Shaping The Future

Annual Report 2021

Bahrain Development Bank B.S.C. (c)
BDB Building, Diplomatic Area
P.O. Box 20501, Manama,
Kingdom of Bahrain
T: (+973) 17 511111

Licensed by the Central Bank of Bahrain as a Conventional Retail Bank

www.bdb-bh.com

Contents

His Majesty King Hamad bin Isa Al Khalifa

The King of the Kingdom of Bahrain

His Royal Highness Prince Salman bin Hamad Al Khalifa

Crown Prince and Prime Minister of the Kingdom of Bahrain

Overview

Creating the future now

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

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

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

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

Vision

To support projects that yield substantial economic, social and environmental benefits.

Mission

To promote entrepreneurship and innovation in the Kingdom, by encouraging Bahraini professionals, enterprising women and ambitious youth, who demonstrate strong business acumen and leadership qualities in promoting the growth and prosperity of Small and Medium Enterprises (SMEs) through financial support and advisory services.

Financial Highlights

	2021	2020	2019	2018	2017
Income statement highlights (BD Thousands)					
Net islamic finance and interest income	**6,685**	7,323	6,646	6,398	6,701
Other income	**2,135**	1,370	1,969	3,788	3,115
Operating expenses	**7,728**	8,070	7,642	7,551	9,335
Expected credit losses / provision / impairment	**1,013**	112	(1)	4,074	8,152
Net profit (loss)	**88**	563	1,037	(1,326)	(7,671)
Dividend (%)	**-**	-	-	-	-
Financial statement highlights (BD Thousands)					
Total assets	**246,379**	226,483	151,260	158,205	176,170
Islamic financing and loans to customers	**146,632**	146,630	76,731	85,866	114,535
Investments (securities, properties, associates)	**66,960**	67,809	53,296	43,403	27,595
Total deposits	**137,995**	118,030	34,918	35,001	46,440
Customers' deposits	**137,995**	118,030	29,451	35,001	35,084
Total Equity	**68,732**	68,705	69,326	67,491	72,685
Profitability					
Return on average equity	**0.13%**	0.82%	1.52%	-1.89%	-10.02%
Return on average assets	**0.04%**	0.30%	0.67%	-0.79%	-3.96%
Earnings (Loss) per share (fils)	**1**	9	16	-20	-118
Cost-to-income ratio	**88%**	93%	89%	74%	95%
Capital					
Equity/total assets	**28%**	30%	46%	43%	41%
Total deposits/equity (times)	**2.01**	1.72	0.50	0.52	0.64
Capital adequacy	**65.21%**	63.84%	52.51%	46.56%	39.80%
Business indicators					
Islamic financing and loans to customers/total assets	**60%**	65%	51%	54%	65%
Investments/total assets	**27%**	30%	35%	27%	16%
Islamic financing and loans to customers/customer deposits	**1.06**	1.24	2.61	2.45	3.26
Number of employees	**154**	162	157	166	182

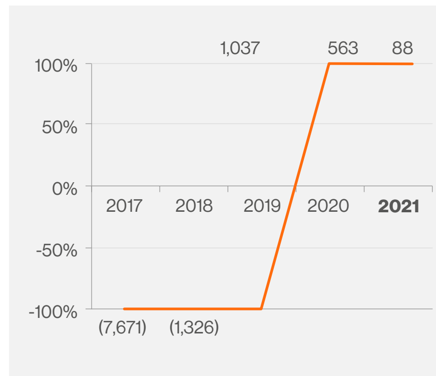
Key Indicators

Net Islamic Financing and Interest Income (BD Thousands)

6,685

2021	**6,685**
2020	7,323
2019	6,646
2018	6,398
2017	6,701

Net Profit (loss)
(BD Thousands)



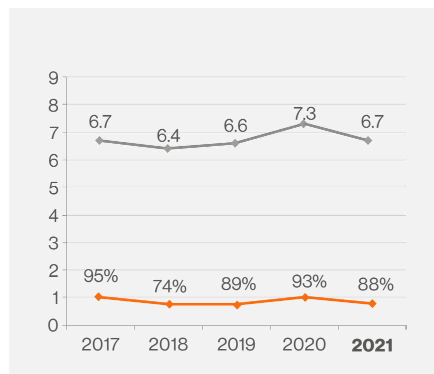
Total Assets
(BD Thousands)

246,379

2021	**246,379**
2020	226,483
2019	151,260
2018	158,205
2017	176,170

Net Islamic Financing and Interest Income (BD Millions)

Cost to Income Ratio

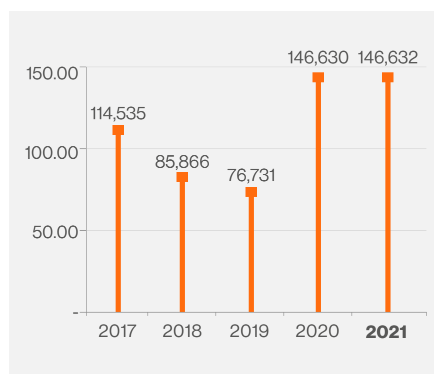


Total Equity
(BD Thousands)

68,732

2021	**68,732**
2020	68,705
2019	69,326
2018	67,491
2017	72,685

Islamic Financing and Loans to Customers
(BD Thousands)



Financial Review

Despite a particularly challenging operating environment on account of COVID- 19 and substantial concessions allowed to its customers, the Bank continued the trend of profits.

Overview

Despite a particularly challenging operating environment on account of COVID- 19 and substantial concessions allowed to its customers, the Bank continued the trend of profits and reported a Net Profit of BD 88 thousand (Previous FY BD 563 thousand)

Balance Sheet size as at the end of 2021 was BD 246.38 million, higher by 8.79% (2020: of BD 226.48 million) mainly on account of funds received from Ministry of Finance and National Economy (MOFNE) for funding the Liquidity Support Fund (LSF) Loans.

1

Net Islamic Finance and Interest Income

Net Islamic finance and interest income BD 6.69 million was lower by 8.61% (2020: BD 7.32 million) since major part of the incremental financing was under the Liquidity Support Scheme at exceptionally low rate of 2.5%

2

Other Income

Total other income generated during the year BD 2.14 million was higher (2020: 1.37 million) on account of Fair Value gains on Equity Investments which more than compensated for the loss of revenue on account of waiver of rent for 3 months to tenants in Sitra Mall & Incubators.

3

Operating Expenses

Operating expenses BD 7.73 million was lower by 4.21% compared to the earlier FY (2020: 8.07 million) on account of the strict control exercised over costs.

4

Expected credit losses / impairment

As a prudent measure to safeguard against the probable aftereffects of the Covid-19 pandemic in future, the bank has taken substantially higher provisions for expected credit losses and impairment of BD 1.01 million. (2020: BD 112 thousand).

5

Equity

The equity attributable to the Bank's shareholders, at BD 68.73 million, was higher than that of the earlier FY (2020: BD 68.71 million) on account of full retention of earnings.

6

Capital Adequacy Ratio

As against minimum capital adequacy ratio (CAR) of 12.5 % prescribed by the Central Bank of Bahrain (CBB), the Bank's ratio at year end 2021 was 65.21% (2020: 63.84%). The ratio, based on guidelines issued by CBB, which are compatible with those of the Basel Committee on Banking Supervision, measures total qualifying capital held by an institution in relation to its risk weighted assets. The improvement in CAR was on account of the change in the Risk Profile of the Assets Portfolio.

As a team, we continue to build on the foundation that will deliver better, stronger and more efficient performance over time. Our ongoing operational, hierarchical and digital transformation has made us more capable of sustainable growth.

Our people are our future

High-Performing Talents & Culture

Cultivating high-performing talents & culture with the aim of emerging as an employer of choice.

Optimum Operating Model

Fully digitized helping deliver its key mission of becoming a market leader in Bahrain

Strong Corporate Governance

That guide all employees and directors through best practices.

Board of Directors

Khalid Al Rumaihi
Chairman

Joined BDB Board: March 2016

Experience
Khalid Al Rumaihi was appointed as the Chief Executive Officer of Mumtalakat, with effect from September 2019. Prior to joining Mumtalakat, he served five years as the Chief Executive of the Bahrain Economic Development Board (EDB) where he was responsible for channelling inward investments into the country. He continues to play an active role as a Board member of the EDB.

Before heading the EDB, Al Rumaihi spent over 10 years at Investcorp as a Managing Director where he was also a member of the Management Committee and Head of the Institutional Placement Team covering Investcorp's clients in the Arabian Gulf. This was preceded by a 9 year term in J.P. Morgan as head of its private client group in the Gulf region.

Other Directorship
Chairman: Bahrain Real Estate Investment (Edamah).

Board Member: Mumtalakat, McLaren Group, National Oil and Gas Authority & Oil and Gas Holding Company (Nogaholding) and is a member of the Advisory Board of Harvard Business School Middle East and North Africa. He has also chaired the Board of the Bahrain Airport Company (BAC) and has held Board positions at the National Bank of Bahrain, Gulf Air and Securities Investment Company.

Qualifications
Master's degree in Public Policy specializing in Economic Development from Harvard University, and a Bachelor's of Science degree in Foreign Service from Georgetown University.

Sabah Khalil Al Moayyed
Board Member

Joined BDB Board: March 2016

Experience
The Managing Partner of Intellect Resources Management W.L.L. Mrs. Sabah had held the position of Chief Executive Officer and Executive Board Member of Eskan Bank Bahrain, Chief Executive Officer and Member of the Board of Directors of Ahli United Bank Bahrain B.S.C, Assistant General Manager, Corporate Banking/ Financial Institution and Trade Finance at The National Bank of Bahrain B.S.C, Vice President Investment Division, Financial Banking Services at United Gulf Bank Bahrain and Manager at Citibank Bahrain with extensive experience in mortgage / property finance , corporate, retail, Merger and acquisition and investment banking.

Other Directorship
Chairperson: Flat6Labs Bahrain W.L.L

Board Member: L'azurde Company for Jewelry (Chair of the Audit Committee), Investcorp Financial Services B.S.C (Member of the Audit Committee),independent member of the Risk Committee of National Bank Of Bahrain and Member of the Board of trustee of the Gulf conference Board in Kuwait.

Qualifications
Master's Degree in Business Management Finance from University of De Paul, Chicago, a Bachelor's degree in Economics and Business Administration from the American University of Beirut, Lebanon, and has attended Advanced Executive Management programs at Wharton School Pennsylvania and Darden College Virgina – USA, and completed venture capital private equity Course at Harvard Business School.

Tariq Jaleel Al Saffar
Board Member

Joined BDB Board: March 2016

Experience
Mr. Al Saffar comes from a merchant family which focuses on FMCG products and food distribution. He has worked very closely with multi-nationals like P&G, Clorox, Gillette, Kellogg's, etc. He has over 30 years of experience working with local & multinational companies in the communications arena. He is also experienced in startups and management of companies from technology to healthcare and distribution.

Other Directorship
Chairman: KKT MENA Holding B.S.C. (c), Harbour Investment Holding Company, Arabian Taxi Company B.S.C. (c), Payment International Enterprise B.S.C. (c).

Board Member: Economic Development Board, Bahrain International Circuit, Al Dana Amphitheatre.

Qualifications
Bachelor of Business, Marketing and Entrepreneurship with distinctions in Enterprise & Creativity from Edith Cowan University in Perth, Australia.

Marwan Khalid Tabbara
Board Member

Joined BDB Board: March 2016

Experience
Co-Founder and Managing Partner of Stratum, a boutique advisory services firm based in the Kingdom of Bahrain and represents over 20-years of experience in strategic, financial, and transaction advisory. He has advised the firm's clients on transactions both regionally and internationally and has supported the development and growth of a range of businesses. Previously, Mr. Tabbara worked for Citigroup in New York, London, and Bahrain.

