

**BAHRAIN DEVELOPMENT BANK B.S.C. (c)**

**REPORT OF THE BOARD OF DIRECTORS,  
INDEPENDENT AUDITOR'S REPORT AND  
CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2021**

**BAHRAIN DEVELOPMENT BANK B.S.C. (c)**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2021**

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**BAHRAIN DEVELOPMENT BANK B.S.C. (c)**  
**CORPORATE INFORMATION**

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**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  
PO Box 20501  
Manama  
Kingdom of Bahrain

**External Auditors**  
Ernst & Young  
PO Box 140  
Manama  
Kingdom of Bahrain



## **Annual Report 2021**

### **Chairman's Message**

On behalf of the Board of Directors of the Bahrain Development Bank Group, ("BDB, the bank and its subsidiaries"), I am pleased to present the Annual Report and Consolidated Financial Statements for the year ended 31<sup>st</sup> December 2021.

It was a challenging year marked with uncertainties due to the pandemic that continued to impact economies locally, regionally and globally. BDB remained steadfast in the face of volatile market conditions, and demonstrated strength and resilience in fulfilling its core mandate to be the leading provider of financial and incubation services to Small and Medium Enterprises (SMEs) across the Kingdom of Bahrain.

What helped BDB in navigating the variables in the economic landscape were the strong fundamentals that have undergirded the Bank's operations, and the values that have underlined the Bank's services to both customers and stakeholders. To ensure that these positive sentiments remain a constant feature, there was increased focus on improving internal processes and other structural mechanisms.

With the business community under increasing pressure because of the on-going pandemic, BDB was responsive to their needs, and initiated a slew of services that would help in minimising the strain.

We have worked closely with various government entities & the private sector to provide solutions supporting SMEs to ensure they maintain their stability and strengthen their efforts in sustaining and developing the local economy.

During the year, the total disbursements amounted to BD 32 million.

In addition, cumulative disbursements under the Liquidity Support Fund Scheme (LSF) sponsored by the Ministry of Finance and National Economy (MOFNE) reached BD 50.3 million since its introduction in December 2019.

Nearly 584 SMEs were supported with loans under the LSF scheme provided at a concessional rate of interest.

Furthermore, in compliance with the guidelines issued by the Central Bank of Bahrain (CBB), BDB deferred loan instalments for qualifying customers. This measure was undertaken to assist SMEs in maintaining healthy liquidity despite a difficult economic environment.

In 2021, customers with outstanding loans of BD 65 million benefitted from the deferrals and went a long way in providing businesses with a cushion to mitigate the impact of the pandemic.

While the pandemic may have occupied much of our attention in the past year, nevertheless, I am pleased to report that we have remained equally focused on our core activities as well. As a result, 148 businesses have benefited from BBIC, Riyadat, Farmers Market and various other incubation facilities available under the BDB Group.

We have seen significant progress in our digital transformation drive as we work towards offering a range of financial services through an omnichannel platform. *Ru'ya* as the digital transformation program is called, is supported by advanced risk, compliance and analytics capabilities combined with one of the region's first implementations of a cloud based digital core banking solution.

The public face of this transformation will be the Bank's digital platform, *tijara* that will be launched in 2022. It is expected to revolutionize the way Bahraini SMEs obtain finance by making the entire process fast, easy, convenient and online.

The digital push is also part of BDB's strategy to give further impetus towards promoting entrepreneurship and innovation, therefore BDB mission is closely aligned with the three guiding principles of Bahrain's Economic Vision 2030 — sustainability, fairness and competitiveness.

As the document states — and we also believe — that our main task is to work for the continued development of Bahrain's economy, and remain focused towards building a better life for Bahrainis.

I would like to take this opportunity to extend my sincere thanks and 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, and the many government ministries and institutions for their continued support and wise leadership.

In conclusion, I offer my thanks to the members of the Board of Directors, the executive management team and all partners and employees. We look forward to successful future collaboration towards our shared mission to build a sustainable economic future for the Kingdom of Bahrain.

A handwritten signature in black ink, consisting of several fluid, overlapping strokes that form a stylized representation of the name 'Khalid Al Rumaihi'.

**Khalid Al Rumaihi**  
***Chairman***

**Disclosure forms for the remuneration of members of the board of directors and the executive management in the report of the board of directors**

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

Name	Fixed remunerations					Variable remunerations					End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
	Remunerations of the chairman and BOD	Total allowance for attending Board and committee meetings	Salaries	Others*	Total	Remunerations of the chairman and BOD	Bonus	Incentive plans	Others**	Total			
<b>First: Independent Directors: N/A</b>													
<b>Second: Non-Executive Directors:</b>													
1. Marwan Tabbara		9,500			9,500	7,423.529				7,423.529		16,923.53	
2. Ghassan Abdulaal		6,750			6,750	7,423.529				7,423.529		14,173.53	
3. Khalid Omar Alromaihi						11,135.294				11,135.294		11,135.29	
4. Marwah Alsaad		5,000			5,000	7,423.529				7,423.529		12,423.53	
5. Maryam Alansari		4,850			4,850	7,423.529				7,423.529		12,273.53	
6. Sabah Almoayyed		6,000			6,000	7,423.529				7,423.529		13,423.53	

7.Tala Fakhro		7,500			7,500	7,423.529				7,423.529		14,923.53	
8. Tariq Alsaffar		7,750			7,750	7,423.529				7,423.529		15,173.53	
<b>Third: Executive Directors: N/A</b>													
<b>Total</b>		47,350			47,350	63,100				63,100		110,450	
<b>Note: All amounts must be stated in Bahraini Dinars.</b>													
<b>Other remunerations:</b>													
<b>* It includes in-kind benefits – specific amount - remuneration for technical, administrative and advisory works (if any).</b>													
<b>** It includes the board member's share of the profits - Granted shares (insert the value) (if any).</b>													



## Second: Executive management remuneration details:

Executive management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/ in kind remuneration for 20XX	Aggregate Amount
Top 6 remunerations for executives, including CEO* and Senior Financial Officer**	537,029	17,345		554,374
<b>Note: All amounts must be stated in Bahraini Dinars.</b>				
<b>* The highest authority in the executive management of the company, the name may vary: (CEO, President, General Manager (GM), Managing Director...etc).</b>				
<b>** The company's highest financial officer (CFO, Finance Director, ...etc)</b>				

## **INDEPENDENT AUDITOR’S REPORT TO THE SHAREHOLDERS OF BAHRAIN DEVELOPMENT BANK B.S.C. (c)**

### **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 2021, 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 2021, 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 2021 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.

## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BAHRAIN DEVELOPMENT BANK B.S.C. (c) (continued)**

### **Report on the Audit of the Consolidated Financial Statements (continued)**

#### *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.

#### *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.

## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BAHRAIN DEVELOPMENT BANK B.S.C. (c) (continued)**

### **Report on the Audit of the Consolidated Financial Statements (continued)**

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

- 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 2021 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position; and

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF  
BAHRAIN DEVELOPMENT BANK B.S.C. (c) (continued)**

**Report on Other Legal and Regulatory Requirements (continued)**

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




Partner's registration no. 45  
27 February 2022  
Manama, Kingdom of Bahrain

# Bahrain Development Bank B.S.C. (c)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	2021 BD '000	2020 BD '000
<b>ASSETS</b>			
Cash and balances with Central Bank of Bahrain	7	3,027	2,568
Placements with banks and other financial institutions	7	22,312	3,722
Islamic financing and loans to customers	8	146,632	146,630
Investment securities	9	55,996	56,364
Investment in associates	10	383	374
Investment properties	11	10,581	11,071
Property and equipment	12	3,102	1,926
Other assets	13	4,346	3,828
<b>TOTAL ASSETS</b>		<b>246,379</b>	<b>226,483</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Term loans	14	34,803	35,304
Deposits	15	137,995	118,030
Other liabilities		4,849	4,444
<b>Total liabilities</b>		<b>177,647</b>	<b>157,778</b>
<b>Equity</b>			
Share capital	16	65,000	65,000
Statutory reserve	17	1,186	1,186
Other capital contribution	18	4,048	4,048
Other reserves		703	1,146
Accumulated losses		(2,525)	(2,656)
Equity attributable to owners of the Bank		68,412	68,724
Non-controlling interest		320	(19)
<b>Total equity</b>		<b>68,732</b>	<b>68,705</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>246,379</b>	<b>226,483</b>

