093	55	153		82	1,648	30,693
Total credit risk *	136,298	9,730	33,808	5,678	11,307	5,858	9,540	37,298	249,517

**All the above exposures are located in Bahrain*

8. CREDIT CONCENTRATION GREATER THAN 15% INDIVIDUAL OBLIGOR LIMIT

Total credit exposures in excess of 15% individual obligor limit	31 December 2022
Sovereigns	91,355

9. SEGMENT WISE BREAKDOWN OF NON PERFORMING LOANS AND IMPAIRMENT PROVISION

Past Due Loans	Gross impaired loans	Stage 3: Lifetime ECL credit impaired	Charge for the period	Write off
Manufacturing	11,493	250	(1,214)	-
Fisheries and Agriculture	2,693	8		-
Construction	9,695	125		-
Trade	25,624	219		-
Personal / Consumer finance	197	-		-
Government	43,425	-		-
Technology, media and telecommunications	492	1		-
Transport	1,949	20		-
Other sectors	27,145	2,027	-	-
	122,713	2,650	-	(12)

Risk and Capital Management Disclosures (Continued)

For the year ended 31 December 2022

9. SEGMENT WISE BREAKDOWN OF NON PERFORMING LOANS AND IMPAIRMENT PROVISION (Continued)

Impaired Loans	Gross impaired loans	Stage 3: Lifetime ECL credit impaired	Charge for the period	Write off
Manufacturing	8,220	5,879	192	-
Fisheries and Agriculture	3,618	-	2	-
Construction	3,787	898	38	-
Trade	5,297	2,583	96	-
Personal / Consumer finance	237	133	(11)	-
Transport	1,859	1,428	(12)	-
Other sectors	4,569	2,695	(424)	(12)
	27,587	13,616	(119)	(12)

10. RESIDUAL CONTRACTUAL MATURITY

Maturity analysis of assets

The table below summarises the residual contractual maturity profile of the Group's assets as at 31st December 2022

	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Above 20 years	Total
2022										
Assets										
Balances with Central Bank of Bahrain	4,788	-	-	-	-	-	-	-	-	4,788
Placements with banks and other financial institutions	13,892	-	-	-	-	-	-	-	-	13,892
Islamic financing and loans to customers	1,184	746	2,333	5,210	51,277	73,313	-	1,101	1,520	136,684
Investment securities	54,742	-	-	-	-	-	-	-	-	54,742
Other assets and Cash items	-	-	8,718	-	-	-	-	-	-	8,718
Total funded credit exposures	74,606	746	11,051	5,210	51,277	73,313	-	1,101	-	218,824
Unfunded credit exposures	2,143	16,416	2,337	9,672	119	6	-	-	-	30,693
Total credit risk	76,749	17,162	13,388	14,882	51,396	73,319	-	1,101	-	249,517

Risk and Capital Management Disclosures (Continued)

For the year ended 31 December 2022

11. PAST DUE AND IMPAIRED LOANS (NET) - AGE ANALYSIS

i) By Geographical area

	31 December 2022			
Past Due Loans	Three months to one year	One to three years	Over three years	Total
Bahrain	65,982	-	-	65,982
TOTAL	65,982	-	-	65,982

Impaired Loans	Three months to one year	One to three years	Over three years	Total
Bahrain	10,583	1,977	1,411	13,971
TOTAL	10,583	1,977	1,411	13,971

ii) By Segment wise

	31 December 2022			
	Three months to one year	One to three years	Over three years	Total
Manufacturing	1,561	441	340	2,342
Fisheries and Agriculture	2,511	152	501	3,164
Construction	2,503	353	30	2,886
Trade	1,833	677	204	2,714
Personal / Consumer finance	10	4	90	104
Transport	310	135	-	445
Other sectors	1,847	216	253	2,316
TOTAL	10,575	1,978	1,418	13,971

12. GEOGRAPHICAL DISTRIBUTION OF IMPAIRMENT PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS

The Bank and its subsidiaries operate and grant loans/financing facilities locally to Bahrain entities and persons only.