Other Directorship
Chairman: Bahrain Flour Mills Company B.S.C.
Board Member: Bahrain Islamic Bank B.S.C. (Chairman of Risk Committee)

Qualifications
Master's degree in Engineering Management and a Bachelor's degree in Electrical Engineering and Economics from Duke University.

Tala Abdulrahman Fakhro
Board Member

Joined BDB Board: March 2016

Experience
A Seasoned Government Administrator, Fixed Income Product Specialist and legal professional with extensive experience in structuring and portfolio management at Morgan Stanley in London, Gulf International Bank, the Saudi National Commercial Bank and NCB Capital in Bahrain. Currently holds the position of Chief Projects Officer at the Economic Development Board.

Other Directorship
Board Member: The Benefit Company B.S.C. (c) and SICO B.S.C. (c) and a member of the board of trustees of BIBF & the Bahrain Polytechnic.

Qualifications
A Juris Doctor from the Georgetown University Law Center in Washington DC, a Bachelor degree in Economics from Smith College, Northampton, and has passed the New York bar exam.

Ghassan Ghaleb Abdulaal
Board Member

Joined BDB Board: March 2016

Experience
The Investcorp Private Wealth Head of Operations within the Investor Relationship Management team. Mr. Abdulaal rejoined Investcorp in 2012 having previously spent six years with the firm from 2003- 2009. In the intervening period between 2009 and 2012, he worked as an Investment Manager with Bahrain Mumtalakat Holding Company. Prior to joining Investcorp in 2003, Ghassan worked at KPMG where he was a Consultant within the Business Performance Improvement Group.

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

Maryam Adnan Al Ansari
Board Member

Joined BDB Board: March 2016

Experience
Assistant Under-secretary of Projects at the Prime Minister's Office responsible for monitoring and facilitating the implementation of priority projects as set by Government Priorities Framework. Before that, she was the Assistant Under-secretary of Follow up and Coordination at the Ministry of Finance and National Economy, and held few positions at the Office of the First Deputy Prime Minister where she oversaw strategic housing and infrastructure projects. Prior to that, Ms. Al Ansari worked at the Economic Development Board (EDB) as part of the Reform Projects department, where she contributed to revising the National Economic Strategy, and worked closely with the Ministry of Housing and the Ministry of Transportation and Telecommunication on key strategic projects.

Qualifications
Bachelor's degree in Commerce from University of McGill.

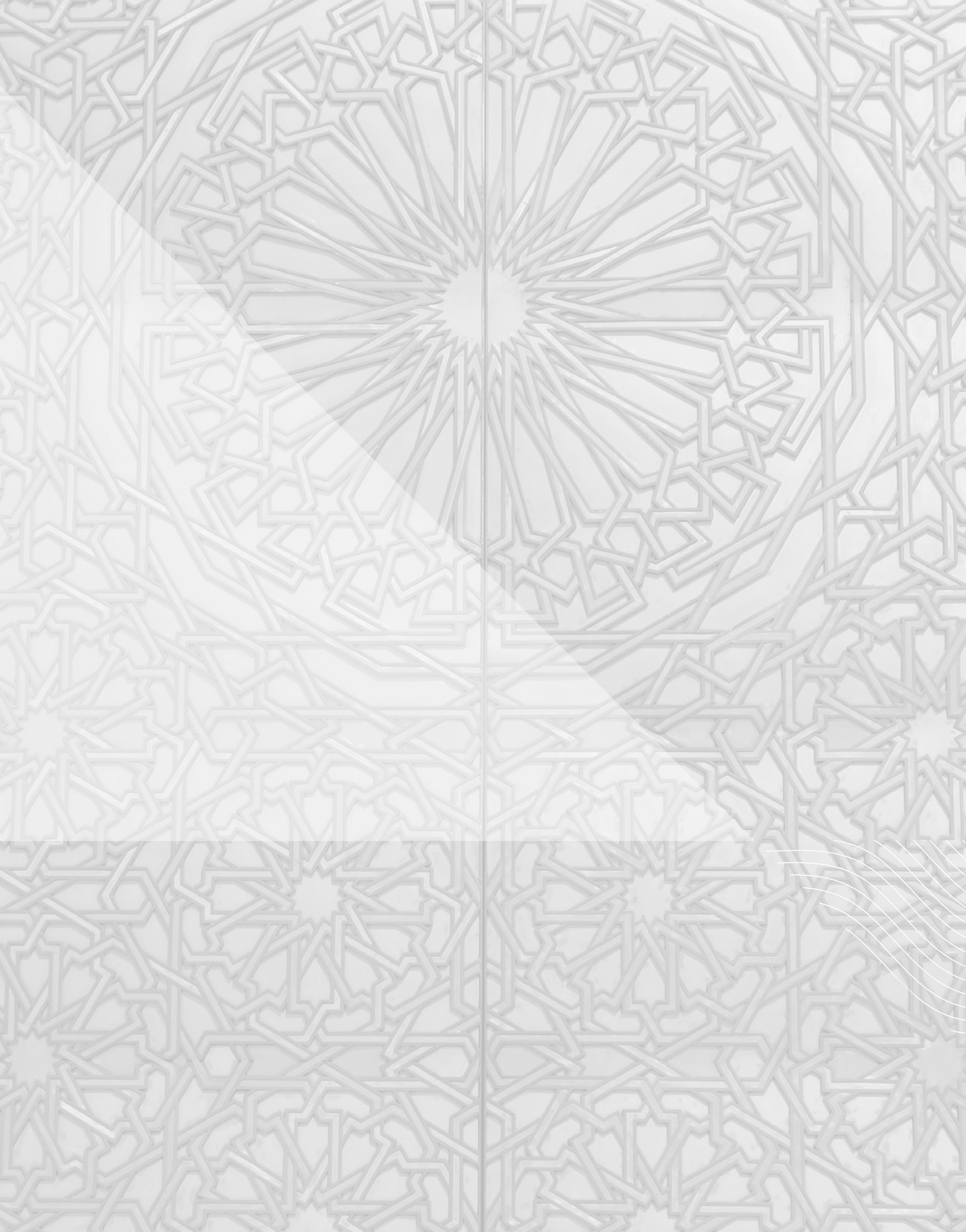
Marwa Khaled Al Saad
Board Member

Joined BDB Board: November 2019

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

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

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



Sharia'a Supervisory Board

Sheikh Abdulnasser Almahmood

Well versed in Islamic banking and finance with over 29 years of Islamic banking experience, and the head in the Sharia'a Coordination and Implementation department at Khaleeji Commercial Bank. Before joining Khaleeji Commercial Bank, Sheikh Abdul Naser was the Senior Manager in Sharia'a Audit Department in Ernst & Young – Bahrain. He also, worked as the Head of Sharia'a Internal Control Department in Bahrain Islamic Bank as well as member of the Sharia'a Supervisory Board in many Islamic banks and institutions.

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

Dr. Omar Abdulaziz Alaani

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

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

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

Dr. Mohammed Burhan Arbouna

An Islamic finance expert with over 21 years of Islamic banking experience and head of Sharia Compliance in Al Salam Bank. Before joining Al Salam Bank Bahrain, he was the Shari'a Head and Shari'a Board member in some other Islamic institutions.

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

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

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

Chairman's Statement

Building on a position of strength

Khalid Al Rumaihi
Chairman

Chairman's Statement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

I would like to take this opportunity to extend my sincere thanks and gratitude to His Majesty King Hamad bin Isa Al Khalifa, the King of the Kingdom of Bahrain, His Royal Highness Prince Salman bin Hamad Al Khalifa, The Crown Prince and Prime Minister, and the many government ministries and institutions for their continued support and wise leadership.

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

Khalid Al Rumaihi
Chairman

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													
1- Ghassan Abdulaal	-	6,750	-	-	6,750	7,424	-	-	-	7,424		14,174	-
2- Sabah Almoayyed	-	6,000	-	-	6,000	7,424	-	-	-	7,424		13,424	-
Second: Non-Executive Directors													
1- Marwan Tabbara	-	9,500	-	-	9,500	7,424	-	-	-	7,424	-	16,924	-
2- Khalid Alrumaihi	-	-	-	-		11,135	-	-	-	11,135	-	11,135	-
3- Marwa Alsaad	-	5,000	-	-	5,000	7,424	-	-	-	7,424	-	12,424	-
4- Maryam Alansari	-	4,850	-	-	4,850	7,424	-	-	-	7,424	-	12,274	-
5- Tala Fakhro	-	7,500	-	-	7,500	7,424	-	-	-	7,424	-	14,924	-
6- Tariq Alsaffar	-	7,750	-	-	7,750	7,424	-	-	-	7,424	-	15,174	-
Third: Executive Directors: N/A													
Total		47,350			47,350	63,100				63,100		110,450	-

Note: All amounts must be stated in Bahraini Dinars.

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

* 2020 Board Remuneration BD 63,100

Executive Management Remuneration Details

Executive management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/ in kind remuneration	Aggregate Amount
Top 6 remunerations for executives, including CEO* and Senior Financial Officer**	537,029	17,345	-	554,374

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)

Executive Management

1. Dalal Ahmed Al Qais
Group Chief Executive Officer

2. Raed Yousuf Bukannan
Head of Banking

3. Abdulrahman Abdulla Buheji
Head of Credit

4. Nada Mohamed Abdulrahman
Chief Technology Officer

5. Hend Mohamed Mahmood
Chief Human Resources Officer

6. Maitham A. Hameed Abbas
Head of Business Development

7. Areije Karim Al-Shakar
Head of Development Services

8. Vijay Kumar T.
Chief Risk Officer

9. Samuel Verghese
Chief Financial Officer

10. Siddharth Chaudhary
Head of Internal Audit

Management Profile

1.
Dalal Ahmed Al Qais
Group Chief Executive Officer

Joined BDB: 2021

Dalal Al Qais is a proficient banker with over 19 years of professional experience in the banking and financial industry covering retail, SME, digitization as well as risk across conventional, Islamic, and international banks. She earlier served as Chief Retail Banking and Wealth Management Officer at the Bahrain Islamic Bank prior to joining Bahrain Development Bank as Group Chief Executive Officer on December 8, 2021.

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

2.
Raed Yousuf Bukannan
Head of Banking

Joined BDB: 2019

Raed Yousuf Bukannan brings over 20 years of international and domestic banking experience to his position as Deputy General Manager — Head of Banking at the Bahrain Development Bank where he supervises the Banking and Remedial & Collections teams. He has gained a wealth of experience serving top tier institutions, such as Ahli United Bank, HSBC, and National Bank of Kuwait where he worked with SMEs, large institutional corporates, multinational companies, government and government related entities, as well as financial & non-banking financial institutions.

Raed holds a Bachelor's in Marketing from Nicholls State University, Louisiana, USA, and a Master's degree in Business Administration (MBA) from St. Edward's University, Texas, USA.

3.
Abdulrahman Abdulla Buheji
Head of Credit

Joined BDB: 2021

Abdulrahman Abdulla Buheji has worked in both conventional and Islamic banking for more than 14 years, and has extensive experience in credit, investments, and corporate banking. Prior to joining Bahrain Development Bank, he held senior positions in several banks — from Acting Chief Credit Officer at BBK, Head of Corporate Banking Analysts at BISB, Area Credit Manager at Bank ABC, to Project & Structured Finance Manager at GIB.

