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

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

31 DECEMBER 2022

BAHRAIN DEVELOPMENT BANK B.S.C. (c)
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2022

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

Commercial Registration no.	26226 obtained on 20 January 1992
Directors	Mr. Ghassan Ghaleb Abdulaal – Chairman Ms. Marwa AlSaad- Board Member Ms. Amna AlArrayedh – Board Member Mr. Sandeep Bose – Board Member Mr. Yousif AlNefaiei – Board Member Mr. Hani Redha – Board Member Ms. Aysha Abdulmalek – Board Member Ms. Manal AlBayat – Board Member
Registered Office	Building 170 Road 1703 Diplomatic Area PO Box 20501 Manama Kingdom of Bahrain
External Auditors	Ernst & Young - Middle East PO Box 140 Manama Kingdom of Bahrain

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

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors has pleasure in submitting its report and the audited consolidated financial statements for the year ended 31 December 2022.

Principal activities and review of business developments

Bahrain Development Bank B.S.C. (c) ("the Bank" or "BDB") is operating as a retail bank with special waivers under a license issued by the Central Bank of Bahrain ("CBB"). 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.

Consolidated operating income for the year has increased by 1% from BD 8,820 thousand for the year ended 31 December 2021 to BD 8,887 thousand for the year ended 31 December 2022. The net profit for the year, attributable to the owners of the Bank, was BD 525 thousand as compared to a net profit of BD 131 thousand in the previous year representing a growth of 301%.

Accumulated losses

Movements in the accumulated losses during the year were as follows:

	BD '000
Balance at 1 January 2022	(2,525)
Net profit for the year attributable to the owners of the bank	525
Balance at 31 December 2022	**(2,000)**

Auditors

Ernst & Young - Middle East have expressed their willingness to continue in office and a resolution proposing their reappointment as auditors of the Bank, for the year ending 31 December 2023, will be submitted at the forthcoming Annual General Meeting.

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

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			
First: Independent Directors: N/A													
Second: Non-Executive Directors:													
1. Marwan Tabbara		5,000			5,000	8,000				8,000		13,000	
2.Ghassan Abdulaal		4,400			4,400	8,000				8,000		12,400	
3.Khalid Omar Alromaihi					-	12,000				12,000		12,000	
4.Marwah Alsaad		4,500			4,500	8,000				8,000		12,500	
5.Maryam Alansari		4,500			4,500	8,000				8,000		12,500	
6.Sabah Almoayyed		2,400			2,400	8,000				8,000		10,400	
7.Tala Fakhro		4,500			4,500	8,000				8,000		12,500	
8. Tariq Alsaffar		5,000			5,000	8,000				8,000		13,000	
9.Omar A Aziz Alaani		2,000			2,000	3,000				3,000		5,000	
10.Mohammed Burhan Arbouna		2,000			2,000	3,000				3,000		5,000	
11.Abdulnaser Almahmood		2,000			2,000	3,000				3,000		5,000	
Third: Executive Directors: N/A													
Total		36,300			36,300	77,000				77,000		113,300	

Note: All amounts must be stated in Bahraini Dinars.

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

Second: Executive management remuneration details:

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

Note: All amounts must be stated in Bahraini Dinars.

*** The highest authority in the executive management of the company, the name may vary: (CEO, President, General Manager (GM), Managing Director...etc(.**

**** The company's highest financial officer (CFO, Finance Director, ...etc)**

Signed on behalf of the Board

Chairman of the Board of Directors

22 February 2023

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Ernst & Young - Middle East
P O Box 140
10th Floor, East Tower
Bahrain World Trade Centre
Manama
Kingdom of Bahrain

Tel: +973 1753 5455
Fax: +973 1753 5405
manama@bh.ey.com
C.R. No. 29977-1

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 of the consolidated statement of financial position as at 31 December 2022, and the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

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 Report of the Board of Directors, set out on pages 1 to 3, and the information included in the Group's 2022 Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information. Prior to the date of this auditor's report, we obtained the Chairman Report which forms part of the Group's 2022 Annual Report, and the remaining sections of the Group's 2022 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.

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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 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.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

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.

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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 2022 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.