	31 December 2022
Bahrain	
Specific impairment provision - Stage 3	13,616
TOTAL	13,616

13. RECONCILIATION OF CHANGES IN EXPECTED CREDIT LOSSES

	31 December 2022		
	Stage 3: Lifetime ECL credit impaired	Stage 1: 12-month ECL and stage 2 : Lifetime ECL not credit- impaired	Total
Balance at 1 January 2022	13,747	1,946	15,693
Amounts written off during the period	(12)	-	(12)
Transfers for the period	(68)	68	-
Charge for the period	1,095	1,357	2,452
Recoveries during the period	(1,146)	(721)	(1,867)
At 31 December 2022	13,616	2,650	16,266

Restructured Credit Facilities

The Bank has restructured credit facilities amounting to BD 6,481 thousands during the period ended 31 December 2022. Restructuring concessions mainly related to deferral of loan installments to assist customers overcome temporary cash crunch situations or to realign the repayment with the borrower's revised cash flow projections.

The above restructuring did not have a significant impact on the present or future earnings and were primarily extensions of the loan/ financing tenor.

Risk and Capital Management Disclosures (Continued)

For the year ended 31 December 2022

14. CREDIT RISK MITIGATION

The reduction of the capital requirement attributable to credit risk mitigation is calculated in different ways, depending on the type of credit risk mitigation. The main collaterals taken for risk mitigation on credit exposures are deposits held by customers, residential / commercial property mortgage, investment securities, counter-guarantees from other banks, Tamkeen guarantees etc. However, for purposes of capital adequacy computation, only eligible collateral recognized under Basel III is taken into consideration.

15. ELIGIBLE FINANCIAL COLLATERAL AND GUARANTEES

Eligible financial collateral, and guarantees, presented by standard portfolio are as under:

	Gross credit exposure	Financial collateral	Credit exposure after credit risk mitigant
As at 31 December 2022			
Sovereigns	91,772	-	91,772
Banks	6,727	-	6,727
Corporates	124,782	51,337	73,445
Past due exposures	13,971	10,906	3,065
Investments in equities/funds	6,838	-	6,838
Holding of real estate	6,584	-	6,584
Other assets and cash items	8,683	-	8,683
	259,357	62,243	197,114

Tamkeen guarantees a percentage of the outstanding balance of Islamic financing in accordance with the agreement between the Bank and Tamkeen. Moreover, agriculture and fisheries loans are guaranteed by the Government of Bahrain.

16. SENSITIVITY ANALYSIS - INTEREST RATE RISK (IRRBB)

Impact on net interest income for the period ended 31 December 2022

	2022
Bahraini Dinar	
Assets	246,142
Liabilities	(176,706)
(+) 200 basis points	8,457
(-) 200 basis points	(8,457)
US Dollar	
Assets	8,395
Liabilities	(15,672)
(+) 200 basis points	481
(-) 200 basis points	(481)
Kuwaiti Dinar	
Assets	9
Liabilities	607
(+) 200 basis points	(12)
(-) 200 basis points	12
Saudi Riyals	
Assets	40
Liabilities	(358)
(+) 200 basis points	8
(-) 200 basis points	(8)

Risk and Capital Management Disclosures (Continued)

For the year ended 31 December 2022

17. MARKET RISK, INTEREST RATE GAP

Market risk

Market risk is defined as potential adverse changes in the fair value or future cash flows of a trading position or portfolio of financial instruments resulting from the movement of market variables, such as interest rates, currency rates, equity prices and commodity prices, market indices as well as volatilities and correlations between markets. As its primary tool, the Bank measures its market risk exposure using the Standardised Approach under Basel III.

The Bank uses the Standardised Approach for calculating market risk capital charges for the following market risk components:

- Equity exposure risk
- Interest rate exposure risk
- Foreign currency exposure risk
- Commodity risk

The Bank's market risk capital charge is largely composed of foreign currency risk arising from the Bank's foreign exchange exposure on investments denominated mainly in Kuwaiti dinars, Saudi riyals and USD, and interest rate risk arising on the bond portfolio. The capital requirement for market risk using the Standardised Approach as at 31 December 2022 was as follows:

	Capital Requirements			
	2022	Maximum	Minimum	Average
Risk Type				
Foreign exchange risk capital	50	57	50	52

Interest rate risk

Interest rate risk arises from the possibility that changes in the interest rates will affect future profitability or the fair values of the financial instruments. The Bank is exposed to interest rate risks due to mismatches of interest rate repricing on maturity of assets and liabilities. Positions are monitored periodically to ensure that this is maintained within the established limits. The Bank's assets and liabilities reprice only on maturity.