Abdulrahman graduated with an MBA from the University of Manchester and holds a Bachelor's of Commerce from Concordia University Canada. He also holds various professional certificates in Risk Management, Islamic Finance and Real Estate, in addition to completing a comprehensive credit program (Credit Culture) with Moody's.

4.
Nada Mohamed Abdulrahman
Chief Technology Officer

Joined BDB: 2020

Nada Mohammed Abdulrahman has vast experience in the field of Information Technology having held various key leadership roles in the banking sector in her 22-year career. Prior to joining Bahrain Development Bank as Chief Technology Officer in 2020, she was the Head of Information Technology at Khaleeji Commercial Bank, and before that she looked after IT infrastructure and support at the Bahrain Islamic Bank. Since joining the Bank, Ms. Abdulrahman has supported BDB's digital transformation journey through her experience in managing and delivering major projects related to electronic channels and customer facing solutions, security and availability, internal systems, and automation.

Nada holds a BSc in Computer Science and a Master in Project Management along with number of professional certificates in Information Technology.

5.
Hend Mohamed Mahmood
Chief Human Resources Officer

Joined BDB: 2022

Hend Mohammed Mahmood has extensive experience in the field of HR and has worked across different sectors in the last 22 years. Before joining the Bahrain Development Bank, she served as Vice President of HR and Admin at the Bahrain Airport Company (BAC). In this role she contributed towards restructuring the aviation sector and worked alongside the BAC team in delivering the new terminal expansion project. She also worked in Tharawat Investment House as Human Resources Director & Board Secretary and was the Senior Manager Human Resources at Eskan Bank.

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

6.
Maitham A. Hameed Abbas
Head of Business Development

Joined BDB: 2017

Maitham A. Hameed Abbas brings more than 16 years of diverse experience to the Bahrain Development Bank. Prior to his appointment as Head of Business Development in 2017, he served in the corporate banking and credit risk management divisions at Kuwait Finance House. He also worked with UNIDO and BDO where he had exposure to investment promotion, entrepreneurship training, SME counselling and strategy consulting. In his current role, he works as business lead, conceptualizing and implementing the Bank's digital transformation program. Mr. Abbas also serves as Secretary to the Board of Directors.

Maitham holds a Bachelor's degree in Economics and Physics from McGill University, a PRM from PRMIA and a Post Graduate Diploma in Financial Management from the ACCA in addition to certifications in product management, digital transformation and investment.

7.
Areije Karim Al-Shakar
Head of Development Services

Joined BDB: 2010

Areije Karim Al-Shakar has extensive expertise in banking and entrepreneurship gained from over 18 years in the field. Prior to joining the Bahrain Development Bank in 2010 where she currently serves as Head of Development Services and leads the Fund Management team of Al Waha Venture Capital Fund of Funds, she served at Investcorp, Citibank, BNP Paribas, and Lehman Brothers.

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

8.
Vijay Kumar T.
Chief Risk Officer

Joined BDB: 2016

Vijay Kumar T. brings to the Bank more than 25 years of regional and global banking and financial services industry experience across multiple streams of Financial Risk Management, Risk Analytics and Management Consulting. Prior to joining the Bahrain Development Bank in 2016 as Chief Risk Officer, he was the Head of Risk Analytics for United Arab Bank in the UAE and advised leading banks within the GCC and across the globe on a range of risk management practices. He has held several senior positions in the area of Risk Management & Analytics in various banks & management consulting firms including United Arab Bank, Dun & Bradstreet, Oracle FSS and Indus Ind Bank. In his current role, he has led the conceptualization and implementation of a multi-dimensional bank wide Enterprise Risk Management (ERM) framework.

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

9.
Samuel Verghese
Chief Financial Officer

Joined BDB: 2007

Samuel Verghese brings over three decades of experience with 26 years of service in the banking sector. He Joined Bahrain Development Bank in 2007 as Senior Manager in the Financial Control division and served as the Head of Internal Audit from 2008 until his promotion to Chief Financial Officer in 2015. Prior to his tenure at BDB, he held several key roles in banking and financial institutions regionally and globally including Chief Accountant for Oman Development Bank, General Manager (Finance) at Kerala Financial Corporation, and Chief Manager (Corporate Financial Management) for The South Indian Bank Ltd.

Verghese holds a Bachelor of Commerce from the University of Calicut, India; and an FCA from the Institute of Chartered Accounts of India.

10.
Siddharth Chaudhary
Head of Internal Audit

Joined BDB: 2018

Siddharth Chaudhary brings more than 18 years of experience in internal audits, assurance engagements and other financial advisory services. Prior to his appointment at the Bahrain Development Bank in 2018, he worked with SICO in the Internal Audit Department, and served at BDO's Risk Consulting division where he led risk-based internal audits for various financial service companies, firms, and other entities. He has also worked at Ernst and Young India.

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

11.
Mariam Safdar Mohammed
Head of Compliance & MLRO

Joined BDB: 2010

Mariam Safdar Mohammed has over 19 years of extensive experience in the field of compliance, risk management and credit review & analysis. Prior to her appointment with the Bahrain Development Bank in 2010, Mariam served in various banking and financial institutions such as, Al Baraka Islamic Bank, BMI Bank, Bahrain Credit and Bahrain National Holding company.

Mariam holds a Bachelor's degree in Business Management from the University of Bahrain, a Master's degree in Business Administration from the New York Institution of Technology, an Advanced Diploma in Islamic Banking (CIMA) and an ICA International Diploma in Governance, Risk & Compliance. She is also a member of ACAMS Organization.

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

Simplicity is our future

Digital Transformation

We remain committed to pursue digital transformation of our products and services

Simple & enhanced digital on boarding

The digital offerings will enable BDB to provide concerned businesses with simple and enhanced digital onboarding.

Increased Customer Satisfaction

The focal point of our service offering and the goal is to ensure that prompt response would lead to increase customer satisfaction.

Group CEO's Statement

A year of strong progress

Liquidity Support Fund Scheme

BD 13.2 million were under the Liquidity Support Fund Scheme (LSF) sponsored by the Ministry of Finance and National Economy.

Dalal Al Qais
Group Chief Executive Officer

Group CEO's Statement

Total Disbursements

BDB disbursed up to BD 32 million in diverse financing schemes, and a total of 544 loans were sanctioned.

It is an honor and a privilege to present to you the Annual Report for the Bahrain Development Bank Group for the year ended 31st December 2021.

During the year, the COVID-19 pandemic continued to affect countries around the world. It has caused a global health & economic crisis unprecedented in scale & impact. The business sector has been severely impacted by the crisis and SMEs have been more affected and more vulnerable than larger firms.

Despite 2021 being a challenging year, BDB demonstrated its strong commitment to supporting the Bahraini SME sector in terms of financing, development, and effective co-ordination with the government entities of the Kingdom of Bahrain and it aims to be a key partner of Bahrain's economic development in line with vision 2030 by empowering and enabling the SME sector.

During the year, BDB disbursed up to BD 32 million in diverse financing schemes, and a total of 544 loans were sanctioned. Of these disbursals, BD 13.2 million were under the Liquidity Support Fund Scheme (LSF) sponsored by the Ministry of Finance and National Economy.

Women empowerment remains another key focus of BDB's operations. Here we remain closely aligned to the national initiatives to expand opportunities for women in the economic space, and to create a more inclusive business environment. As a result, a total of BD 1.3 million was disbursed to women owned businesses through the Tamkeen supported "Riyadat" scheme, and the total portfolio grew to BD 6.9 million by the end of the year.

Overall, these facilities are expected to create 458 new jobs.

In line with the guidelines issued by the Central Bank of Bahrain (CBB), the bank allowed deferment of instalments to 1,125 loans. This deferment provided relief to numerous SME's which were affected by the pandemic.

Moreover, 118 firms in the Business incubator centers of the Bank benefited from the rent waivers as part of measures to protect them from the negative fallout of the pandemic.

Bahrain Development Bank is the Investment Manager of Al Waha Venture Capital Fund of Funds, a $100 million fund aimed at building Bahrain's venture capital capability and creating access to funding and ultimately boosting the start-up ecosystem in Bahrain and the MENA region.

As the leading provider of financial and incubation services to Small and Medium Enterprises, BDB took various tangible steps in 2021 to support these businesses in continuing their activities and meeting their needs in a very challenging environment.

In 2021, Al Waha Fund of Funds have invested $6 million in the VentureSouq MENA FinTech I Fund and $3 million in B&Y Fund II.

Our digital transformation journey is well under way and we intend to create a single platform for all enquiries related to financing and other support that SMEs require. With the launch of tijara in 2022, we will be a step closer towards realizing this vision, and in the process, provide a more streamlined and smooth customer experience. This will also enable us to encourage our customers to be future ready by utilizing the technological advances brought about by the pandemic.

Going forward, we will continue to build on our strong commitment towards empowering the SME sector and enhancing its competitiveness in the domestic as well as international markets.

I would like to take this opportunity to express my gratitude to the leadership of the Kingdom of Bahrain for their continued support. I would also like to thank the Chairman and Board of Directors of the Bank for their continued guidance in helping us achieve our goals. My warmest appreciation goes to the Executive Management and team members of the Bank who have spared no efforts to achieve our development mandate.

On a final note, I would like to thank the Ministry of Finance and National Economy, The Ministry of Industry, Commerce & Tourism, The Supreme Council for Women, Tamkeen, The Economic Development Board, Bahrain Chamber of Commerce and Industry (Bahrain Chamber) and all of our other strategic partners.

Dalal Al Qais
Group Chief Executive Officer

We will continue to build on our strong commitment towards empowering the SME sector and enhancing its competitiveness in the domestic as well as international markets.

Trust is our future

E-learning Security Training and Awareness

were provided to employees to ensure that customers' information and systems are highly secured and protected against cybercrime.

Rigorous Due Diligence Measures

to ensure that the financial activities of BDB customers are in accordance with the guidelines issued by the regulatory authorities.

Complying with all Applicable Laws

BDB is committed towards complying with all applicable laws, regulations and best practices in compliance across all of its business activities and subsidiaries,

Management Review

The Bank continues to provide a wide range of financing solutions to the SME sector while also offering them all possible assistance in the case of difficulties or challenges due to the pandemic.

Business Banking

The Bahrain Development Bank is a leading provider of financial and incubation services to Small and Medium Enterprises (SMEs) across the Kingdom of Bahrain, and thus, ensures that they play a powerful role in both economic development and employment creation. BDB works closely with other governmental entities in identifying investment opportunities and in working towards creating a robust ecosystem for the SME sector.

The impact of the COVID-19 pandemic continues to be felt by economies across the world. Many businesses struggled while some battled for survival. Economic contraction was uniform throughout the world along with decline in economic growth in a majority of emerging and developing markets. SMEs, in particular, have been hit hard with declining revenues and liquidity shortages.

In 2021, the Bank supported the SME sector and other sectors with total disbursements amounting to BD 32 million. Furthermore, in compliance with guidelines received from the Central Bank of Bahrain, BDB deferred instalments for qualifying customers to ensure that these SME were able to maintain healthy liquidity during these uncertain times.

Furthermore, BDB's financing is expected to create an additional 458 jobs over the next two years, as well as contribute to incremental exports of BD 2 million and value addition of BD 6 million.

The Bank's continued financial assistance to primary sectors like fisheries and agriculture, along with support to professional services such as doctors, training, and consultancy firms, provides opportunities for gainful self-employment and improved livelihood. The Bank continues to provide a wide range of financing solutions to the SME sector while also offering them all possible assistance in the case of difficulties or challenges due to the pandemic.

With the support of Tamkeen, the Bank is also involved in supporting women empowerment through he "BDB-Riyadat scheme". The scheme assists women owned enterprises and helps them grow and achieve their respective business goals. During the year, an amount of BD 1.3 million was disbursed under the scheme while total disbursements from the initiation of the scheme till end of the year stood at BD 6.9 million.