Ernst & Young

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

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

Ghassan Ghaleb Abdulaal
Chairman

Yousif AlNefaiei
Board Member

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

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

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

Ghassan Ghaleb Abdulaal
Chairman

Yousif AlNefaiei
Board Member

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

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

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

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

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

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

1 INCORPORATION AND ACTIVITIES

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

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

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

2 BASIS OF PREPARATION

2.1 Framework and basis of preparation

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

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

2.2 Statement of compliance

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

2.3 Accounting convention

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

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

2 BASIS OF PREPARATION (continued)

2.4 Basis of consolidation

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

	Ownership interest		
	2022	*2021*	***Principal activity***
Bahrain Business Incubator Centre S.P.C.	**100%**	100%	Development and assistance to emerging Bahraini entrepreneurs
Al-Waha Venture Capital Fund Company	**99%**	99%	Trusts, Funds and Similar Financial Entities - Fund Company
Neotech W.L.L.	**78.30%**	78.30%	Management consultancy activities
Middle East Corner Consultancy Co. W.L.L. (MECC) *	**-**	28.60%	Consultancy to small and medium enterprises

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

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

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

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

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

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

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

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

a) Derecognises the assets (including goodwill) and liabilities of the subsidiary;
b) Derecognises the carrying amount of any non-controlling interests;
c) Derecognises the cumulative translation differences recorded in equity;

2 BASIS OF PREPARATION (continued)

2.4 Basis of consolidation (continued)

d) Recognises the fair value of the consideration received;
e) Recognises the fair value of any investment retained;
f) Recognises any surplus or deficit in profit or loss; and
g) Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

3 SIGNIFICANT ACCOUNTING JUDGMENT AND ESTIMATES

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

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

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

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.

3 SIGNIFICANT ACCOUNTING JUDGMENT AND ESTIMATES (continued)

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

a) The Group calculates PiT PD estimates under three scenarios, a base case, good case and bad case. An appropriate probability weighted ECL is then calculated by assigning probabilities, based on current market conditions, to each scenario;
b) Determining criteria for significant increase in credit risk;
c) Choosing appropriate models and assumptions for the measurement of ECL;
d) Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
e) Selection and relative weightings of forward-looking scenarios to derive the economic inputs into the ECL models;
f) Establishing segments of similar financial assets for the purposes of measuring ECL; and
g) Determining relevant period of exposure with respect to the revolving facilities and facilities undergoing restructuring at the time of the reporting date.

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

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

In determining whether credit risk has increased significantly since initial recognition, the Group uses delinquency status of accounts, expert credit judgement and relevant historical experience. The Group may also determine that an exposure has undergone a Significant Increase in Credit Risk ("SICR") based on particular qualitative indicators that it considers are indicative of such, and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

4 NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

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

4.1 IFRS 17 Insurance Contracts

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

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

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

4.1 IFRS 17 Insurance Contracts (continued)

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

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

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

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

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

4.3 Definition of Accounting Estimates - Amendments to IAS 8

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

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

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

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

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

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

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

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

The Group is currently assessing the impact of these amendments.

5 NEW AND AMENDED STANDARDS AND INTERPRETATIONS ISSUED AND EFFECTIVE

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

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

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

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

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

5.2 Reference to the Conceptual Framework – Amendments to IFRS 3

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

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

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

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

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

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

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

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

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

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

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

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

5.5 IAS 41 Agriculture – Taxation in fair value measurements

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

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

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

6.1 Investment in associated companies

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

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

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

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

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

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

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

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

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.2 Property and equipment

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

6.2.1 Recognition and measurement

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

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

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

6.2.2 Subsequent measurement

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

6.2.3 Depreciation

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

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

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

6.2.4 Reclassification to investment property

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

6.3 Leases - Group as a lessee

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

a) Right of use assets

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

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 consolidated 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 proceed form the disposal and the carrying amount of the item) is recognized in the consolidated statement of profit or loss.