  
 Khalid Al Rumayh  
 Chairman

  
 Ghassan Ghaleb Abdulaal  
 Director

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

Bahrain Development Bank B.S.C. (c)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2021

	Notes	2021 BD '000	2020 BD '000
<b>Income</b>			
Islamic financing and interest income	19	7,787	8,536
Islamic financing and interest expense	20	(1,102)	(1,213)
<b>Net Islamic financing and interest income</b>		<b>6,685</b>	<b>7,323</b>
Fee and commission income	21	343	452
Investment income	22	682	(416)
Rental income		989	1,054
Other income		121	280
<b>Total operating income</b>		<b>8,820</b>	<b>8,693</b>
<b>Expenses</b>			
Staff costs		(4,187)	(4,749)
Other operating expenses		(3,541)	(3,321)
<b>Total operating expenses before allowance for expected credit losses</b>		<b>(7,728)</b>	<b>(8,070)</b>
Allowance for expected credit losses / provision - net	23	(1,013)	(112)
<b>Total expected credit losses / provision</b>		<b>(1,013)</b>	<b>(112)</b>
<b>Net operating income</b>		<b>79</b>	<b>511</b>
Share of profit from associate	10	9	52
<b>Net profit for the year</b>		<b>88</b>	<b>563</b>
<b>Net profit for the year attributable to:</b>			
- Owners of the Bank		131	563
- Non-controlling interest		(43)	-
		<b>88</b>	<b>563</b>

63.

  
Khalid Al Rumaihi  
Chairman

  
Ghassan Ghaleb Abdulaal  
Director

Bahrain Development Bank B.S.C. (c)  
 CONSOLIDATED STATEMENT OF OTHER  
 COMPREHENSIVE INCOME

For the year ended 31 December 2021

	<b>2021</b> <b>BD '000</b>	2020 <b>BD '000</b>
<b>Net income for the year</b>	<b>88</b>	563
<b>Other comprehensive income:</b>		
<i>Items that will not be reclassified to profit or loss in subsequent periods:</i>		
Changes in fair value through other comprehensive income reserve - equity instruments	-	(5)
<i>Items that will be reclassified to profit or loss in subsequent periods:</i>		
Net unrealized (loss) gain in cash flow hedges	<b>(136)</b>	411
Changes in fair value of investments classified as fair value through other comprehensive income - debt instruments	<b>(307)</b>	86
<b>Total comprehensive (loss) income for the year</b>	<b>(355)</b>	1,055
<b>Total comprehensive (loss) income attributable to:</b>		
- Owners of the Bank	<b>(312)</b>	1,055
- Non-controlling interest	<b>(43)</b>	-
	<b>(355)</b>	1,055

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



Bahrain Development Bank B.S.C. (c)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

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

	<i>Equity attributable to owners of the Bank</i>					<i>Total</i> <i>BD '000</i>	<i>Non - controlling interest</i> <i>BD '000</i>	<i>Total equity</i> <i>BD '000</i>
	<i>Share capital</i> <i>BD '000</i>	<i>Statutory reserve</i> <i>BD '000</i>	<i>Other capital contribution</i> <i>BD '000</i>	<i>Other reserves</i> <i>BD '000</i>	<i>Accumulated losses</i> <i>BD '000</i>			
As at 1 January 2020	65,000	1,186	4,048	654	(1,544)	69,344	(18)	69,326
Total comprehensive income for the year	-	-	-	492	563	1,055	-	1,055
Recognition of modification loss net of government grant (note 2.5)	-	-	-	-	(1,675)	(1,675)	-	(1,675)
Minority interest movement	-	-	-	-	-	-	(1)	(1)
<b>As at 31 December 2020</b>	<b>65,000</b>	<b>1,186</b>	<b>4,048</b>	<b>1,146</b>	<b>(2,656)</b>	<b>68,724</b>	<b>(19)</b>	<b>68,705</b>

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

# Bahrain Development Bank B.S.C. (c)

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	<i>Notes</i>	<b>2021</b> <b>BD '000</b>	<b>2020</b> <b>BD '000</b>
<b>OPERATING ACTIVITIES</b>			
Net profit for the year		<b>88</b>	563
Adjustments for:			
Depreciation		<b>1,050</b>	1,114
Allowance for expected credit losses/ provision - net	23	<b>1,466</b>	669
Changes in fair value of investments classified as FVTPL	22	<b>(637)</b>	416
Changes in revaluation of loans and deposits classified as FVTPL		<b>6,010</b>	(61)
Dividend income	22	<b>(45)</b>	-
Share of profit from associate	10	<b>(9)</b>	(52)
Loss on foreign currency translation		<b>5</b>	14
Operating profit before changes in operating assets and liabilities		<b>7,928</b>	2,663
Changes in operating assets and liabilities:			
Placement with banks and other financial institutions having original maturity of more than 90 days		<b>(357)</b>	6,825
Islamic financing and loans to customers		<b>(7,409)</b>	(84,812)
Other assets		<b>(462)</b>	(1,607)
Deposits		<b>19,936</b>	96,094
Other liabilities		<b>442</b>	(143)
<b>Net cash flow from operating activities</b>		<b>20,078</b>	19,020
<b>INVESTING ACTIVITIES</b>			
Net additions to property and equipment	12	<b>(1,724)</b>	(610)
Purchase of investment securities		<b>(30,997)</b>	(60,658)
Proceeds from sale of investment securities		<b>31,694</b>	45,402
Dividend income received	22	<b>45</b>	-
Liquidation of Investment Securities		<b>101</b>	55
<b>Net cash flow used in investing activities</b>		<b>(881)</b>	(15,811)
<b>FINANCING ACTIVITY</b>			
Repayment of term loans	14	<b>(501)</b>	(6,989)
<b>Net cash flow used in financing activity</b>		<b>(501)</b>	(6,989)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>18,696</b>	(3,780)
Cash and cash equivalents at beginning of the year		<b>3,980</b>	7,759
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	7	<b>22,675</b>	3,980
<b>Additional information:</b>			
Islamic financing and interest received		<b>6,828</b>	7,991
Islamic financing and interest paid		<b>407</b>	1,247

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

As at 31 December 2021

## 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, Commerce and Tourism (MOICT) 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 its 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 23 February 2022.

## 2 BASIS OF PREPARATION

### 2.1 Framework and basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with applicable rules and regulations issued by the CBB, including CBB circulars on regulatory concessionary measures in response to COVID-19. These rules and regulations, in particular CBB circular OG/226/2020 dated 21 June 2020, required the adoption of all International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), except for:

- (a) recognition of modification losses on financial assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional interest, in equity instead of profit or loss as required by IFRS 9 Financial Instruments. Any other modification gain or loss on financial assets are recognised in accordance with the requirements of IFRS 9. Please refer note 2.5 for further details; and
- (b) recognition of financial assistance received from the government and/ or regulators in response to its COVID-19 support measures that meets the government grant requirement, in equity, instead of profit or loss. This will only be to the extent of any modification loss recorded in equity as a result of (a) above, and the balance amount to be recognized in profit or loss. Any other financial assistance is recognised in accordance with the requirements of International Accounting Standard 20 ("IAS 20"). Please refer note 2.5 for further details.