Investment Division

The investment division manages the Bank's private equity and start-up portfolio, and is a key driver in supporting the Bank's overall mission in providing support to the SME sector. The Bank's investment portfolio is spread across several industries that includes health care, food security, manufacturing, venture capital funds, technology, transportation, services, micro-finance to financial institutions along with various technologies that enable startups. The division invests in companies throughout all stages of the business cycle including startups, scale-ups, SMEs and other strategic investments. Working closely with the credit division, the investment division supports the SMEs by providing funding as well as providing them with advisory support through board representations. SMEs have greatly benefited from the expertise and support of the experienced professionals at the Bank.

458

Total number of additional jobs

BDB's financing is expected to create an additional 458 jobs over the next two years.

BD 32m

Total amount of Disbursements

During 2021, the Bank supported the SME sector and other sectors with total disbursements amounting to BD 32 million.

Information Technology

The Bank remains committed to pursue digital transformation of its products and services, and remains on target in fulfilling its technological goals despite the challenges related to Covid-19. Joining hands with Tata Consultancy Services in implementing a full-fledged banking technology stack, BDB is prepared to launch the first release of the technology stack in the second quarter of 2022 and second and final launch in the third quarter 2022.

The digital offerings will enable BDB to provide concerned businesses with simple and enhanced digital onboarding, online credit facility application, account opening along with unique and simplified Internet/Mobile Banking platforms. The turnaround time of facility approval and disbursement has been the focal point of these services, and the goal is to ensure that prompt response would lead to increase customer satisfaction. The technology stack includes digital banking channels, omni-channel customer experience, origination, core banking, trade finance, treasury and supporting services like AML and reconciliations. The implementation of these digital offerings also includes interface with other entities in the financial ecosystem such as the Central Bank of Bahrain, the Ministry of Industry, Commerce and Tourism, and the BENEFIT Company.

With the revamp of the Bank's on-premises/Disaster Recovery Site IT infrastructure, it was able to upgrade and strengthen the backend processes. With security being the key focus, BDB restructured and enhanced its security baselines and is progressing well in the implementation of various security solutions, Web filtering gateway, MDM, Endpoint protection, data leakage prevention, privileged access management, identity and access management and SIEM solutions.

Through using the digital channels, the Bank was able to accept the CBB mandated deferral requests twice this year, which provided automated calculation to business and back office and in turn enabled customer's acceptance and quicker deferral of the loans.

The bank successfully completed the regulator's mandated projects in time and also implemented the wage protection system, eCheque, Liquidity Support Fund loans for SMEs, and also Merchant category codes. The bank has also made considerable progress in the implementation of the Arabian Gulf System for Financial Automated Quick Payment Transfer (AFAQ).

Awareness of security has been a focus area of focus in 2021 that helped in strengthening the security of the Bank's IT system. Ongoing E-learning Security training and awareness sessions on information security were also provided to employees to ensure that customers' information and systems are highly secured and protected against cybercrime.

Disaster Recovery and Business Continuity Plan

The Bahrain Development Bank has put in place the Business Continuity (BC) and Disaster Recovery (DR) Policy and Plan that is periodically being updated and tested to ensure that the Bank's critical activities can continue following a disaster. The Disaster Recovery Site has been set up in the Hidd area in Bahrain, and equipped with the required infrastructure and systems that would ensure continuity of business.

Management Review
(continued)

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

The site has been further revamped against increased resiliency and security to support disasters that may affect critical systems and services at the Head Office. A restoration operation in the case of a Disaster was conducted successfully in 2021. Additionally, the BCP and DR tests were also conducted successfully as per Central Bank of Bahrain requirement. The DR and BCP tests included cloud hosted services both in AWS and Microsoft Azure to ensure continuity of the hosted services on the cloud as well as those in the DR premise.

Compliance

BDB is committed towards complying with all applicable laws, regulations and best practices in compliance across all of its business activities and subsidiaries, including the requirements stipulated by the Central Bank of Bahrain. Using a Regulatory Compliance solution to regularly monitor and assess the adequacy and effectiveness of controls and systems in place, BDB is able to address deficiencies in any platform in order to comply with the recognised standards and requirements. The Compliance Department is independent and reports to the Board Audit and Governance Committee of the Bank.

The bank's policies and procedures actively detect, report and prohibit any money laundering, combating terrorist and proliferation financing through the implementation of appropriate systems, processes and controls to combat these prohibited activities. The AML framework is routinely evaluated, updated and enhanced in order to reflect changes in business activities, as well as to ensure that applicable supervisory standards and legal requirements are met. The bank adopts rigorous due diligence measures on a risk-based approach to ensure that the

financial activities of BDB customers are in accordance with the guidelines issued by the regulatory authorities in order to achieve more transparency in relationships and in building a solid and profound customer base.

Human Resources

The Human Capital Department plays a key role in fostering and cultivating a high-performing talent & culture with the aim of emerging as an employer of choice. Building on that, BDB invests in talents which in return invest in the economy, and support the growth and success of Bahraini owned businesses. BDB has achieved 92% of Bahrainization out of which 46% are women who play a substantial role in the country's development. At BDB, women play prominent roles in the field of Compliance, Human resources, Management, SME, Business Development and others. Then Bank has initiated its Digital Transformation journey. As in any organization, the main pillar of any business strategy is its People Strategy. The Organizational Transformation journey is well on its way. The Bank has started to carve its people & reward strategy with a focus on creating an optimum operating model that moves away from traditional structures to an agile model that is fully digitized helping deliver its key mission of becoming a market leader in Bahrain for multiple digital products.

Operations

The Operations Department was instrumental in actively supporting lending activities for customers who experienced financial hardship due to the COVID-19 pandemic. The support given involved disbursements under the Liquidity Support Fund Scheme as mandated by the Ministry of Finance and National Economy while ensuring operational execution of installments deferral programs in line with the guidelines received from CBB. In addition to the above, the Bank has taken important steps in aligning its operations and streamlining its processes to achieve maximum impact towards a positive customer experience and ensuring compliance with regulatory changes with the below:

1. Ongoing Know Your Customer (KYC) review to ensure compliance with regulatory guidelines
2. SGR testing in payment systems
3. Implementation of GCC RTGS payment system
4. New features for "Cheques On-us & PDC" in BCTS system to ensure compliance with new guidelines and regulations
5. Completed implementation of E-Cheque service with Benefit Company

Administration

The Administration Department provides valuable services, enabling work processes to operate seamlessly and decision-makers to focus on value-added tasks and responsibilities. The Department plays a key assisting role in maintaining all day-to-day services and ensuring the successful completion of significant projects by providing support to BDB Group.

The Department's role has massively contributed in increasing the productivity and the efficiency of the Group in different divisions including security, safety, telecommunications in addition to Heating, Ventilation and Air Conditioning (HVAC) services and major renovation of the Bank's Headquarters, etc.

The Administration Department constantly pursues innovative means for practical cost optimization of operational expenses while maintaining utmost efficiency.

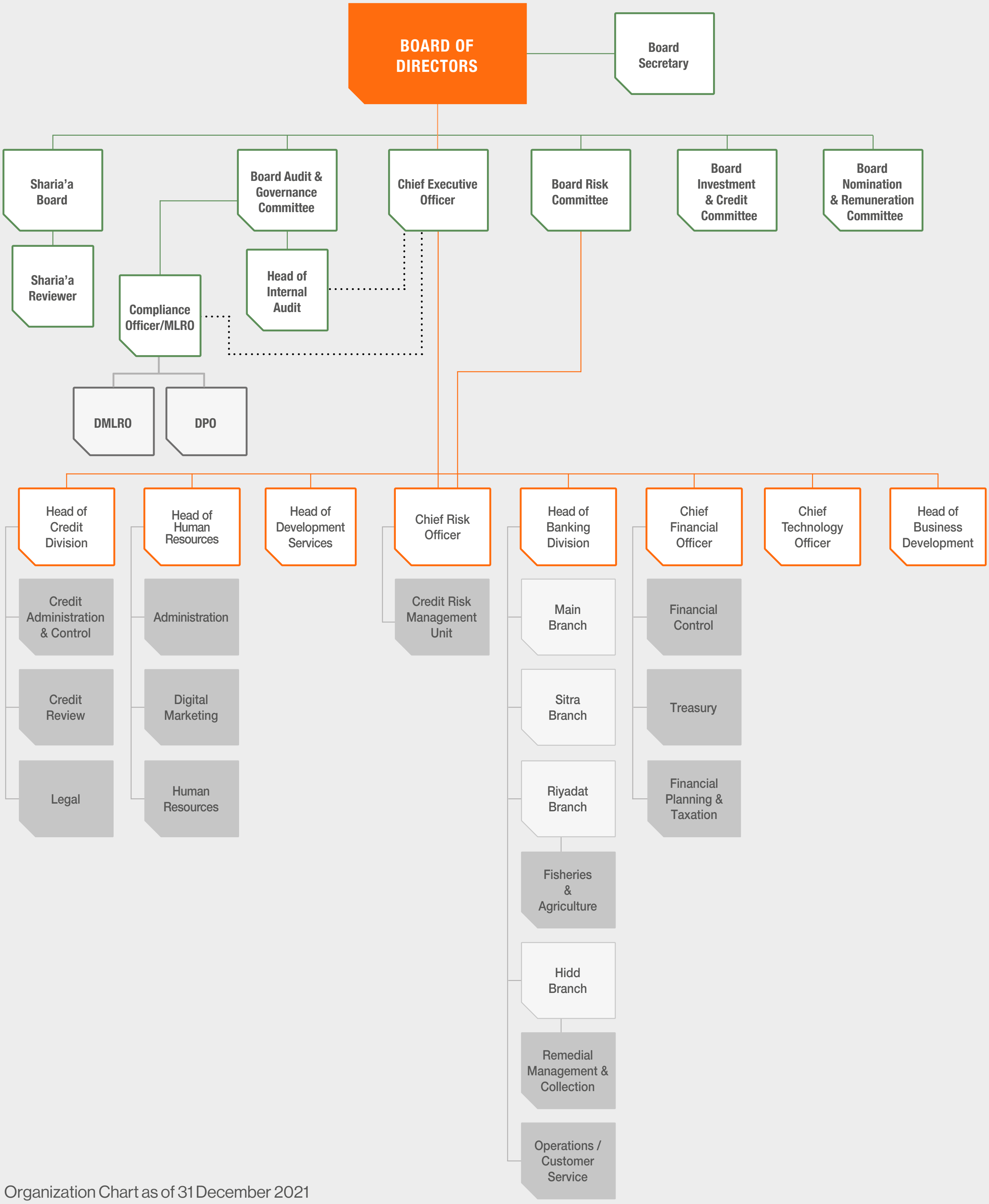
The Department has developed and executed Internal Procurement Policy to maintain smooth and risk-free procurements, allowing Bahrain market service providers and vendors equal shares. It also contributes in significantly reducing the bank's expenses by holding ongoing tenders, conducting market surveys, and finding practical and efficient cost cutting solutions and alternatives.

The Administration Department demonstrated excellent abilities in terms of assistance and maintaining data base.

The wellbeing of our employees is of the utmost importance for BDB; therefore, a wide range of health and safety actions were promptly put in place such as shifting of employees to work from home, regular building sanitization, contact tracing and health monitoring.

In line with government guidelines and regulations, our Return to Normal plan ensured that business critical services that have office dependency were able to return to the office and operate safely, following social distancing measures and within allowed building occupancy limits.