6.5 Trade receivables

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

6.6 Term loans

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

6.7 Deposits

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

6.8 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

6.9 Employees' end of service benefits

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

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

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.10 Income recognition

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

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

6.11 Dividend income

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

6.12 Fee and commission income

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

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

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

6.13 Rental income

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

6.14 Foreign currencies

Transactions in foreign currencies are translated into the functional currency at the spot exchange rates at the date of the transactions.

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

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

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

6.15 Cash and cash equivalents

Cash and cash equivalents includes notes and coins on hand, unrestricted balances held with the Central Bank and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

6.17 Financial assets and financial liabilities
The Bank's key accounting policies in compliance with IFRS 9 are summarised below:

6.17.1 Recognition and initial measurement
All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

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

6.17.2 Classification

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

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

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)

6.17 Financial assets and financial liabilities (continued)

6.17.2 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.

6.17.3 Derecognition

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

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

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.17 Financial assets and financial liabilities (continued)

6.17.3 Derecognition (continued)

Financial assets (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 expired.

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

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

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

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

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

a) financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets; and
b) where a financial instrument includes both a drawn and an undrawn component (as in the case of overdraft, letter of credit / bank guarantee limits etc.), the Bank presents a loss allowance for the approved limit of the facility in 'other liabilities'.

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.17 Financial assets and financial liabilities (continued)

6.17.7 Write-offs

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

Refer to note 28 for further details.

6.18 Non-controlling interests

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

7 CASH AND CASH EQUIVALENTS

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

8 ISLAMIC FINANCING AND LOANS TO CUSTOMERS

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

8 ISLAMIC FINANCING AND LOANS TO CUSTOMERS (continued)

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

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

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

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

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

8 ISLAMIC FINANCING AND LOANS TO CUSTOMERS (continued)

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

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

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

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

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

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

8 ISLAMIC FINANCING AND LOANS TO CUSTOMERS (continued)

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

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

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

9 INVESTMENT SECURITIES

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

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

10 INVESTMENT IN ASSOCIATED COMPANIES

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

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

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

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

11 INVESTMENT PROPERTIES

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

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

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

12 PROPERTY AND EQUIPMENT

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

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

13 OTHER ASSETS

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

14 TERM LOANS

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

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

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

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

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

15 DEPOSITS

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

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

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

16 SHARE CAPITAL

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

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

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

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

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

17 STATUTORY RESERVE

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

18 OTHER CAPITAL CONTRIBUTION

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

19 ISLAMIC FINANCING AND INTEREST INCOME

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

20 ISLAMIC FINANCING AND INTEREST EXPENSE

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

21 FEE AND COMMISSION INCOME

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

22 INVESTMENT INCOME

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

23 REVERSAL OF / (CHARGE FOR) EXPECTED CREDIT LOSSES

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

24 CONTINGENT LIABILITIES AND COMMITMENTS

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

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

Details of contingent liabilities and commitments are given below:

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

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

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

24 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

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

25 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

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

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

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

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

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

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

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

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

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

25 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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

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

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

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

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

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

Sensitivity analysis

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

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

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

25 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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

26 RELATED PARTY TRANSACTIONS

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

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

	Directors and key management personnel BD '000	***Shareholders and related companies BD '000***	***Total BD '000***
31 December 2022			
Islamic financing and loans to customers	**53**	**-**	**53**
Investment in associated companies	**-**	**394**	**394**
Other assets	**-**	**417**	**417**
Deposits	**3**	**127,143**	**127,146**

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

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

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

26 RELATED PARTY TRANSACTIONS (continued)

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

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

Compensation of key management personnel is as follows:

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

27 RISK MANAGEMENT

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

a) Organizational structure

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

b) Board of Directors

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

c) Audit & Governance Committee of the board

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

27 RISK MANAGEMENT (continued)

d) Nomination & Remuneration Committee of the board

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

e) Investment & Credit Committee of the Board

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

f) Risk Committee of the Board

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

g) Executive Management

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

h) Management Executive Committee

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

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

i) Risk Executive Committee

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

j) Asset and Liability Committee

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

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.