The above framework for basis of preparation of the consolidated financial statements is hereinafter referred to as 'IFRS as modified by CBB'.

The accounting policies used in the preparation of annual audited consolidated financial statements of the Group for the year ended 31 December 2021 were in accordance with IFRS as issued by IASB. However, except for the above-mentioned modifications to accounting policies and those detailed in note 5 that have been applied retrospectively, all other accounting policies remain the same and have been consistently applied in these consolidated financial statements. The retrospective application of the change in accounting policies did not result in any change to the financial information reported for the comparative period.

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.

As at 31 December 2021

**2 BASIS OF PREPARATION (continued)****2.2 Statement of compliance**

The consolidated financial statements have been prepared in accordance with the IFRS as modified by the CBB 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:

	<b>Ownership interest</b>		<b>Principal activity</b>
	<b>2021</b>	<b>2020</b>	
Bahrain Business Incubator Centre S.P.C.	<b>100%</b>	100%	Development and assistance to emerging Bahraini entrepreneurs
Al-Waha Venture Capital Fund Company	<b>99%</b>	99%	Trusts, Funds and Similar Financial Entities - Fund Company
Middle East Corner Consultancy Co. W.L.L. (MECC) *	<b>28.60%</b>	28.60%	Consultancy to small and medium enterprises
Neotech W.L.L.**	<b>78.30%</b>	0.00%	Management consultancy activities

\* MECC is under the process of liquidation.

\*\* Neotech was established in January 2021 with ownership of 78.3% of BD 1.7 million paid up capital.

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:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- 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:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- 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.

As at 31 December 2021

## 2 BASIS OF PREPARATION (continued)

### 2.4 Basis of consolidation (continued)

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.

### 2.5 Accounting for modified financing assets and government grants

During the year-ended 31 December 2020, based on a regulatory directive issued by the CBB (refer note 2.1) as concessionary measures to mitigate the impact of COVID-19, the one-off modification losses amounting to BD 2,360 thousand arising from the 6-month payment holidays provided to financing customers without charging additional interest was recognised directly in equity. The modification loss was calculated as the difference between the net present value of the modified cash flows calculated using the original effective interest rate and the current carrying value of the financial assets on the date of modification. The Bank provided payment holidays on financing exposures amounting to BD 62 million as part of its support to the impacted customers.

Further, as per the regulatory directive, financial assistance amounting to BD 684 thousand (representing specified reimbursement of a portion of staff costs and waiver of fees, levies and utility charges) received from the governments and / or regulators, in response to its COVID-19 support measures, was recognised directly in equity. Thus the net amount from the modification loss and government assistance amounted to BD 1,675 thousand.

## 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.

**3 SIGNIFICANT ACCOUNTING JUDGMENT AND ESTIMATES (continued)**

*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.

*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.

### 3 SIGNIFICANT ACCOUNTING JUDGMENT AND ESTIMATES (continued)

#### *Impact of COVID-19*

COVID-19 pandemic has spread across various geographies globally, causing disruption to business and economic activities. COVID-19 has brought about uncertainties in the global economic environment. 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. Oil prices have witnessed unprecedented volatility and the overall average reduction in prices is expected to have medium to long term adverse consequences on economies.

As a regulatory response to the outbreak of the coronavirus pandemic, the CBB has issued various relaxation measures from time to time to contain the financial repercussions of COVID-19. These mainly include, several deferral programs for eligible customers both with and without interest, reduced limits of Liquidity Coverage Ratio ("LCR") and Net Stable Funding Ratio (NSFR) for all locally incorporated banks, cash reserve ratio for retail banks, cap on merchant fees, adjustments to cooling off period for transferring exposures from Stage 3 to Stage 2, relaxation concerning days past due for ECL staging criteria, and relaxation on Loan-to-value ("LTV") ratio for residential mortgages.

Central banks across the world have stepped in with measures to protect the stability of the global economy with a wide range of measures from easing of interest rates, to asset purchase programme besides infusing significant liquidity into the economy.

In preparing the consolidated financial statements, significant judgments were made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were impacted by the potential impacts of the economic volatility in determination of the reported amounts of the Group's financial and non-financial assets and these are considered to represent management's best assessment based on available or observable information. The ECL methodology has largely remained unchanged from 31 December 2020, which included the changes to factor into account COVID-19 impacts. Markets however remain volatile and the recorded amounts remain sensitive to market fluctuations.

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.

The Group continues to closely monitor the situation to ensure operational resilience and continuity of its operations. The Bank has activated its business continuity planning and other risk management practices to manage the potential impact of the business disruption due to COVID-19 outbreak, on its operations and financial performance.

### 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 NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (continued)**

***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 specific adaptation for contracts with direct participation features (the variable fee approach)
- 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.

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

In January 2020, the Board issued amendments to paragraphs 69 to 76 of IAS 1 Presentation of Financial Statements 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.
- 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.

These amendments are effective for reporting periods beginning on or after 1 January 2023, with early application permitted.

***Amendments to IAS 37 – Onerous Contracts: — Cost of Fulfilling a Contract***

In May 2020, the IASB issued amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a 'directly related cost approach'. The 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 apply prospectively to transactions or other events that occur on or after 1 January 2022.

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

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of 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.

These amendments are effective for reporting periods beginning on or after 1 January 2022, with early application permitted.

***Amendments to IFRS 3 – Reference to the Conceptual Framework***

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 a previous version of the IASB's Conceptual Framework (the 1989 Framework) with a reference to the current version issued in March 2018 (the Conceptual Framework) without significantly changing its requirements.



#### 4 NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (continued)

##### ***Amendments to IFRS 3 – Reference to the Conceptual Framework (continued)***

The amendments add 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 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

The amendments apply prospectively to transactions or other events that occur on or after 1 January 2022.

##### ***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.

##### ***Annual improvements 2018-2020 cycle***

These improvements include:

- IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a First-time Adopter;
- IFRS 9 Financial Instruments – Fees in the '10 percent' Test for Derecognition of Financial Liabilities;
- IAS 41 Agriculture – Taxation in Fair Value Measurements; and
- Illustrative Examples accompanying IFRS 16 Leases – Lease Incentives.

These improvements are effective for reporting periods beginning on or after 1 January 2022, with early application permitted.

The Group does not expect any significant impact on the Groups' financial position and results for the above standards that are not yet adopted.

#### 5 NEW AND AMENDED STANDARDS AND INTERPRETATIONS ISSUED AND EFFECTIVE

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year, except for the adoption of the following new standards or amendments to existing standards, applicable to the Group, and which are effective for annual periods beginning on or after 1 January 2021:

##### ***Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS***

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest.
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

**5 NEW AND AMENDED STANDARDS AND INTERPRETATIONS ISSUED AND EFFECTIVE  
(continued)**

***Amendments to IFRS 3: Definition of a Business***

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs.

***Amendments to IFRS 16 COVID-19 Related Rent Concessions***

On 28 May 2020, the IASB issued COVID-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The above new standards, interpretations and amendments to IFRSs which were effective for annual accounting periods starting from 1 January 2021, did not have any material impact on the accounting policies, financial position or performance of the Group.

**6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**6.1 Investment in associates**

The Group's investments in its associates 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.

**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 statement of financial position.

**6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**6.3 Leases - Group as a lessee (continued)**

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 statement of financial position.

**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 proceeds from 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 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 effective interest method. The effective interest rate 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.

**6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**6.10 Income recognition (continued)**

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.

**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 Other capital contribution**

This represents a non-reciprocal contribution, has no interest and no repayment terms and will only be repaid on liquidation of the Bank and accordingly, it has been classified as equity.