Organization Chart



Organization Chart as of 31 December 2021

Corporate Governance

(BDB) is committed to full compliance with the values and the best international practices/standards of personal and professional ethics. Fulfilling this commitment requires that everything done by the group, collectively or individually, is consistent with the highest ethical and professional standards.

BDB's Board Directors have validated the Corporate Governance principles and practices in the policy documents; (1) Commitment by Board of Directors & Management of BDB Group to the Code of Conduct and (2) the Code of Ethics & Business Conduct, which is endorsed by BDB employees. The bank has adopted Code of Conduct and other internal policies and guidelines designed to guide all employees and directors through best practices in compliance with all laws, rules and regulations that govern the bank's business operations. The Code of Conduct contains rules on conduct and ethics on avoiding conflict of interest applicable to all the employees and directors of the bank. The bank has an Annual Declaration for employees and directors, whereby each member is responsible to disclose any material interest related to business transactions and agreements.

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

BDB's Board of Directors, nominated by a Royal Decree, presently comprises of eight non-executive directors, including the Chairman. On joining the Board, all Directors are provided with a Directors' Induction File that includes the bank's Memorandum and Articles of Association, the Charters of the Board and its subcommittees, the latest annual report, the Corporate Governance and other key policies, and the bank's strategy document. Induction sessions are also held with the Chairman and Chief Executive Officer, which focus on a broad overview of the bank, its direction, challenges and opportunities may be supplemented by sessions on the special characteristics of development banking and its role in economic development. Select meetings may then be arranged with members of the senior management on an as needed basis, as well as a tour of the bank's facilities.

The Board is guided by its charter framed in accordance with applicable regulations. The Board establishes the objectives of the bank, provides guidance & approves the strategy, budgets for achievement of the bank's objectives, adopts and reviews the systems and controls framework, monitors the implementation of strategy by the management, overall group & management performance, ensures accurate preparation along with disclosure of the financial statements, monitors conflicts of interest in preventing improper related party transactions. The Board also assists in securing funding from government and semi-government institutions and continues to focus on long term strategic issues; growth and diversification of BDB group's activities, and the achievement of its vision and mission.

The Board of Directors is assisted by following Board Committees: (1) Nomination & Remuneration Committee (NRC), (2) Audit & Governance Committee (BAGC), (3) Risk Committee (BRC), (4) Investment & Credit Committee (BICC), and (5) Sharia'a Supervisory Board. The members of Senior Management regularly attend Board & Committee meetings. The responsibilities of these committees for oversight are governed by their respective charters, terms of reference and functions under its supervision that are reviewed and updated periodically. The NRC assists the Board in the implementation of sound remuneration and HR practices, the Audit & Governance Committee assists the Board in carrying out its duties regarding the integrity of the bank's financial reporting system; the adequacy of the bank's internal control processes; the performance of independent auditors and internal audit function; the independent auditor's qualifications & independence and the bank's compliance with legal obligations. The Board Risk Committee (BRC) develops the Board's risk appetite statement and ensures an appropriate risk management and reporting framework is in place to allow the implementation and monitoring of the bank's risk profile and alignment of this to its risk appetite. BRC is additionally responsible for the appointment and remuneration determination of the Chief Risk Officer (CRO) and the development of the bank's business continuity and disaster recovery plans. The BICC reviews credit and investment proposals, exercises oversight of credit and investment related activities, reviews and recommends the bank's business strategy and operational plan, reviews and approves appropriate asset allocation strategy and evaluates the investment and credit portfolio of the bank. The Sharia'a Supervisory Board, comprising three Islamic scholars, provides guidance, reviews and supervises the Bank's Islamic financing activities to ensure that they are in compliance with Islamic Sharia's rules and principles.

In addition, the Nomination & Remuneration Committee, Investment & Credit Committee, Audit & Governance Committee and Risk Committee also assists the Board in conducting self-evaluation of the Board & Committees achieving a high level of involvement and understanding among Board members of its roles and responsibilities, with suggestions for further improvements.

BDB Disclosure on HC Module

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

Banks are required to comply with the High-level Controls (HC) Module of the CBB Rulebook. The HC Module contains both Rules and Guidance; Rules must be complied with, but Guidance may either be complied with or non-compliance to be explained by way of an annual report to the shareholders and to the CBB. The bank has not complied with certain guidance under HC-4 pertaining the appointment of the Board of Directors. This is due to the fact that the members of Board of Directors of the bank were appointed as per the Royal Decree resolution No. 5 of 2019, issued on 28th November 2019.

The section HC-5.3 states that members of the remuneration committee must have independence of any risk-taking function or committees. The bank is not complying with this requirement as two (2) Remuneration & Governance Committee members Mr. Tariq Al Saffar and Ms. Tala Fakhro are also represented on the Investment & Credit Committee of the Board. This has been permitted by CBB in view of the fact that the Board members are limited to eight (8) who were appointed through a Royal Decree resolution and, to meet independency, more members should be appointed which is not deemed practical given the current Board structure which is commensurate with the bank's size and activities.

Corporate Governance
(continued)

Board & Board Committee Meetings and Attendance

Details of meetings held during 2021 and attendance of directors are as follows:

Board of Directors

No.	Name	21 Feb	15 March	09 May	05 Sep	08 Nov
1.	Khalid Al Rumaihi (Chairman)	√	√	√	√	√
2.	Sabah Khalil Al Moayyed	√	√	√	√	√
3.	Tariq Jaleel Al Saffar	√	√	√	×	√
4.	Tala Abdulrahman Fakhro	√	√	√	√	√
5.	Marwan Khalid Tabbara	√	√	√	√	√
6.	Ghassan Ghaleb Abdulaal	√	×	√	√	√
7.	Maryam Adnan Al Ansari	√	√	√	√	√
8.	Marwa Khaled AlSaad	√	√	√	√	√

Board Audit & Governance Committee

No.	Name of the Director	11 Feb	19 Apr	15 Aug	31 Oct
1.	Ghassan Ghaleb Abdulaal	√	√	√	√
2.	Maryam Adnan Al Ansari	√	×	√	√
3.	Marwa Khaled AlSaad	√	√	√	√

Board Risk Committee

No.	Name of the Director	10 Feb	13 Apr	03 May	20 Jun	05 Jul	29 Aug	25 Oct
1.	Marwan Khalid Tabbara	√	√	√	√	√	√	√
2.	Maryam Adnan Al Ansari	√	√	√	√	√	√	√
3.	Ghassan Ghaleb Abdulaal	√	√	√	√	√	√	√

Board Investment & Credit Committee

No.	Name of the Director	07 Feb	16 Mar	21 Mar	20 Apr	13 Jun	04 Jul	12 Aug	24 Oct
1.	Sabah Khalil Al Moayyed	√	√	√	√	√	√	√	√
2.	Marwan Khalid Tabbara	√	√	√	√	√	√	√	√
3.	Tariq Jaleel Al Saffar	√	√	√	√	√	√	×	√
4.	Tala Abdulrahman Fakhro	√	√	√	√	√	√	√	√

Board Nominations and Remuneration Committee

No.	Name of the Director	08 Jan	14 Apr	31 Oct	23 Dec
1.	Tariq Jaleel Al Saffar	√	√	√	√
2.	Tala Abdulrahman Fakhro	√	√	√	√
3.	Marwa Khaled AlSaad	√	√	√	√

Sharia'a Board Meetings and Attendance

No.	Name of the Director	15 Jan	11 Apr	22 Aug	21 Nov
1.	Sh. A. Nasser AlMahmood	√	√	√	√
2.	Dr. Mohammed Burhan Arbouna	√	√	√	√
3.	Dr. Omar Abdulaziz Alaani	√	√	√	√

Remuneration Report

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

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

Corporate Governance
(continued)

Details of Remuneration Paid for the Financial Year Ended 2021

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

1. 2021 Board Remuneration is BD 68,000 which is subject to MOICT approval.
2. The amount paid to the Board Nomination and Remuneration Committee during the year 2021 was BD 8,000/-.
The details of remuneration paid to auditors for audit and other assignments are available at the BDB corporate office.

Details of Remuneration Paid for the Financial Year Ended 2020

Categories	No.	Fixed Remuneration (BD)			Variable Remuneration (BD)	Total (BD)
		Salaries and Wages	Other Benefits/ Allowances	Total	Performance Bonuses (in cash)	
1. Members of the Board	11		82,900	82,900	72,100	155,000
2. Approved Persons (not including 1,3, to 7)	9	456,344	126,471	582,816	47,330	630,146
3. Approved Persons in Risk Management, Internal Audit, Operations, Financial Control, AML, Compliance Functions	6	204,590	82,487	287,077	12,049	299,126
4. Employees Engaged in Risk taking activities (Business Areas)	43	664,186	140,145	804,331	33,299	837,630
5. Employees other than approved persons engaged in functions under 3	23	286,618	58,644	345,262	22,144	367,405
6. Other Employees	80	1,146,004	238,940	1,384,944	82,487	1,467,431
7. Outsourced Employees/Service providers (engaged in risk taking activities)						
Total	**172**	**2,757,743**	**729,588**	**3,487,331**	**269,408**	**3,756,739**

Deposit Protection Scheme:

Deposits held with the bank's Bahrain operations are covered by the Regulation Protecting Deposits and unrestricted investment accounts issued by the Central Bank of Bahrain in accordance with Resolution No (34) of 2010. The scheme applies to all eligible accounts held with the bank subject to specific exclusions, maximum total amount entitled and other regulations concerning the establishment of a Deposit Protection Scheme and a Deposit Protection Board.

Financial Statements 2021

Contents

Corporate Information

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

Independent Auditors' Report to the Shareholders

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Bahrain Development Bank B.S.C. (c) (the "Bank") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as modified by the Central Bank of Bahrain ("CBB").

Basis for opinion

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

Other information

Other information consists of the information included in the Group's 2021 Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information. Prior to the date of this auditors' report, we obtained the Board of Directors' report which forms part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

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

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

Responsibilities of the Board of Directors for the consolidated financial statements

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

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

Independent Auditors' Report to the Shareholders (Continued)

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

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

Report on Other Legal and Regulatory Requirements

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

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

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

c) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2021 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position; and

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

Ernst + Young

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

Consolidated Statement of Financial Position

As at 31 December 2021

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

Khalid Al Rumaihi
Chairman

Ghassan Ghaleb Abdulaal
Director

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

Consolidated Statement of Profit or Loss

For the year ended 31 December 2021

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

Khalid Al Rumaihi
Chairman

Ghassan Ghaleb Abdulaal
Director

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

Consolidated Statement of other Comprehensive Income

For the year ended 31 December 2021

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

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

	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
Total comprehensive loss for the year	-	-	-	(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**

	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 2020	65,000	1,186	4,048	654	(1,544)	69,344	(18)	69,326
Total comprehensive income for the year	-	-	-	492	563	1,055	-	1,055
Recognition of modification loss net of government grant (note 2.5)	-			-	(1,675)	(1,675)	-	(1,675)
Minority interest movement	-	-	-	-	-	-	(1)	(1)
As at 31 December 2020	65,000	1,186	4,048	1,146	(2,656)	68,724	(19)	68,705

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

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

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

Notes to the Consolidated Financial Statements

31 December 2021

1. INCORPORATION AND ACTIVITIES

Bahrain Development Bank B.S.C. (c) ("the Bank" or "BDB") was established as a Bahraini closed shareholding company by Legislative Decree number 19 dated 11 December 1991 and commenced operations on 20 January 1992. The Bank is registered with the Ministry of Industry, Commerce and Tourism (MOICT) under commercial registration (CR) number 26226. The Bank's registered office is in the Kingdom of Bahrain. The Bank is operating as a retail bank with special waivers under a license issued by the Central Bank of Bahrain ("CBB"). The majority shareholding of the Bank is owned by the Government of the Kingdom of Bahrain ("Parent") and 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 23 February 2022.