28 CREDIT RISK (continued)

28.3 Measurement of ECL

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

	Type of financial instrument	***Measurement basis***
a)	Financial assets that are not credit-impaired at the reporting date	As the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive).
b)	Financial assets that are credit-impaired at the reporting date	As the difference between the gross carrying amount and the present value of estimated future cash flows.
c)	Irrevocable undrawn commitments	As the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive.
d)	Letters of credit and bank guarantees	As the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

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

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

a) Probability of Default (PD);
b) Loss Given Default (LGD); and
c) Exposure At Default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

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

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

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).

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.

28 CREDIT RISK (continued)

28.6 Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

28.7 Definition of 'Default' and 'Cure'

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

a) significant financial difficulty of the issuer or the obligor;
b) material breach of facility covenants, conditions and contract (subject to management discretion);
c) grant to the borrower a concession that the lender would not otherwise consider except for economic or legal reasons relating to the borrower's financial difficulty;
d) imminent bankruptcy or other financial reorganization of the borrower;
e) significant downgrading in credit rating by an external credit rating agency;
f) disappearance of an active market because of financial difficulties;
g) presence of past due contractual payments of either principal or profit; and
h) deterioration in the value of security and likelihood of successfully realising it.

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

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

28.8 Incorporation of forward looking assumptions

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

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

i) Limits and concentrations

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

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

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.

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

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

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

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

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

28 CREDIT RISK (continued)

28.8 Incorporation of forward looking assumptions (continued)

v) Collateral and other credit enhancements (continued)

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.

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

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

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

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

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

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

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.

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

28 CREDIT RISK (continued)

28.8 Incorporation of forward looking assumptions (continued)

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

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

29 MARKET RISK

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

i) Interest rate risk

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

29 MARKET RISK (continued)

i) Interest rate risk (continued)

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

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

ii) Currency risk

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

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

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

iii) Derivatives

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

30 EQUITY PRICE RISK

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

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

31 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

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

31 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

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

32 LIQUIDITY RISK

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

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

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

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

32 LIQUIDITY RISK (continued)

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

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

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

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

33 OPERATIONAL RISK

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

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

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

34 CAPITAL ADEQUACY

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

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

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

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.

34 CAPITAL ADEQUACY (continued)

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.

35 CLASSIFICATION OF ASSETS AND LIABILITIES

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

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

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

All figures in BD thousands

36 DEPOSIT PROTECTION SCHEME

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

37 NET STABLE FUNDING RATIO

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

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

	Jnweighted Values (i.e. before applying relevant factors				
Item	*No specified maturity*	*Less than 6 months*	*More than 6 months and less than one year*	*Over one year*	*Total weighted value*
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	61,003	-	-	879	61,882
Wholesale funding:					
Other wholesale funding	-	17,862	3,744	139,060	149,863
Other liabilities:					
All other liabilities not included in the above categories	-	6,447	-	-	-
Total ASF	61,003	24,309	3,744	139,939	211,745
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	59,992	-	-	-	2,742
Performing financing and loans / securities:					
Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions	-	13,600	-	-	2,040
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	4,138	5,190	-	4,664
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	110,736	94,120
Other assets:					
All other assets not included in the above categories	36,322	-	-	-	36,322
Off-Balance sheet items	32,267	-	-	-	1,613
Total RSF	128,581	17,738	5,190	110,736	141,501
NSFR (%) - As at 31 December 2022					150%

All figures in BD thousands

37 NET STABLE FUNDING RATIO (continued)

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

	Unweighted Values (i.e. before applying relevant factors)				
Item	*No specified maturity*	*Less than 6 months*	*More than 6 months and less than one year*	*Over one year*	*Total weighted value*
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	71,651	-	-	1,182	72,832
Wholesale funding:					
Other wholesale funding	-	15,026	4,161	153,611	163,205
Other liabilities:					
All other liabilities not included in the above categories	-	4,848	-	-	-
Total ASF	71,651	19,874	4,161	154,793	236,037
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	52,332	-	-	-	2,459
Performing financing and loans / securities:					
Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing 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
Other assets:					
All other assets not included in the above categories	38,660	-	-	-	38,660
Off-Balance sheet items	41,882	-	-	-	2,094
Total RSF	132,874	33,258	2,553	119,575	154,989
NSFR (%) - As at 31 December 2021					152%

38 COMPARATIVE FIGURES

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