**6.15 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.

**6.16 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 statement of financial position.

**6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**6.17 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.

**6.18 Financial assets and financial liabilities**

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

**6.18.1 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.

**6.18.2 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.

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.

**6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**6.18 Financial assets and financial liabilities (continued)**

**6.18.2 Classification (continued)**

*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

*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.

**6.18.3 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.

**6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**6.18 Financial assets and financial liabilities (continued)**

**6.18.3 Derecognition (continued)**

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 expire.

**6.18.4 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.

**6.18.5 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.

**6.18.6 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'.

**6.18.7 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2021

**7 CASH AND CASH EQUIVALENTS**

	<b>2021</b>	<b>2020</b>
	<b>BD '000</b>	<b>BD '000</b>
Cash and balances with Central Bank of Bahrain	<b>3,027</b>	2,568
Placements with banks and other financial institutions	<b>22,312</b>	3,722
	<b>25,339</b>	6,290
Less: reserve with Central Bank of Bahrain	<b>(2,667)</b>	(2,014)
Less: placements with banks and other financial institutions having original maturity of more than 90 days	-	(301)
Add: allowance for expected credit losses	<b>3</b>	5
Cash and cash equivalents at end of the year	<b>22,675</b>	3,980
	<b>2021</b>	<b>2020</b>
	<b>BD '000</b>	<b>BD '000</b>
Cash and balances with Central Bank of Bahrain (excluding reserves)	<b>360</b>	554
Placements with banks and other financial institutions having original maturity of 90 days or less	<b>22,315</b>	3,426
	<b>22,675</b>	3,980

**8 ISLAMIC FINANCING AND LOANS TO CUSTOMERS**

	<b>2021</b>	<b>2020</b>
	<b>BD '000</b>	<b>BD '000</b>
Project finance - Islamic	<b>137,701</b>	136,660
Project finance - conventional	<b>18,987</b>	19,625
Fisheries and agriculture	<b>3,388</b>	3,304
Other loans	<b>2,249</b>	2,406
	<b>162,325</b>	161,995
Less: allowance for expected credit losses/ provision*	<b>(15,693)</b>	(15,365)
	<b>146,632</b>	146,630

\* This includes credit losses of BD 11,243 thousand (31 December 2020: BD 11,915 thousand) against Islamic financing to customers.

Included in Islamic financing and loans to customers, facilities at zero interest rate carried at a discount of BD 13,002 thousand (31 December 2020: BD 12,922 thousand) with undiscounted amount of BD 60,000 thousand (31 December 2020: BD 50,000 thousand).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2021

**8 ISLAMIC FINANCING AND LOANS TO CUSTOMERS (continued)**

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

	2021			
	Stage 1	Stage 2	Stage 3	Total
	12-months	Life time	Lifetime	
	ECL	ECL not	ECL credit-	Total
BD '000	credit	impaired	BD '000	
BD '000	impaired	impaired	BD '000	
<b>Balance at 1st January</b>	962	429	13,974	15,365
<b>Changed due to financial assets recognised in opening balances that have:</b>				
- transferred to 12-month ECL	-	-	-	-
- 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
Write offs during the year	-	-	(1,098)	(1,098)
<b>Balance at 31 December</b>	<b>1,403</b>	<b>543</b>	<b>13,747</b>	<b>15,693</b>
	2020			
	Stage 1	Stage 2	Stage 3	Total
	12-months	Life time	Lifetime	
	ECL	ECL not	ECL credit-	Total
	BD '000	credit	impaired	BD '000
	BD '000	impaired	impaired	BD '000
Balance at 1st January	642	196	21,268	22,106
<b>Changed due to financial assets recognised in opening balances that have:</b>				
- transferred to 12-month ECL	584	(91)	(493)	-
- transferred to Stage 2 (lifetime ECL not credit-impaired)	(7)	36	(29)	-
- transferred to Stage 3 (lifetime ECL credit-impaired)	(5)	(71)	76	-
Net re-measurement of loss allowance	355	414	2,297	3,066
Recoveries / write-backs	(607)	(55)	(1,591)	(2,253)
Allowance for expected credit losses - net	320	233	260	813
Write offs during the year	-	-	(7,554)	(7,554)
<b>Balance at 31 December</b>	<b>962</b>	<b>429</b>	<b>13,974</b>	<b>15,365</b>

At 31 December 2021, interest in suspense on past due loans that are credit impaired amounted to BD 1,849 thousand (31 December 2020: BD 1,879 thousand) and are treated as a memorandum account.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2021

**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:

	<b>31 December 2021 (Audited)</b>				
	<b>Stage 1 12-month ECL</b>	<b>Stage 2</b>		<b>Stage 3 Lifetime ECL credit impaired</b>	<b>Total</b>
		<b>Life time ECL not credit impaired</b>			
		<b>BD '000</b>	<b>BD '000</b>		
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	-	-	-	-	
Education loans	125	-	280	405	
Overdrafts	1,437	-	535	1,972	
Others	2,300	146	1,219	3,665	
	<b>129,699</b>	<b>5,237</b>	<b>27,389</b>	<b>162,325</b>	
Less: allowance for expected credit losses	<b>(1,403)</b>	<b>(543)</b>	<b>(13,747)</b>	<b>(15,693)</b>	
	<b>128,296</b>	<b>4,694</b>	<b>13,642</b>	<b>146,632</b>	
	<b>31 December 2020 (Audited)</b>				
	<b>Stage 1 12-month ECL</b>	<b>Stage 2</b>		<b>Stage 3 Lifetime ECL credit impaired</b>	<b>Total</b>
		<b>Life time ECL not credit impaired</b>			
		<b>BD '000</b>	<b>BD '000</b>		
Corporate	74,200	2,255	17,561	94,016	
SME	38,305	616	5,731	44,652	
Small business	13,377	312	3,237	16,926	
Taxi loans	-	-	21	21	
Education loans	241	-	434	675	
Overdrafts	1,486	-	528	2,014	
Others	2,438	60	1,193	3,691	
	<b>130,047</b>	<b>3,243</b>	<b>28,705</b>	<b>161,995</b>	
Less: allowance for expected credit losses	<b>(962)</b>	<b>(429)</b>	<b>(13,974)</b>	<b>(15,365)</b>	
	<b>129,085</b>	<b>2,814</b>	<b>14,731</b>	<b>146,630</b>	

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 2021 amounts to BD 16,821 thousand (31 December 2020: BD 8,617 thousand).

The contractual amount outstanding on financing assets written off by the Group as at 31 December 2021 and that are still subject to enforcement activity was BD 14,080 thousand (31 December 2020: BD 13,336 thousand).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2021

**9 INVESTMENT SECURITIES**

	2021 <i>BD '000</i>	2020 <i>BD '000</i>
<b>At fair value through profit or loss:</b>		
Conventional equities	6,932	5,575
Islamic equities	24	82
	<u>6,956</u>	<u>5,657</u>
<b>At fair value through other comprehensive income:</b>		
Conventional equities	25	126
Conventional debt securities*	17,907	17,607
Sukuk*	3,207	6,498
	<u>21,139</u>	<u>24,231</u>
<b>At amortized cost:</b>		
Conventional debt securities*	27,901	26,476
	<u>55,996</u>	<u>56,364</u>

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

**10 INVESTMENT IN ASSOCIATES**

	<i>Ownership interest</i>		<i>Principal activity</i>
	2021	2020	
Arabian Taxi Company	20.00%	20.00%	Operating and managing taxi services.
EBDA Bank ("EBDB")	21.13%	21.13%	Providing microfinance and related advisory services.