2. BASIS OF PREPARATION

2.1 Framework and basis of preparation

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

(a) recognition of modification losses on financial assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional interest, in equity instead of profit or loss as required by IFRS 9 Financial Instruments. Any other modification gain or loss on financial assets are recognised in accordance with the requirements of IFRS 9. Please refer note 2.5 for further details; and

(b) recognition of financial assistance received from the government and/ or regulators in response to its COVID-19 support measures that meets the government grant requirement, in equity, instead of profit or loss. This will only be to the extent of any modification loss recorded in equity as a result of (a) above, and the balance amount to be recognized in profit or loss. Any other financial assistance is recognised in accordance with the requirements of International Accounting Standard 20 ("IAS 20"). Please refer note 2.5 for further details.

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

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

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

2.2 Statement of compliance

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

2.3 Accounting convention

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

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

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

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		
Name	2021	2020	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
Middle East Corner Consultancy Co. W.L.L. (MECC) *	28.60%	28.60%	Consultancy to small and medium enterprises
Neotech W.L.L.**	78.30%	0.00%	Management consultancy activities

'* MECC is under the process of liquidation.

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

2. BASIS OF PREPARATION (Continued)

2.5 Accounting for modified financing assets and government grants

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

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

3. SIGNIFICANT ACCOUNTING JUDGMENT AND ESTIMATES

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

Going concern

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

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.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

3. SIGNIFICANT ACCOUNTING JUDGMENT AND ESTIMATES (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.

Impact of COVID-19

COVID-19 pandemic has spread across various geographies globally, causing disruption to business and economic activities. COVID-19 has brought about uncertainties in the global economic environment. The fiscal and monetary authorities, both domestic and international, have announced various support measures across the globe to counter possible adverse implications. In addition, the Group's operations are mainly based in economies that are relatively more dependent on the price of crude oil and natural gas. Oil prices have witnessed unprecedented volatility and the overall average reduction in prices is expected to have medium to long term adverse consequences on economies.

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

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

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

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

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

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

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

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.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

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

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

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

In January 2020, the Board issued amendments to paragraphs 69 to 76 of IAS 1 Presentation of Financial Statements to specify the requirements for classifying liabilities as current or non-current.

The amendments clarify:

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

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

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

In May 2020, the IASB issued amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a 'directly related cost approach'. The costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

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

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

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

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

Amendments to IFRS 3 – Reference to the Conceptual Framework

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to a previous version of the IASB's Conceptual Framework (the 1989 Framework) with a reference to the current version issued in March 2018 (the Conceptual Framework) without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

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

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

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

Definition of Accounting Estimates – Amendments to IAS 8

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

'The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

Annual improvements 2018-2021 cycle

These improvements include:

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

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

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

5. NEW AND AMENDED STANDARDS AND INTERPRETATIONS ISSUED AND EFFECTIVE

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

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

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

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

Amendments to IFRS 3: Definition of a Business

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

Amendments to IFRS 16 COVID-19 Related Rent Concessions

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

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

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

6.1 Investment in associates

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

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

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

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

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

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

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

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

6.2 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.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6.3 Leases - Group as a lessee

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

a) Right of use assets

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

b) Lease liabilities

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

6.4 Investment property

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

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6.10 Income recognition

Interest income and expense are recognised in profit or loss using the effective interest 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 Other capital contribution

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

6.15 Foreign currencies

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

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

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

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

6.16 Cash and cash equivalents

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

6.17 Derivatives

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

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

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6.18 Financial assets and financial liabilities

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

6.18.1 Recognition and initial measurement

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

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

6.18.2 Classification

Financial assets

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Financial assets designation at fair value through profit or loss

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

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.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6.18 Financial assets and financial liabilities (continued)

6.18.2 Classification (continued)

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

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

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

Reclassifications

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

Financial liabilities

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

6.18.3 Derecognition

Financial assets

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

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

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

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of ownership or (b) when it has neither transferred or retained substantially all the risks and rewards and when it no longer has control over the financial asset, but has transferred control of the asset.

Financial liabilities

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

6.18.4 Impairment of financial assets

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

6.18.5 Expected credit loss (ECL)

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

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

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

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6.18 Financial assets and financial liabilities (continued)

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

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

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

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

6.18.7 Write-offs

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

Refer to note 28 for further details.

7. CASH AND CASH EQUIVALENTS

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

	2021 BD '000	2020 BD '000
Cash and balances with Central Bank of Bahrain (excluding reserves)	360	554
Placements with banks and other financial institutions having original maturity of 90 days or less	22,315	3,426
	22,675	3,980

8. ISLAMIC FINANCING AND LOANS TO CUSTOMERS

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

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

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

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

8. ISLAMIC FINANCING AND LOANS TO CUSTOMERS (Continued)

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

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

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

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

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

8. ISLAMIC FINANCING AND LOANS TO CUSTOMERS (Continued)

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

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

	31 December 2020 (Audited)			
	Stage 1 12-months ECL BD '000	Stage 2 Life time ECL not credit impaired BD '000	Stage 3 Lifetime ECL credit-impaired BD '000	Total BD '000
Corporate	74,200	2,255	17,561	94,016
SME	38,305	616	5,731	44,652
Small business	13,377	312	3,237	16,926
Taxi loans	-	-	21	21
Education loans	241	-	434	675
Overdrafts	1,486	-	528	2,014
Others	2,438	60	1,193	3,691
	130,047	3,243	28,705	161,995
Less: allowance for expected credit losses	(962)	(429)	(13,974)	(15,365)
	129,085	2,814	14,731	146,630

The fair value of the collateral consisting of cash, securities and real estate that the Group holds relating to loans individually determined to be impaired at 31 December 2021 amounts to BD 16,821 thousand (31 December 2020: BD 8,617 thousand).

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

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

9. INVESTMENT SECURITIES

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

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

10. INVESTMENT IN ASSOCIATES

	Ownership interest		Principal activity
	2021	2020	
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.

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

	2021 BD '000	2020 BD '000
The carrying amount of investment in associated companies		
At 1 January	374	322
Share of profit from associates	9	52
At 31 December	383	374

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

11. INVESTMENT PROPERTIES

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

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

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

12. PROPERTY AND EQUIPMENT

	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
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	-	-	-	(31)	-	(31)
At 31 December 2021	-	478	1,586	2,225	-	4,289
Net book values:						
At 31 December 2021	293	259	73	384	2,093	3,102

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

12. PROPERTY AND EQUIPMENT (Continued)

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

13. OTHER ASSETS

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

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

14. TERM LOANS

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

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

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

Saudi Fund for Development

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

Arab Fund for Economic and Social Development

During 2013, the Bank had obtained a loan of USD 30 million from Arab Fund for Economic and Social Development (AFESD). The facility has been fully availed and is repayable semi-annually over 10 years (3 years grace period for principal) at an interest rate of 3.0%. During 2014, the Bank had obtained a second loan of USD 50 million from AFESD. The facility has been fully availed and is repayable semi-annually over 10 years (3 years grace period for principal) at an interest rate of 3.0%. During 2016, the Bank had obtained a third loan of USD 50 million from AFESD. The facility has been fully availed and is repayable semi-annually over 10 years (3 years grace period for principal) at an interest rate of 3.0%. Arab Fund had allowed an interim grace period for one year as concessionary measure in response of covid19 pandemic.

15. DEPOSITS

	2021 BD '000	2020 BD '000
Deposits from non-banks	137,995	118,030
	137,995	118,030

Deposits from customers include BD 837 thousand (31 December 2020: BD 112,010 thousand) kept as margin deposits against financings provided.

Included in the deposits, a deposit with zero interest rate provided by Ministry of Finance and National Economy and carried at a discount of BD 12,952 thousand (31 December 2020: BD 12,982 thousand) while the undiscounted amount is BD 63,000 thousand (31 December 2020: BD 52,500 thousand).

16. SHARE CAPITAL

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

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

17. STATUTORY RESERVE

In accordance with the provisions of the Bahrain Commercial Companies Law and the Bank's articles of association, an amount equivalent to 10% of the net profit for the year is transferred to the statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital. This reserve is not distributable, but can be utilised for the purposes of a distribution in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the CBB. No such transfers have been made during the year ended 31 December 2021 and 2020, as the Bank is having accumulated losses.

18. OTHER CAPITAL CONTRIBUTION

Other capital contribution mainly includes a contribution by the majority shareholder for a non-monetary asset in the form of a commercial property to the Bank. The property has been classified as an investment property (refer note 11) that was recognised at its fair value on the date of transfer and as a capital contribution in the statement of changes in equity of BD 3,623 thousand.

19. ISLAMIC FINANCING AND INTEREST INCOME

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

20. ISLAMIC FINANCING AND INTEREST EXPENSE

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

21. FEE AND COMMISSION INCOME

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

22. INVESTMENT INCOME

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

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

23. ALLOWANCE FOR EXPECTED CREDIT LOSSES / PROVISION - NET

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

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:

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

* The Bank carries an allowance of ECL of BD 57 thousand (31 December 2020: 94 thousand) against these off-balance sheet items which is classified under other liabilities.

** This represents the Bank's commitment to invest a 10% equity portion in Al-Waha Venture Capital Fund established with a total value of USD 100 million (equivalent BD 37.7 million). During the year, the Bank paid BD 563 thousand (2020: 429 thousand) toward this commitment.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

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 period as compared to the year ended 31 December 2020.

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

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

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

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 2021					
Investment securities - equity	-	24	6,957	6,981	6,981
Investment securities - debt	21,114	-	-	21,114	21,114
31 December 2020					
Investment securities - equity	1	81	5,701	5,783	5,783
Investment securities - debt	24,105	-	-	24,105	24,105

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

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

25. FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

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

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

Sensitivity analysis

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

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

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**	**2,824**	**+/- 0.5%**	**(61) / 67**
	Growth rate		**+/- 0.5%**	**42 / (38)**
Adjusted Net Assets Value	**NAV**	**4,133**	**+/- 5%**	**74 / (34)**

Valuation technique used	Key unobservable inputs	Fair value at 31 December 2018 BD '000	Reasonable possible shift +/- (in any input)	Impact on profit or loss BD '000
Discounted cash flow	Discount rate	2,824	+/- 0.5%	(61) / 67
	Growth rate		+/- 0.5%	42 / (38)
Adjusted Net Assets Value	NAV	2,751	+/- 5%	70 / (30)

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

26. RELATED PARTY TRANSACTIONS

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

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

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

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

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

	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 associates	**-**	**9**	**9**

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

Compensation of key management personnel is as follows:

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

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

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.

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.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

27. RISK MANAGEMENT (Continued)

i) Risk Executive Committee

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

j) Asset and Liability Committee

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

k) Credit Committee

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

l) Risk management

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

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.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

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.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

28. CREDIT RISK (Continued)

28.3 Measurement of ECL

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

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).

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.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

28. CREDIT RISK (Continued)

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.

28.6 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.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

28. CREDIT RISK (Continued)

28.7 Definition of 'Default' and 'Cure'

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

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

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

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

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

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

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

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

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

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

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

28.8 Incorporation of forward looking assumptions

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

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

i) Limits and concentrations

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

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

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

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

28. CREDIT RISK (Continued)

28.8 Incorporation of forward looking assumptions (continued)

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

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

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

iii) External credit assessment

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

iv) Concentration of credit risk

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

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

v) Collateral and other credit enhancements

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

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

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

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

28. CREDIT RISK (Continued)

28.8 Incorporation of forward looking assumptions (continued)

v) Collateral and other credit enhancements (continued)

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

	2021				
	Gross Exposures BD 000	Expected Credit Loss BD 000	Carrying Amount BD 000	FV 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	-	-
Other loans	534	527	7	-	-
Total	27,389	13,747	13,642	16,821	4,244

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

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.