The Bank's interest rate sensitivity position is based on the maturity dates, as follows:

	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Non-interest bearing	Total
2022								
Assets								
Balances with Central Bank of Bahrain	-	-	-	-	-	-	4,788	4,788
Placements with banks and other financial institutions	13,892	-	-	-	-	-	-	13,892
Islamic financing and loans to customers	1,184	746	2,333	5,210	124,590	2,621	-	136,684
Investment and other assets	54,742	-	-	-	-	-	8,718	63,460
Total assets	69,818	746	2,333	5,210	124,590	2,621	13,506	218,824
Liabilities								
Term loans	-	251	3,242	3,493	16,824	3,993	-	27,803
Deposits	11,444	2,659	265	251	-	118,244	-	132,863
Other liabilities	-	-	-	-	-	-	6,447	6,447
Total liabilities	11,444	2,910	3,507	3,744	16,824	122,237	6,447	167,113
Net liquidity gap	58,374	(2,164)	(1,174)	1,466	107,766	(119,616)	7,059	51,711

Composition of Capital Disclosure Requirements

As at 31 December 2022

18. EQUITY POSITION IN THE BANKING BOOK

	31-Dec-22	
	Net exposure	Capital requirement
Privately held	7,575	947
TOTAL	7,575	947

19. GAINS ON EQUITY INVESTMENTS

The Bank does not have any equity investments subject to supervisory transition or grandfathering provisions.

20. DERIVATIVES

	Foreign exchange contracts
Positive Fair Value	303
Negative Fair Value	(15)
Notional – Banking book	27,672

21. OPERATIONAL AND LEGAL RISKS

Operational risk is the risk of loss arising from errors that can be made in instructing payments or settling transactions, breakdown in technology and internal control systems. The Bank uses the Basic Indicator Approach under the capital adequacy framework for measuring and managing its operational risk. Currently, the Bank conducts its business from a single location. BDB is a retail bank with some restrictions and accordingly, the number of client relationships and volume of transactions at BDB are moderate on average.

BDB's operations are conducted according to well-defined procedures. These procedures include a comprehensive system of internal controls, including segregation of duties and other internal checks, which are designed to prevent either inadvertent staff errors or malfeasance prior to the release of a transaction. The Bank also engages in subsequent monitoring of accounting records, daily reconciliation of cash and securities accounts and other checks to enable it detect any erroneous or improper transactions which may have occurred. Specific limits are set up to mitigate and monitor the Bank's exposure.

Operational risk is managed by the Operational risk management unit in the Risk management department. The scope of the Internal Audit department encompasses audits and reviews of all business units, support services and branches. The internal audit process focuses primarily on assessing risks and controls and ensuring compliance with established policies, procedures and delegated authorities. Products and services are reviewed by the Internal Audit department and assessed for operational risks. The Internal Audit department is operationally independent and reports significant internal control deficiencies to the Audit Committee.

The Bank has a Business Continuity Plan (BCP) to ensure that the critical activities are supported in case of an emergency. The BCP is approved by the Board of Directors.

Bank's ICAAP limit of 16% has been fixed to absorb any unforeseen event as compared to regulatory capital requirement of 12.5%.

Legal risk is the risk arising from the potential that unenforceable contracts, lawsuits or adverse judgments can disrupt or otherwise negatively affect the operations of the group. The Group has developed controls and procedures to identify legal risks and believes that losses will not be material.

22. FINES & PENALTY

	Amount in BHD Actual 2022
Penalty paid to Central Bank of Bahrain	-

23. Liquidity Coverage Ratio (LCR)

According to LM-11.1.2 under the "Liquidity Risk Management Module" in the CBB Rulebook, The Bank has calculated the Liquidity Coverage Ratio, which is at 2186% as on 31 December 2022.

24. Leverage Ratio (LR)

According to CA-15.5.1 under the "Leverage Ratio & Gearing Requirements" Module in the CBB Rulebook, The Bank has calculated the Leverage Ratio, which is at 23.27% as on 31 December 2022.

25. Organizational Restructuring

During the year ended 31 December 2022, the Board of Directors has employed the services of an external consultant for recommendations on the Organization Structure, Remuneration Packages and incentive structure.

Composition of Capital Disclosure Requirements (Continued)

As at 31 December 2022

Step 1: Balance sheet under the regulatory scope of consolidation

This step in not applicable to the Bank since the scope of regulatory consolidation and accounting consolidation is identical.