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

	2021 <i>BD '000</i>	2020 <i>BD '000</i>
<b><i>The carrying amount of investment in associated companies</i></b>		
At 1 January	374	322
Share of profit from associate	9	52
At 31 December	<u>383</u>	<u>374</u>

**11 INVESTMENT PROPERTIES**

	2021 <i>BD '000</i>	2020 <i>BD '000</i>
At 1 January	11,071	11,527
Capital work in process	-	17
Reclassification to property and equipment	(17)	-
Depreciation charge for the year	(473)	(473)
At 31 December	<u>10,581</u>	<u>11,071</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2021

**11 INVESTMENT PROPERTIES (continued)**

As of 31 December 2021, investment properties include 4 buildings (2020: 4 buildings) with a fair value of BD 14,376 thousand (2020: BD 17,761 thousand) as determined by the management.

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. 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.

**12 PROPERTY AND EQUIPMENT**

	<i>Freehold land</i>	<i>Right of Use assets</i>	<i>Freehold premises</i>	<i>Furniture, fixtures, vehicles and office equipment</i>	<i>Work in process</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
<b>Cost:</b>						
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
<b>Depreciation:</b>						
At 1 January 2021	-	315	1,407	2,019	-	3,741
Charge for the year	-	163	179	237	-	579
Disposals / write offs	-	-	-	-	-	-
Reclassification	-	-	-	(31)	-	(31)
At 31 December 2021	-	478	1,586	2,225	-	4,289
<b>Net book values:</b>						
At 31 December 2021	<b>293</b>	<b>259</b>	<b>73</b>	<b>384</b>	<b>2,093</b>	<b>3,102</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2021

**12 PROPERTY AND EQUIPMENT (continued)**

	<i>Freehold land</i> BD '000	<i>Right of Use assets</i> BD '000	<i>Freehold premises</i> BD '000	<i>Furniture, fixtures, vehicles computers and office equipment</i> BD '000	<i>Work in process</i> BD '000	<i>Total</i> BD '000
2020						
Cost:						
At 1 January 2020	293	741	1,659	2,341	48	5,082
Additions	-	44	-	194	416	654
Disposals / write offs	-	(54)	-	(15)	-	(69)
At 31 December 2020	293	731	1,659	2,520	464	5,667
Depreciation:						
At 1 January 2020	-	34	1,352	1,705	-	3,091
Charge for the year	-	281	55	329	-	665
Disposals / write offs	-	-	-	(15)	-	(15)
At 31 December 2020	-	315	1,407	2,019	-	3,741
Net book values:						
At 31 December 2020	293	416	252	501	464	1,926

**13 OTHER ASSETS**

	<b>2021</b> <b>BD '000</b>	<b>2020</b> <b>BD '000</b>
Rent and other accounts receivable	<b>3,158</b>	3,389
Receivable related to Sitra Mall	<b>542</b>	542
Profit/ Interest receivable	<b>2,830</b>	1,871
Receivable from Ministry of Finance	<b>407</b>	407
Prepayments and other assets	<b>540</b>	706
Total of other assets	<b>7,477</b>	6,915
Provision for impairment	<b>(3,131)</b>	(3,087)
<b>Net of other assets</b>	<b>4,346</b>	3,828

**14 TERM LOANS**

	<b>2021</b> <b>BD '000</b>	<b>2020</b> <b>BD '000</b>
Saudi Fund for Development	<b>7,018</b>	7,519
Arab Fund for Economic and Social Development	<b>27,785</b>	27,785
	<b>34,803</b>	35,304

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2021

**14 TERM LOANS (continued)**

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

	<b>2021</b>	<b>2020</b>
	<b>BD '000</b>	<b>BD '000</b>
At 1 January	<b>35,304</b>	42,293
Repayment of loans	<b>(501)</b>	(6,989)
At 31 December	<b>34,803</b>	35,304

**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%. Arab Fund had allowed an interim grace period for one year as concessionary measure in response of covid19 pandemic.

**15 DEPOSITS**

	<b>2021</b>	<b>2020</b>
	<b>BD '000</b>	<b>BD '000</b>
Deposits from non-banks	<b>137,995</b>	118,030
	<b>137,995</b>	118,030

Deposits from customers include BD 837 thousand (31 December 2020: BD 112,010 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 12,952 thousand (31 December 2020: BD 12,982 thousand) while the undiscounted amount is BD 63,000 thousand (31 December 2020: BD 52,500 thousand).

**16 SHARE CAPITAL**

	<b>2021</b>	<b>2020</b>
	<b>BD '000</b>	<b>BD '000</b>
Authorized:		
100 million (2020: 100 million) shares of BD 1 each	<b>100,000</b>	100,000
Issued and fully paid-up:		
65 million (2020: 65 million) shares of BD 1 each	<b>65,000</b>	65,000

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2021

**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 year ended 31 December 2021 and 2020, 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.

**19 ISLAMIC FINANCING AND INTEREST INCOME**

	<b>2021</b>	2020
	<b>BD '000</b>	BD '000
Profit on Islamic financing	<b>4,633</b>	5,288
Interest on conventional loans	<b>1,311</b>	1,304
Profit and interest on securities	<b>1,687</b>	1,740
Profit and interest on placements	<b>156</b>	204
	<b>7,787</b>	8,536

**20 ISLAMIC FINANCING AND INTEREST EXPENSE**

	<b>2021</b>	2020
	<b>BD '000</b>	BD '000
Interest on term loans	<b>988</b>	1,085
Interest on deposits from non-banks	<b>109</b>	100
Profit on deposits from Islamic banks	<b>4</b>	20
Interest on deposits from conventional banks	<b>1</b>	8
	<b>1,102</b>	1,213

**21 FEE AND COMMISSION INCOME**

	<b>2021</b>	2020
	<b>BD '000</b>	BD '000
On Islamic financing and loans to customers	<b>282</b>	414
On contingent liabilities	<b>61</b>	38
	<b>343</b>	452

**22 INVESTMENT INCOME**

	<b>2021</b>	2020
	<b>BD '000</b>	BD '000
Changes in fair value of investments classified as FVTPL	<b>637</b>	(416)
Dividend income	<b>45</b>	-
	<b>682</b>	(416)



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2021

**23 ALLOWANCE FOR EXPECTED CREDIT LOSSES / PROVISION - NET**

	<b>2021</b>	<b>2020</b>
	<b>BD '000</b>	<b>BD '000</b>
Placements with banks and other financial institutions	(2)	(82)
Islamic financing and loans to customers	1,426	813
Other assets	79	194
Contingent liabilities and commitments	(37)	(256)
Recoveries from written-off loans	(453)	(557)
	<b>1,013</b>	<b>112</b>

**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:

	<b>2021</b>	<b>2020</b>
	<b>BD '000</b>	<b>BD '000</b>
<b>Contingent liabilities:</b>		
Letters of credit *	24	-
Letters of guarantee *	1,272	1,530
	<b>1,296</b>	<b>1,530</b>
<b>Commitments:</b>		
Irrevocable commitments to extend credit *	1,044	1,450
Commitment to invest in equity **	1,754	2,317
Capital expenditure	1,317	2,181
	<b>4,115</b>	<b>5,948</b>
	<b>5,411</b>	<b>7,478</b>

\* The Bank carries an allowance of ECL of BD 57 thousand (31 December 2020: 94 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 563 thousand (2020: 429 thousand) toward this commitment.

**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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2021

**25 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)**

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.

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 period as compared to the year ended 31 December 2020.

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.