	2021 BD '000	2020 BD '000
Islamic financing and loans to customers	2,883	2,603

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

28. CREDIT RISK (Continued)

28.8 Incorporation of forward looking assumptions (continued)

vii) Credit quality per class of financial assets

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

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

29. MARKET RISK

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

i) Interest rate risk

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

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

29. MARKET RISK (Continued)

i) Interest rate risk (continued)

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

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

ii) Currency risk

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

The Bank views the Bahraini Dinar as its functional currency. In the opinion of the Bank's management, the currency risk for any position held in US Dollar is insignificant since the Bahraini Dinar is pegged to the US Dollar. The Bank had the following significant net open exposures denominated in foreign currencies as of 31 December 2021 and 2020:

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

iii) Derivatives

A derivative is a financial contract between two parties where payments are dependent upon movements in the price of one or more underlying financial instrument, reference rate or index. In the ordinary course of business, the Group enters into forex forward contracts. The use of derivatives is governed by the Group's policies approved by the Board of Directors. The Group enters into derivative contracts for the purpose of reducing risks from potential movements in foreign exchange rates. The Group has entered into forex forward contracts with the Central Bank of Bahrain with a nominal value of BD 36,449 thousand (31 December 2020: BD 34,978 thousand).

30. EQUITY PRICE RISK

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

The effect on profit or loss (as a result of a change in the fair value of equity instruments held as FVTPL) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	Trading Equities		Effect on Profit or Loss		
	2021 BD '000	2020 BD '000	% change in Index	Total 2021 BD '000	Total 2020 BD '000
Bahrain Bourse	-	1	± 15%	-	-

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

31. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the Group's assets and liabilities as at 31 December 2021 and 2020 based on expected maturities.

	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 associates	-	-	-	-	-	383	383	383
Investment properties	-	-	-	-	-	10,581	10,581	10,581
Property and equipment	-	-	-	-	-	3,102	3,102	3,102
Other assets	-	-	4,346	-	-	-	4,346	4,346
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		

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

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

32. LIQUIDITY RISK

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

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2021 and 2020 based on the contractual undiscounted repayment obligations. See note 31 for the expected maturities of these liabilities.

	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	-	-	-	4,849	-	-	-	4,849
Total liabilities	11,704	53	3,007	8,872	4,607	14,482	138,125	180,850

	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 2020								
Term loans	-	-	327	-	324	34,775	26,968	62,394
Deposits	15,155	79	2,567	1,344	766	96	98,097	118,104
Other liabilities	-	-	-	4,444	-	-	-	4,444
Total liabilities	15,155	79	2,894	5,788	1,090	34,871	125,065	184,942

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

	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 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
31 December 2020					
Contingent liabilities	363	465	456	246	1,530
Commitments	1,450	-	617	1,700	3,767
Capital expenditure	-	53	1,074	1,054	2,181
Total	1,813	518	2,147	3,000	7,478

	2021	2020
Liquidity Coverage Ratio	1662%	491%

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

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

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:

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

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

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

34. CAPITAL ADEQUACY (Continued)

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

• Tier 1 capital, includes CET1 and AT1.

CET1 comprise of ordinary share capital that meet the classification as common shares for regulatory purposes, disclosed reserves including share premium, general reserves, legal / statutory reserve, common shares issued by consolidated banking subsidiaries of the Bank and held by third parties, retained earnings after regulatory adjustments relating to goodwill and items that are included in equity which are treated differently for capital adequacy purposes.

AT1 comprise of instruments that meet the criteria for inclusion in AT1, instruments issued by consolidated banking subsidiaries of the Bank held by third parties which meet the criteria of AT1, and regulatory adjustments applied in calculation of AT1.

Tier 2 capital, includes instruments issued by the Bank that meet the criteria for inclusion in Tier 2 capital, stock surplus resulting from issue of Tier 2 capital, instruments issued by consolidated banking subsidiaries of the Bank held by third parties that meet the criteria for inclusion in Tier 2, general provisions held against unidentified losses on financing and qualify for inclusion within Tier 2, asset revaluation reserve from revaluation of fixed assets and instruments purposes and regulatory adjustments applied in the calculation of Tier 2 capital.

The regulatory adjustments are subject to limits prescribed by the CA module, these deductions would be effective in a phased manner through transitional arrangements from 2015 to 2018. The regulations prescribe higher risk weights for certain exposures that exceed materiality thresholds. These regulatory adjustments are required for certain items such as goodwill on mortgage service right, deferred tax assets, cash flow hedge reserve, gain on sale of related securitization transactions, defined benefit pension fund assets and liabilities, investment in own shares and reciprocal cross holdings in the capital of Banking and financial entities, investment in the capital of Banking and financial entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of issued common share capital of the entity and significant investments in the capital of banking and financial entities that are outside the scope of regulatory consolidation.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

Capital management

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

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

35. CLASSIFICATION OF ASSETS AND LIABILITIES

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

	Designated as at FVTPL BD '000	FVOCI – sukuk/debt instruments BD '000	FVOCI – equity instruments BD '000	Amortised cost / others BD '000	Total BD '000
31 December 2021					
Assets					
Cash and balances with Central Bank of Bahrain	-	-	-	3,027	3,027
Placements with banks and other financial institutions	-	-	-	22,312	22,312
Islamic financing and loans to customers	-	-	-	146,632	146,632
Investment securities	6,956	21,114	25	27,901	55,996
Investment in associates	-	-	-	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

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

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

36. COMPARATIVE FIGURES

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

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

37. NET STABLE FUNDING RATIO

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	71,632			1,182	72,832
Other Capital Instruments					
Retail deposits and deposits from small business customers:					
Stable deposits					
Less stable deposits					
Wholesale funding:					
Operational deposits					
Other wholesale funding		15,026	4,161	153,611	163,205
Other liabilities:					
NSFR derivative 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
Deposits held at other financial institutions for operational purposes					
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					
Performing residential mortgages, of which:					
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines				119,575	101,639
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities					
Other assets:					
Physical traded commodities, including gold					

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

37. NET STABLE FUNDING RATIO (Continued)

	Unweighted Values (i.e. before applying relevant factors)				
	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Assets posted as initial margin for for derivative contracts and contributions to default funds of CCPs					
NSFR derivative assets					
NSFR derivative liabilities before deduction of variation margin posted					
All other assets not included in the above categories	38,660				38,660
OBS items	41,882				2,094
Total RSF	132,874	33,258	2,553	119,575	154,989
NSFR (%) - As at 31 December 2021					152%

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2021

37. NET STABLE FUNDING RATIO (Continued)

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

	Unweighted Values (i.e. before applying relevant factors)				
	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	71,632			1,242	72,874
Other Capital Instruments					
Retail deposits and deposits from small business customers:					
Stable deposits					
Less stable deposits					
Wholesale funding:					
Operational deposits					
Other wholesale funding		19,340	1,003	132,991	143,163
Other liabilities:					
NSFR derivative liabilities					
All other liabilities not included in the above categories		4,444			
Total ASF	71,632	23,784	1,003	134,233	216,037
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	53,372				2,524
Deposits held at other financial institutions for operational purposes					
Performing financing and loans / securities:					
Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions		3,397			510
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:		19,590	5,171		12,381
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines					
Performing residential mortgages, of which:					
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines				107,137	91,066
Securities that are not in default and do not qualify as HQLA, including exchange- traded equities					
Other assets:					
Physical traded commodities, including gold					
Assets posted as initial margin for for derivative contracts and contributions to default funds of CCPs					
NSFR derivative assets					
NSFR derivative liabilities before deduction of variation margin posted					
All other assets not included in the above categories	37,816				37,816
OBS items	42,626				2,131
Total RSF	133,814	22,987	5,171	107,137	146,428
NSFR (%) - As at 31 December 2020					148%

Risk and Capital Management Disclosures

For the year ended 31 December 2021

1. EXECUTIVE SUMMARY

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

The Bank applies the Basel framework in the measurement of its capital adequacy, and in its capital management strategy and risk management framework. CBB's Basel III capital rules and guidelines became effective on 1st January 2015 as the common framework for the implementation of the Basel Committee on Banking Supervision's (Basel Committee) Basel III capital adequacy framework for banks incorporated in the Kingdom of Bahrain.

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

The disclosures in this report are in addition to the disclosures set out in the consolidated financial statements for the period ended 31st December 2021 presented in accordance with the International Financial Reporting Standards (IFRS).

2. INTRODUCTION TO THE BASEL III FRAMEWORK

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

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

CBB CAPITAL ADEQUACY RULES:

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

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

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

For regulatory reporting purposes, BDB is using the Standardised Approach for credit risk and market risk, and Basic Indicator Approach for operational risk.

i) Credit Risk

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

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

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

ii) Market Risk

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

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

iii) Operational Risk

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

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

Regulatory Reforms

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

Risk and Capital Management Disclosures (Continued)

For the year ended 31 December 2021

3. GROUP STRUCTURE

The Group's financial statements are prepared and published on a full consolidation basis, with all subsidiaries being consolidated in accordance with IFRS. As at 30th June 2021, the Group consists of the Bank and its following subsidiaries:

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

* The Bank is exposed, or has rights, to variable returns from its involvement with Middle East Corner Consultancy Co. WLL; and has the ability to affect those returns through its power over Middle East Corner Consultancy Co. WLL and thus is deemed as subsidiary of the Bank.

On 28 September 2021, the Court has placed the subsidiary as liquidated. The Court has also appointed an expert to assess the final distribution among the shareholders.

Restrictions on capital and transfer of funds within the Group

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

4. CAPITAL STRUCTURE AND CAPITAL ADEQUACY

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

Capital structure, minimum capital and capital adequacy

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

The bank's shareholders are Ministry of Finance (89.74%), SIO and Pension Fund (5.13% each)

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

	As at 31 December 2021
Common Equity Tier 1 (CET1)	
Issued and full paid ordinary shares	65,000
Legal / Statutory reserve	1,186
Retained earnings	812
Other reserves	4,048
Current period Profit	131
Cumulative fair value changes on FVOCI investments (Debt)	703
Intangibles	(29)
Total Common Equity Tier 1 (CET1) (A)	71,851
Additional Tier 1 (AT1)	-
Total Tier 1 (T1)	71,851
Tier 2 Capital (T2)	
Expected Credit Losses (ECL)	1,182
Total Tier 2 (T2) (B)	1,182
Total Capital Base (Tier 1 + Tier 2) (C=A+B)	73,033

Risk and Capital Management Disclosures (Continued)

For the year ended 31 December 2021

4. CAPITAL STRUCTURE AND CAPITAL ADEQUACY (Continued)

Capital Requirement for Risk Weighted Exposure

	Credit Exposure before credit risk mitigant	Eligible financial collateral	Credit Exposure after risk mitigant	Risk weighted exposure	Capital Requirement at 12.5%
As at 31 December 2021					
Cash items	159	-	159	-	-
Sovereigns	104,028	-	104,028	-	-
Banks	7,143	-	7,143	3,574	447
Corporates	134,467	49,294	85,173	42,965	5,371
Past due exposures	13,643	6,448	7,195	7,852	982
Investment in securities	6,209	-	6,209	9,697	1,212
Holding of Real Estate	12,360	-	12,360	24,095	3,012
Others assets	6,415	-	6,415	6,415	802
Total Credit Risk Exposure	284,424	55,742	228,682	94,598	11,825
Market Risk				713	89
Operational Risk				16,694	2,087
Total Risk Weighted Assets (D)				112,005	14,001
Capital Adequacy Ratio (C)/(D)				65.21%	
CET1 Capital Adequacy Ratio (A)/(D)				64.15%	

5. CREDIT RISK – PILLAR 3 DISCLOSURES

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

Definition of exposure classes

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

Brief description of applicable standard portfolio is as follows:

a. Claims on sovereigns:

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

b. Investment in securities and sukuk:

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

c. Claims on banks:

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

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

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

Risk and Capital Management Disclosures (Continued)

For the year ended 31 December 2021

5. CREDIT RISK – PILLAR 3 DISCLOSURES (Continued)

d. Claims on corporates:

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

e. Impairment of assets:

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

f. Restructured financing facilities:

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

g. Past due exposures:

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

h. Equity Portfolio:

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

i. Other assets:

These are risk weighted at 100%.

j. Holding of real estate:

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

k. Related party transactions and balances:

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Bank exercises significant influence, major shareholders, directors and executive management of the Bank. Such related parties in the ordinary course of business at commercial interest and commission rates (Refer note 15 of the interim condensed consolidated financial statements as at 31 December 2021).