Composition of Capital Disclosure Requirements (Continued)

As at 31 December 2022

Step 2: Reconciliation of published financial balance sheet to regulatory reporting as at 31 December 2022

	Balance sheet as in published financial statements	Consolidated PIR data	Reference
Assets			
Cash and balances at central banks	4,865	4,865	
Placements with banks and other financial institutions	13,893	13,892	
Investment securities	62,340	62,340	
Investments in associates	394	394	A
As at 30 June 2022	**62,734**	**62,734**	
of which:			
Significant investments in capital of financials institutions exceeds the 10% of CET1			
Amount in excess of 10% of CET1 to be deducted			
Amount in excess of 10% of CET1 to be deducted in year 1			
Investment property	5,130	5,130	
Loans and advances	134,034	136,684	
of which: General loan loss provision which qualify as capital	2,650	-	
Prepayments, accrued income and other assets	6,280	6,285	
Property, plant and equipment	3,042	3,042	
Total assets	**229,978**	**232,632**	
Liabilities			
Deposits from banks and other financial institutions	-	-	
Customer accounts	132,863	132,863	
Term Loans	27,803	27,803	
Repurchase agreements and other similar secured borrowing			
Derivative financial instruments			
Accruals, deferred income and other liabilities	6,447	6,372	
Total liabilities	**167,113**	**167,038**	
Shareholders' Equity			
Paid-in share capital	63,669	63,669	
Shares under employee share incentive scheme			
Total share capital	**63,669**	**63,669**	
of which amount eligible for CET1	-	63,669	C
of which amount eligible for AT1	-	-	
Accumulated losses	(2,000)	(2,000)	D
Statutory reserve	1,186	1,186	
Other Reserve	-	-	
General reserve			
Share premium			
Donations and charity reserve			
General loan loss provision which qualify as capital		2,729	B
Available for sale revaluation reserve	(305)	(305)	
Share of Available for sale revaluation reserve relating to associates not considered for regulatory capital			
Minority interest in subsidiaries' share capital	315	315	
Total shareholders' equity	**62,865**	**65,594**	
Total liabilities & Shareholders' Equity	**229,978**	**232,632**	

Composition of Capital Disclosure Requirements (Continued)

As at 31 December 2022

Step 3: Composition of Capital Common Template as at 31 December 2022

	Composition of Capital and mapping to regulatory reports	Component of regulatory capital	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	63,669	C
2	Accumulated losses	(2,000)	D
3	Accumulated other comprehensive income (and other reserves)	881	
4	Not Applicable	-	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	
6	**Common Equity Tier 1 capital before regulatory adjustments**	**62,550**	
	Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments	-	
8	Goodwill (net of related tax liability)	-	
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	1,547	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
11		-	
12	Shortfall of provisions to expected losses	-	
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	-	
14	Not applicable.	-	
15	Defined-benefit pension fund net assets	-	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-	
17	Reciprocal cross-holdings in common equity	-	
18	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)	-	
19	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)	-	
20	Mortgage servicing rights (amount above 10% threshold)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
22	Amount exceeding the 15% threshold	-	
23	of which: significant investments in the common stock of financials	-	
24	of which: mortgage servicing rights	-	
25	of which: deferred tax assets arising from temporary differences	-	
26	National specific regulatory adjustments	-	

Composition of Capital Disclosure Requirements (Continued)

As at 31 December 2022

	Composition of Capital and mapping to regulatory reports	Component of regulatory capital	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	-	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	**Total regulatory adjustments to Common equity Tier 1**	**-**	
29	**Common Equity Tier 1 capital (CET1)**	**61,003**	
	Additional Tier 1 capital: instruments	-	
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-	
34	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)	-	
35	of which: instruments issued by subsidiaries subject to phase out	-	
36	Additional Tier 1 capital before regulatory adjustments	-	
	Additional Tier 1 capital: regulatory adjustments	-	
37	Investments in own Additional Tier 1 instruments	-	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	
39	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)	-	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
41	National specific regulatory adjustments	-	
	REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	-	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43	Total regulatory adjustments to Additional Tier 1 capital	-	
44	**Additional Tier 1 capital (AT1)**	**-**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**61,003**	
	Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
47	Directly issued capital instruments subject to phase out from Tier 2	-	
48	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)	-	
49	of which: instruments issued by subsidiaries subject to phase out	-	

Composition of Capital Disclosure Requirements (Continued)