<i><b>Financial assets measured at fair value:</b></i>	<i>Level 1 BD '000</i>	<i>Level 2 BD '000</i>	<i>Level 3 BD '000</i>	<i>Total fair value BD '000</i>	<i>Total carrying value BD '000</i>
<b><u>31 December 2021</u></b>					
Investment securities - equity	-	24	6,957	6,981	6,981
Investment securities - debt	21,114	-	-	21,114	21,114
<b><u>31 December 2020</u></b>					
Investment securities - equity	1	81	5,701	5,783	5,783
Investment securities - debt	24,105	-	-	24,105	24,105

The Bank has outstanding forward forex contracts to buy USD, SAR & EUR from Central Bank of Bahrain ("CBB") with a nominal value of BD 36,449 thousand (2020: BD 35,148 thousand) with tenors of less than one year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2021

**25 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)**

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

	<b>2021</b>	<b>2020</b>
	<b>BD '000</b>	<b>BD '000</b>
At beginning of the year	<b>5,701</b>	5,426
Changes in fair value recognised in the statement of profit or loss	<b>793</b>	(98)
Additions during the year	<b>563</b>	429
Written off during the year	<b>(100)</b>	(55)
At end of the year	<b>6,957</b>	5,701

**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%.

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

<u>Valuation technique used</u>	<u>Key unobservable inputs</u>	<i>Fair value at 31 December 2021</i> <i>BD '000</i>	<i>Reasonable possible shift +/- (in any input)</i>	<i>Impact on profit or loss</i> <i>BD '000</i>
Discounted cash flow	Discount rate	2,824	+/- 0.5%	(61) / 67
	Growth rate		+/- 0.5%	42 / (38)
Adjusted Net Assets Value	NAV	4,133	+/- 5%	74 / (34)

<u>Valuation technique used</u>	<u>Key unobservable inputs</u>	<i>Fair value at 31 December 2020</i> <i>BD '000</i>	<i>Reasonable possible shift +/- (in any input)</i>	<i>Impact on profit or loss</i> <i>BD '000</i>
Discounted cash flow	Discount rate	2,824	+/- 0.5%	(61) / 67
	Growth rate		+/- 0.5%	42 / (38)
Adjusted Net Assets Value	NAV	2,751	+/- 5%	70 / (30)

**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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2021

**26 RELATED PARTY TRANSACTIONS (continued)**

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

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

	<i>Directors and key management personnel BD '000</i>	<i>Shareholders and related companies BD '000</i>	<i>Total BD '000</i>
<b>31 December 2020</b>			
Islamic financing and loans to customers	1,225	-	1,225
Investment in associates	-	374	374
Other assets	-	407	407
Deposits	253	100,345	100,598

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

	<i>Directors and key management personnel BD '000</i>	<i>Shareholders and related companies BD '000</i>	<i>Total BD '000</i>
<b>2021</b>			
Islamic financing and interest income	52	-	52
Islamic financing and interest expense	-	18	18
Share of profit for associates	-	9	9

	<i>Directors and key management personnel BD '000</i>	<i>Shareholders and related companies BD '000</i>	<i>Total BD '000</i>
<b>2020</b>			
Islamic financing and interest income	17	-	17
Islamic financing and interest expense	-	30	30
Share of profit for associates	-	52	52

As at 31 December 2021

**26 RELATED PARTY TRANSACTIONS (continued)**

Compensation of key management personnel is as follows:

	<i>2021</i>	<i>2020</i>
	<i>BD '000</i>	<i>BD '000</i>
Board remuneration	113	165
Salary and short-term employee benefits	977	951
Termination benefits	90	478
	<u>1,180</u>	<u>1,594</u>

**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.

**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 oversees 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.

As at 31 December 2021

**27 RISK MANAGEMENT (continued)**

***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.

***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.

### 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.



As at 31 December 2021

**28 CREDIT RISK (continued)****28.3 Measurement of ECL**

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

<i>Type of financial instrument</i>	<i>Measurement basis</i>
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.

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).

As at 31 December 2021

**28 CREDIT RISK (continued)**

**28.3 Measurement of ECL (continued)**

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.

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## 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; or / 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.

As at 31 December 2021

**28 CREDIT RISK (continued)****28.8 Incorporation of forward looking assumptions (continued)****i) Limits and concentrations (continued)**

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.

**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.

	<b>2021</b>	<b>2020</b>
	<b>BD '000</b>	<b>BD '000</b>
Balances with Central Bank of Bahrain	<b>2,869</b>	2,391
Placements with banks and other financial institutions	<b>22,312</b>	3,722
Islamic financing and loans to customers	<b>146,632</b>	146,630
Investment securities	<b>49,015</b>	50,581
Other assets	<b>4,104</b>	3,550
	<b>224,932</b>	206,874
Contingent liabilities	<b>1,296</b>	1,530
Commitments	<b>1,044</b>	1,450
	<b>2,340</b>	2,980
Maximum credit risk exposure	<b>227,272</b>	209,854

**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.

	<b>2021</b>	<b>2020</b>
	<b>BD '000</b>	<b>BD '000</b>
<b>Industry sector</b>		
Banks and financial institutions	<b>74,196</b>	56,694
Trading and manufacturing	<b>94,357</b>	91,639
Education and health	<b>7,034</b>	8,681
Hospitality, media and transportation	<b>14,787</b>	14,454
Fisheries, agriculture and dairy	<b>5,190</b>	5,390
Food processing	<b>8,523</b>	8,641
Others	<b>23,185</b>	24,355
	<b>227,272</b>	209,854

**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

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**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:

	<b>2021</b>				
	<b>Gross Exposures</b>	<b>Expected Credit Loss</b>	<b>Carrying Amount</b>	<b>FV of Collateral Held</b>	<b>Guarantee Available</b>
	<b>BD 000</b>	<b>BD 000</b>	<b>BD 000</b>	<b>BD 000</b>	<b>BD 000</b>
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	-	-
Other loans	534	527	7	-	-
<b>Total</b>	<b>27,389</b>	<b>13,747</b>	<b>13,642</b>	<b>16,821</b>	<b>4,244</b>
	<b>2020</b>				
	<b>Gross exposure</b>	<b>Expected Credit Loss</b>	<b>Carrying Amount</b>	<b>FV of Collateral Held</b>	<b>Guarantee Available</b>
	<b>BD 000</b>	<b>BD 000</b>	<b>BD 000</b>	<b>BD 000</b>	<b>BD 000</b>
Project finance - Islamic	16,922	10,767	6,155	2,127	4,709
Project finance - conventional	10,055	2,635	7,420	6,490	-
Fisheries and agriculture	1,193	41	1,152	-	-
Other loans	534	531	3	-	-
<b>Total</b>	<b>28,705</b>	<b>13,974</b>	<b>14,731</b>	<b>8,617</b>	<b>4,709</b>

**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.

	<b>2021</b>	<b>2020</b>
	<b>BD '000</b>	<b>BD '000</b>
Islamic financing and loans to customers	<b>2,883</b>	<b>2,603</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2021

**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.

	2021			2020	
	Stage 1 12-months ECL BD '000	Stage 2	Stage 3	Total BD '000	Total BD '000
		Life time	Lifetime		
		ECL not credit impaired BD '000	ECL credit impaired BD '000		
<b>Placement with banks and other financial institutions</b>	22,315	-	-	22,315	3,727
Less: Allowance for ECL	(3)	-	-	(3)	(5)
	<b>22,312</b>	<b>-</b>	<b>-</b>	<b>22,312</b>	<b>3,722</b>
<b>Islamic financing and loans to customers</b>					
Corporate	76,047	3,674	16,543	96,264	94,016
SME	38,472	974	5,746	45,192	44,652
Small business	11,318	443	3,066	14,827	16,926
Taxi loans	-	-	-	-	21
Education loans	125	-	280	405	675
Overdrafts	1,437	-	535	1,972	2,014
Others	2,300	146	1,219	3,665	3,691
	<b>129,699</b>	<b>5,237</b>	<b>27,389</b>	<b>162,325</b>	<b>161,995</b>
Less: Allowance for ECL	(1,403)	(543)	(13,747)	(15,693)	(15,365)
	<b>128,296</b>	<b>4,694</b>	<b>13,642</b>	<b>146,632</b>	<b>146,630</b>
<b>Contingent liabilities and commitments</b>					
Letters of credit and bank guarantees	1,296	-	-	1,296	1,530
Undrawn commitments	1,044	-	-	1,044	1,450
Less: Allowance for ECL	(57)	-	-	(57)	(94)
	<b>2,283</b>	<b>-</b>	<b>-</b>	<b>2,283</b>	<b>2,886</b>
<b>Other assets</b>	<b>5</b>	<b>36</b>	<b>3,132</b>	<b>3,173</b>	<b>3,118</b>
Less: Allowance for ECL	(4)	(10)	(3,117)	(3,131)	(3,087)
	<b>1</b>	<b>26</b>	<b>15</b>	<b>42</b>	<b>31</b>

**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

As at 31 December 2021

**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.

	<i>Change in basis points</i>	<i>Impact of change on net interest Income</i>		<i>Change in basis points</i>	<i>Impact of change on net interest Income</i>	
		<i>2021</i>	<i>2020</i>		<i>2021</i>	<i>2020</i>
		<i>BD '000</i>	<i>BD '000</i>		<i>BD '000</i>	<i>BD '000</i>
Bahraini Dinars	<b>+100</b>	<b>979</b>	964	<b>-100</b>	<b>(979)</b>	(964)
Saudi Riyals	<b>+100</b>	<b>(70)</b>	(144)	<b>-100</b>	<b>70</b>	144
United States Dollars	<b>+100</b>	<b>(222)</b>	(205)	<b>-100</b>	<b>222</b>	205

**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 2021 and 2020:

	<i>Equivalent long / (short)</i>	
	<i>2021</i>	<i>2020</i>
Kuwaiti Dinars	<b>9</b>	7
US Dollars	<b>169</b>	(165)
Euro	<b>1</b>	1
GBP	<b>6</b>	4
Saudi Riyals	<b>(141)</b>	(97)
UAE Dirhams	<b>16</b>	19

**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 with a nominal value of BD 36,449 thousand (31 December 2020: BD 34,978 thousand).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**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.

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 in equity indices, with all other variables held constant, is as follows:

	<i>Trading Equities</i>		<i>Effect on profit or loss</i>		
	<i>2021</i>	<i>2020</i>	<i>% change</i>	<i>Total</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>in Index</i>	<i>2021</i>	<i>2020</i>
				<i>BD '000</i>	<i>BD '000</i>
Bahrain Bourse	-	1	± 15%	-	0



Bahrain Development Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**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 2021 and 2020 based on expected maturities.

	<i>Up to 1 month BD '000</i>	<i>1 to 3 months BD '000</i>	<i>3 to 6 months BD '000</i>	<i>6 months to 1 year BD '000</i>	<i>1 to 3 years BD '000</i>	<i>Over 3 years BD '000</i>	<i>Total BD '000</i>	<i>Carrying amount BD '000</i>
<b>31 December 2021</b>								
<b>Assets</b>								
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 associates	-	-	-	-	-	383	383	383
Investment properties	-	-	-	-	-	10,581	10,581	10,581
Property and equipment	-	-	-	-	-	3,102	3,102	3,102
Other assets	-	-	4,346	-	-	-	4,346	4,346
<b>Total assets</b>	<b>76,230</b>	<b>4,413</b>	<b>11,206</b>	<b>26,301</b>	<b>69,048</b>	<b>77,329</b>	<b>264,527</b>	<b>246,379</b>
<b>Liabilities</b>								
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
<b>Total liabilities</b>	<b>11,754</b>	<b>2,914</b>	<b>8,449</b>	<b>4,161</b>	<b>14,001</b>	<b>136,368</b>	<b>177,647</b>	<b>177,647</b>
<b>Net liquidity gap</b>	<b>64,476</b>	<b>1,499</b>	<b>2,757</b>	<b>22,140</b>	<b>55,047</b>	<b>(59,039)</b>		
<b>Cumulative liquidity gap</b>	<b>64,476</b>	<b>65,975</b>	<b>68,732</b>	<b>90,872</b>	<b>145,919</b>	<b>86,880</b>		

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As at 31 December 2021

**31 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)**

	<i>Up to 1 month BD '000</i>	<i>1 to 3 months BD '000</i>	<i>3 to 6 months BD '000</i>	<i>6 months to 1 year BD '000</i>	<i>1 to 3 years BD '000</i>	<i>Over 3 years BD '000</i>	<i>Total BD '000</i>	<i>Carrying amount BD '000</i>
<i>31 December 2020</i>								
<b>Assets</b>								
Cash and balances with								
Central Bank of Bahrain	2,568	-	-	-	-	-	2,568	2,568
Placements with banks and other								
financial institutions	3,722	-	-	-	-	-	3,722	3,722
Islamic financing and loans to customers	5,238	8,901	24,501	54,035	79,263	65,970	237,908	146,630
Investment securities	50,581	-	-	-	-	5,783	56,364	56,364
Investment in associates	-	-	-	-	-	374	374	374
Investment properties	-	-	-	-	-	11,071	11,071	11,071
Property, plant and equipment	-	-	-	-	-	1,926	1,926	1,926
Other assets	-	-	3,828	-	-	-	3,828	3,828
<b>Total assets</b>	<b>62,109</b>	<b>8,901</b>	<b>28,329</b>	<b>54,035</b>	<b>79,263</b>	<b>85,124</b>	<b>317,761</b>	<b>226,483</b>
<b>Liabilities</b>								
Term loans	-	251	-	251	13,972	20,830	35,304	35,304
Deposits	15,233	2,541	1,315	752	94	98,095	118,030	118,030
Other liabilities	-	-	4,444	-	-	-	4,444	4,444
<b>Total liabilities</b>	<b>15,233</b>	<b>2,792</b>	<b>5,759</b>	<b>1,003</b>	<b>14,066</b>	<b>118,925</b>	<b>157,778</b>	<b>157,778</b>
<b>Net liquidity gap</b>	<b>46,876</b>	<b>6,109</b>	<b>22,570</b>	<b>53,032</b>	<b>65,197</b>	<b>(33,801)</b>		
<b>Cumulative liquidity gap</b>	<b>46,876</b>	<b>52,985</b>	<b>75,555</b>	<b>128,587</b>	<b>193,784</b>	<b>159,983</b>		

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 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 2021 and 2020 based on the contractual undiscounted repayment obligations. See note 31 for the expected maturities of these liabilities.

	<i>On demand</i> <i>BD '000</i>	<i>Up to 1 month</i> <i>BD '000</i>	<i>1 to 3 months</i> <i>BD '000</i>	<i>3 to 6 months</i> <i>BD '000</i>	<i>6 months to 1 year</i> <i>BD '000</i>	<i>1 to 3 years</i> <i>BD '000</i>	<i>Over 3 years</i> <i>BD '000</i>	<i>Total</i> <i>BD '000</i>
<b>31 December 2021</b>								
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	-	-	-	4,849	-	-	-	4,849
<b>Total liabilities</b>	<b>11,704</b>	<b>53</b>	<b>3,007</b>	<b>8,872</b>	<b>4,607</b>	<b>14,482</b>	<b>138,125</b>	<b>180,850</b>
	<i>On demand</i> <i>BD '000</i>	<i>Up to 1 month</i> <i>BD '000</i>	<i>1 to 3 months</i> <i>BD '000</i>	<i>3 to 6 months</i> <i>BD '000</i>	<i>6 months to 1 year</i> <i>BD '000</i>	<i>1 to 3 years</i> <i>BD '000</i>	<i>Over 3 years</i> <i>BD '000</i>	<i>Total</i> <i>BD '000</i>
<b>31 December 2020</b>								
Term loans	-	-	327	-	324	34,775	26,968	62,394
Deposits	15,155	79	2,567	1,344	766	96	98,097	118,104
Other liabilities	-	-	-	4,444	-	-	-	4,444
<b>Total liabilities</b>	<b>15,155</b>	<b>79</b>	<b>2,894</b>	<b>5,788</b>	<b>1,090</b>	<b>34,871</b>	<b>125,065</b>	<b>184,942</b>

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 32 LIQUIDITY RISK (continued)

The table below summarises the maturity profile of the Bank's contingent liabilities and commitments at 31 December 2021 and 2020 based on the contractual undiscounted repayment obligations.