As at 31 December 2022

	Composition of Capital and mapping to regulatory reports	Component of regulatory capital	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2
50	Provisions	883	
51	**Tier 2 capital before regulatory adjustments**	**883**	
	Tier 2 capital: regulatory adjustments		
52	Investments in own Tier 2 instruments	-	
53	Reciprocal cross-holdings in Tier 2 instruments	-	
54	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)	-	
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments	-	
	REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	-	
	OF WHICH: [INSERT NAME OF ADJUSTMENT]	-	
	OF WHICH: …	-	
57	**Total regulatory adjustments to Tier 2 capital**	**-**	
58	**Tier 2 capital (T2)**	**883**	
59	**Total capital (TC = T1 + T2)**	**61,886**	
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT		
60	**Total risk weighted assets**	**87,830**	
	Capital ratios		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	69.46%	
62	Tier 1 (as a percentage of risk weighted assets)	69.46%	
63	Total capital (as a percentage of risk weighted assets)	70.46%	
64	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)	9.00%	
65	of which: capital conservation buffer requirement	2.50%	
66	of which: bank specific countercyclical buffer requirement (N/A)	0.00%	
67	of which: D-SIB buffer requirement (N/A)	0.00%	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	69.46%	
	National minima including CCB (if different from Basel 3)		
69	CBB Common Equity Tier 1 minimum ratio	9.00%	
70	CBB Tier 1 minimum ratio	11.00%	
71	CBB total capital minimum ratio	12.50%	

Composition of Capital Disclosure Requirements (Continued)

As at 31 December 2022

	Composition of Capital and mapping to regulatory reports	Component of regulatory capital	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2
	Amounts below the thresholds for deduction (before risk weighting)		
72	Non-significant investments in the capital of other financials	3,416	
73	Significant investments in the common stock of financials	394	A
74	Mortgage servicing rights (net of related tax liability)	-	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-	
	Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	2,729	B
77	Cap on inclusion of provisions in Tier 2 under standardised approach (1.25% of Credit Risk weighted Assets)	883	
78	NA	-	
79	NA	-	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2020 and 1 Jan 2024)		
80	Current cap on CET1 instruments subject to phase out arrangements	-	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	
82	Current cap on AT1 instruments subject to phase out arrangements	-	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	
84	Current cap on T2 instruments subject to phase out arrangements	-	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities	-	

Risk and Capital Management Disclosures (Continued)

For the year ended 31 December 2022

Disclosure template for main feature of regulatory capital instruments

1	Issuer	Bahrain Development Bank BSC
2	Unique identifier (Bahrain Bourse ticker)	BDB
3	Governing law of the instrument	All applicable laws and regulations of the Kingdom of Bahrain
	Regulatory treatment	
4	Transitional CBB rules	Common Equity Tier 1
5	Post-transitional CBB rules	Common Equity Tier 1
6	Eligible at solo/group/group & solo	Group
7	Instrument Type	Common Equity shares
8	Amount recognized in regulatory capital (currency in Millions, as of most recent reporting date)	63,669.00
9	As at 31 December 2021	BD1.00
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	Not Applicable
12	Perpetual or dated	Not Applicable
13	Original maturity date	Not Applicable
14	Issuer call subject to prior supervisory approval	Not Applicable
15	Optional call date, contingent call dates and redemption amount	Not Applicable
16	Subsequent call dates, if applicable	Not Applicable
	Coupons / dividends	Not Applicable
17	Fixed or floating dividend/coupon	Not Applicable
18	Coupon rate and any related index	Not Applicable
19	Existence of a dividend stopper	Not Applicable
20	Fully discretionary, partially discretionary or mandatory	Not Applicable
21	Existence of step up or other incentive to redeem	Not Applicable
22	Non-cumulative or cumulative	Not Applicable
23	Convertible or non-convertible	Not Applicable
24	If convertible, conversion trigger (s)	Not Applicable
25	If convertible, fully or partially	Not Applicable
26	If convertible, conversion rate	Not Applicable
27	If convertible, mandatory or optional conversion	Not Applicable
28	If convertible, specify instrument type convertible into	Not Applicable
29	If convertible, specify issuer of instrument it converts into	Not Applicable
30	Write-down feature	Not Applicable
31	If write-down, write-down trigger(s)	Not Applicable
32	If write-down, full or partial	Not Applicable
33	If write-down, permanent or temporary	Not Applicable
34	If temporary write-down, description of write-up mechanism	Not Applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not Applicable
36	Non-compliant transitioned features	Not Applicable
37	If yes, specify non-compliant features	Not Applicable