	<i>On demand BD '000</i>	<i>Less than 3 months BD '000</i>	<i>3 to 12 months BD '000</i>	<i>1 to 5 years BD '000</i>	<i>Total BD '000</i>
<b>31 December 2021</b>					
Contingent liabilities	643	172	184	297	1,296
Commitments	1,044	-	54	1,700	2,798
Capital expenditure	-	-	286	1,031	1,317
<b>Total</b>	<b>1,687</b>	<b>172</b>	<b>524</b>	<b>3,028</b>	<b>5,411</b>
<b>31 December 2020</b>					
Contingent liabilities	363	465	456	246	1,530
Commitments	1,450	-	617	1,700	3,767
Capital expenditure	-	53	1,074	1,054	2,181
<b>Total</b>	<b>1,813</b>	<b>518</b>	<b>2,147</b>	<b>3,000</b>	<b>7,478</b>
				<b>2021</b>	<b>2020</b>
<b>Liquidity Coverage Ratio</b>				<b>1662%</b>	<b>491%</b>

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

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**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:

	<b>2021</b>	<b>2020</b>
	<b>BD '000</b>	<b>BD '000</b>
<b>Capital base</b>		
Tier 1 capital	<b>71,851</b>	71,637
Tier 2 capital	<b>1,182</b>	1,194
Total capital base (a)	<b>73,033</b>	72,831
Risk-weighted assets (b)	<b>112,004</b>	114,089
Capital adequacy ratio (a/b*100)	<b>65.21%</b>	63.84%
Minimum requirement	<b>14.0%</b>	14.0%

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.

**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

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**35 CLASSIFICATION OF ASSETS AND LIABILITIES**

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments.

	<i>Designated as at FVTPL</i>	<i>FVOCI – sukuk/debt instruments</i>	<i>FVOCI – equity instruments</i>	<i>Amortised cost / others</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
<b>31 December 2021</b>					
<b>Assets</b>					
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	-	-	-	383	383
Investment properties	-	-	-	10,581	10,581
Property and equipment	-	-	-	3,102	3,102
Other assets	-	-	-	4,346	4,346
<b>Total assets</b>	<b>6,956</b>	<b>21,114</b>	<b>25</b>	<b>218,284</b>	<b>246,379</b>
<b>Liabilities</b>					
Term loans	-	-	-	34,803	34,803
Deposits	-	-	-	137,995	137,995
Other liabilities	-	-	-	4,849	4,849
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>177,647</b>	<b>177,647</b>

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments.

	<i>Designated as at FVTPL</i>	<i>FVOCI – debt instruments</i>	<i>FVOCI – equity instruments</i>	<i>Amortised cost / others</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
<b>31 December 2020</b>					
<b>Assets</b>					
Cash and balances with Central Bank of Bahrain	-	-	-	2,568	2,568
Placements with banks and other financial institutions	-	-	-	3,722	3,722
Islamic financing and loans to customers	-	-	-	146,630	146,630
Investment securities	5,657	24,105	126	26,476	56,364
Investment in associates	-	-	-	374	374
Investment properties	-	-	-	11,071	11,071
Property and equipment	-	-	-	1,926	1,926
Other assets	-	-	-	3,828	3,828
<b>Total assets</b>	<b>5,657</b>	<b>24,105</b>	<b>126</b>	<b>196,595</b>	<b>226,483</b>
<b>Liabilities</b>					
Term loans	-	-	-	35,304	35,304
Deposits	-	-	-	118,030	118,030
Other liabilities	-	-	-	4,444	4,444
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>157,778</b>	<b>157,778</b>

**36      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 loss, total assets, total liabilities and total equity of the Group.



**37 NET STABLE FUNDING RATIO**

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

<i>Item</i>	<i>Unweighted Values (i.e. before applying relevant factors)</i>				<i>Total weighted value</i>
	<i>No specified maturity</i>	<i>Less than 6 months</i>	<i>More than 6 months and less than one year</i>	<i>Over one year</i>	
<b>Available Stable Funding (ASF):</b>					
<b>Capital:</b>					
Regulatory Capital	71,651			1,182	72,832
Other Capital Instruments					
<b>Retail deposits and deposits from small business customers:</b>					
Stable deposits					
Less stable deposits					
<b>Wholesale funding:</b>					
Operational deposits					
Other wholesale funding		15,026	4,161	153,611	163,205
<b>Other liabilities:</b>					
NSFR derivative liabilities					
All other liabilities not included in the above categories		4,848			
<b>Total ASF</b>	<b>71,651</b>	<b>19,874</b>	<b>4,161</b>	<b>154,793</b>	<b>236,037</b>
<b>Required Stable Funding (RSF):</b>					
Total NSFR high-quality liquid assets (HQLA)	52,332				2,459
Deposits held at other financial institutions for operational purposes					
<b>Performing financing and loans / securities:</b>					
Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to 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
Performing residential mortgages, of which:					
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines					
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities					
<b>Other assets:</b>					
Physical traded commodities, including gold					
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs					
NSFR derivative assets					
NSFR derivative liabilities before deduction of variation margin posted					
All other assets not included in the above categories	38,660				38,660
OBS items	41,882				2,094
<b>Total RSF</b>	<b>132,874</b>	<b>33,258</b>	<b>2,553</b>	<b>119,575</b>	<b>154,989</b>
<b>NSFR (%) - As at 31 December 2021</b>					<b>152%</b>

**37 NET STABLE FUNDING RATIO (continued)**

The NSFR (as a percentage) as at 31 December 2020 is calculated as follows:

<i>Item</i>	<i>Unweighted Values (i.e. before applying relevant factors)</i>				<i>Total weighted value</i>
	<i>No specified maturity</i>	<i>Less than 6 months</i>	<i>More than 6 months and less than one year</i>	<i>Over one year</i>	
<b>Available Stable Funding (ASF):</b>					
<b>Capital:</b>					
Regulatory Capital	71,632			1,242	72,874
Other Capital Instruments					
<b>Retail deposits and deposits from small business customers:</b>					
Stable deposits					
Less stable deposits					
<b>Wholesale funding:</b>					
Operational deposits					
Other wholesale funding		19,340	1,003	132,991	143,163
<b>Other liabilities:</b>					
NSFR derivative liabilities					
All other liabilities not included in the above categories		4,444			
<b>Total ASF</b>	<b>71,632</b>	<b>23,784</b>	<b>1,003</b>	<b>134,233</b>	<b>216,037</b>
<b>Required Stable Funding (RSF):</b>					
Total NSFR high-quality liquid assets (HQLA)	53,372				2,524
Deposits held at other financial institutions for operational purposes					
<b>Performing financing and loans / securities:</b>					
Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions		3,397			510
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:		19,590	5,171		12,381
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines				107,137	91,066
Performing residential mortgages, of which:					
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines					
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities					
<b>Other assets:</b>					
Physical traded commodities, including gold					
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs					
NSFR derivative assets					
NSFR derivative liabilities before deduction of variation margin posted					
All other assets not included in the above categories	37,816				37,816
OBS items	42,626				2,131
<b>Total RSF</b>	<b>133,814</b>	<b>22,987</b>	<b>5,171</b>	<b>107,137</b>	<b>146,428</b>
<b>NSFR (%) - As at 31 December 2020</b>					<b>148%</b>