Amounts due from related parties are unsecured.

l. Highly leveraged counterparties:

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

6. FUNDED AND UNFUNDED TOTAL CREDIT EXPOSURE

	Total funded credit exposure	Total un-funded credit exposure	Average quarterly credit exposure
Sovereigns	74,490	29,539	93,596
Banks	233	6,910	5,472
Corporates	132,990	2,340	135,144
Past due exposures	13,643	-	14,167
Other assets and Cash items	3,856	-	3,656
Total credit risk	225,212	38,789	252,035

Risk and Capital Management Disclosures (Continued)

For the year ended 31 December 2021

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

	31 Decemebr 2021			
	Country	Funded	Unfunded	Total
Government & public sector	Bahrain	74,490	29,539	104,029
Banks and financial institutions	Bahrain	233	6,910	7,143
Trading and Manufacturing	Bahrain	94,357	2,092	96,449
Educational Institutions & Healthcare	Bahrain	7,034	189	7,223
Hospitality, media and transportation	Bahrain	14,787	50	14,837
Fisheries, agriculture & dairy	Bahrain	5,190	-	5,190
Food processing	Bahrain	8,523	-	8,523
Others	Bahrain	20,598	9	20,607
TOTAL		225,212	38,789	264,001

8. CREDIT CONCENTRATION GREATER THAN 15% INDIVIDUAL OBLIGOR LIMIT

Total credit exposures in excess of 15% individual obligor limit	31 December 2021
Sovereigns	103,621

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

	Gross impaired loans	Stage 3: Lifetime ECL credit impaired	Charge for the period	Write off
Project finance	26,158	13,747	871	1,098
Fisheries and Agriculture	1,231	-	-	-
	27,389	13,747	871	1,098

10. RESIDUAL CONTRACTUAL MATURITY

Maturity analysis of assets

The table below summarises the residual contractual maturity profile of the Group's assets as at 31st December 2021

	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Above 20 years	Total
2021										
Assets										
Cash and balances with Central Bank of Bahrain	2,868	-	-	-	-	-	-	-	-	2,868
Placements with banks and other financial institutions	22,312	-	-	-	-	-	-	-	-	22,312
Islamic financing and loans to customers	7,577	1,560	1,724	2,553	57,367	18,146	56,594	1,111	-	146,632
Investment securities	49,015	-	-	-	-	-	-	-	-	49,015
Other assets	-	-	4,263	-	-	-	-	-	-	4,263
Total funded credit exposures	81,772	1,560	5,987	2,553	57,367	18,146	56,594	1,111	-	225,090
Unfunded credit exposures	5,358	14,411	247	18,476	125	172	-	-	-	38,789
Total credit risk	87,130	15,971	6,234	21,029	57,492	18,318	56,594	1,111	-	263,879

Risk and Capital Management Disclosures (Continued)

For the year ended 31 December 2021

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

i) By Geographical area

	31 December 2021			
	Three months to one year	One to three years	Over three years	Total
Bahrain	13,421	3,087	1,681	18,189
TOTAL	13,421	3,087	1,681	18,189

ii) By Segment wise

	31 December 2021			
	Three months to one year	One to three years	Over three years	Total
Project finance	12,963	2,820	939	16,722
Fisheries and Agriculture	458	267	742	1,467
TOTAL	13,421	3,087	1,681	18,189

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

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

	31 December 2021
Bahrain	
Specific impairment provision - Stage 3	13,747
TOTAL	13,747

13. RECONCILIATION OF CHANGES IN EXPECTED CREDIT LOSSES

	31 December 2021		
	Stage 3: Lifetime ECL credit impaired	Stage 1: 12-month ECL and stage 2 : Lifetime ECL not credit- impaired	Total
Balance at 1 January 2021	13,974	1,391	15,365
Amounts written off during the period	(1,098)	-	(1,098)
Charge for the year	1,291	772	2,063
Recoveries during the year	(420)	(217)	(637)
At 31 December 2021	13,747	1,946	15,693

Restructured Credit Facilities

The Bank has restructured credit facilities amounting to BD 2,784 thousands during the period ended 31 December 2021. Restructuring concessions mainly related to deferral of loan installments to assist customers overcome temporary cash crunch situations or to realign the repayment with the borrower's revised cash flow projections.

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

Risk and Capital Management Disclosures (Continued)

For the year ended 31 December 2021

14. CREDIT RISK MITIGATION

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

15. ELIGIBLE FINANCIAL COLLATERAL AND GUARANTEES

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

	Gross credit exposure	Financial collateral	Credit exposure after credit risk mitigant
As at 31 December 2021			
Sovereigns	104,028	-	104,028
Banks	7,143	-	7,143
Corporates	134,467	49,294	85,173
Past due exposures	13,643	6,448	7,195
Investments in equities/funds	6,209	-	6,209
Holding of real estate	12,360	-	12,360
Other assets and cash items	6,574	-	6,574
	284,424	55,742	228,682

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

16. SENSITIVITY ANALYSIS - INTEREST RATE RISK (IRRBB)

Impact on net interest income for the year ended 31 December 2021

	2021
Bahraini Dinar	
Assets	269,319
Liabilities	240,121
(+) 200 basis points	584
(-) 200 basis points	(584)
US Dollar	
Assets	21,697
Liabilities	30,058
(+) 200 basis points	(167)
(-) 200 basis points	167
Kuwaiti Dinar	
Assets	11
Liabilities	-
(+) 200 basis points	0
(-) 200 basis points	(0)
Saudi Riyals	
Assets	6,369
Liabilities	7,078
(+) 200 basis points	(14)
(-) 200 basis points	14

Risk and Capital Management Disclosures (Continued)

For the year ended 31 December 2021

17. MARKET RISK, INTEREST RATE GAP

Market risk

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

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

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

The Bank's market risk capital charge is largely composed of foreign currency risk arising from the Bank's foreign exchange exposure on investments denominated mainly in Kuwaiti dinars, Saudi riyals and USD, and interest rate risk arising on the bond portfolio. The capital requirement for market risk using the Standardised Approach as at 31 December 2021 was as follows:

	Capital Requirements			
	2021	Maximum	Minimum	Average
Risk Type				
Equity risk capital	-	-	-	-
Foreign exchange risk capital	57	64	57	61
Interest rate risk capital	-	-	-	-
Commodity risk capital	-	-	-	-

Interest rate risk

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

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

	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Non-interest bearing	Total
2021								
Assets								
Cash and balances with Central Bank of Bahrain	-	-	-	-	-	-	2,868	2,868
Placements with banks and other financial institutions	22,312	-	-	-	-	-	-	22,312
Islamic financing and loans to customers	7,577	1,560	1,724	2,553	75,513	57,705	-	146,632
Other assets	49,015	-	-	-	-	-	4,263	53,278
Total assets	78,904	1,560	1,724	2,553	75,513	57,705	7,131	225,090
Liabilities								
Term loans	-	251	3,242	3,493	21,876	5,941	-	34,803
Deposits	11,635	2,663	358	668	3,029	119,642	-	137,995
Other liabilities	-	-	-	-	-	-	4,849	4,849
Total liabilities	11,635	2,914	3,600	4,161	24,905	125,583	4,849	177,647
Net liquidity gap	67,269	(1,354)	(1,876)	(1,608)	50,608	(67,878)	2,282	47,443

Risk and Capital Management Disclosures (Continued)

For the year ended 31 December 2021

18. EQUITY POSITION IN THE BANKING BOOK

	31-Dec-21	
	Net exposure	Capital requirement
Publicly traded	-	-
Privately held	6,956	870
TOTAL	6,956	870

19. GAINS ON EQUITY INVESTMENTS

	2021
(i) Realised Gains/ Losses in the statement of profit or loss	-
(ii) Realised Gains/ Losses in retained earnings	-
(iii) Unrealised Gains/ Losses in CET1 Capital	-

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

20. DERIVATIVES

	Foreign exchange contracts
Notional – Banking book	36,449

21. OPERATIONAL AND LEGAL RISKS

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

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

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

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

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

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

22. FINES & PENALTY

	Amount in BHD Actual 2021
Penalty paid to Central Bank of Bahrain	16

23. Liquidity Coverage Ratio (LCR)

According to LM-11.1.2 under the "Liquidity Risk Management Module" in the CBB Rulebook, The Bank has calculated the Liquidity Coverage Ratio, which is at 1662% as on 31st December 2021

24. Leverage Ratio (LR)

According to CA-15.5.1 under the "Leverage Ratio & Gearing Requirements" Module in the CBB Rulebook, The Bank has calculated the Leverage Ratio, which is at 24.9% as on 31st December 2021

25. Organizational Restructuring

The Board of Directors has employed the services of an external consultant for recommendations on the Organization Structure, Remuneration Packages and incentive structure.

Composition of Capital Disclosure Requirements

As at 31 December 2021

Step 1: Balance sheet under the regulatory scope of consolidation

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

Composition of Capital Disclosure Requirements (Continued)

As at 31 December 2021

Step 2: Reconciliation of published financial balance sheet to regulatory reporting as at 31 December 2021

	Balance sheet as in published financial statements	Consolidated PIR data
Assets		
Cash and balances at central banks	3,027	3,027
Placements with banks and other financial institutions	22,312	22,315
Investment securities	55,996	55,996
Investments in associates	383	383
As at 30 June 2021	**56,379**	**56,379**
of which:		
Significant investments in capital of financials institutions exceeds the 10% of CET1		
Amount in excess of 10% of CET1 to be deducted		
Amount in excess of 10% of CET1 to be deducted in year 1		
Investment property	10,581	10,581
Loans and advances	146,632	148,578
of which: General loan loss provision which qualify as capital	1,946	-
Prepayments, accrued income and other assets	4,346	4,359
Property, plant and equipment	3,102	3,102
Total assets	**246,379**	**248,341**
Liabilities		
Deposits from banks and other financial institutions	-	-
Customer accounts	137,995	137,995
Term Loans	34,803	34,803
Repurchase agreements and other similar secured borrowing		
Derivative financial instruments		
Accruals, deferred income and other liabilities	4,849	4,791
Total liabilities	**177,647**	**177,589**
Shareholders' Equity		
Paid-in share capital	65,000	65,000
Shares under employee share incentive scheme		
Total share capital	**65,000**	**65,000**
of which amount eligible for CET1	-	65,000
of which amount eligible for AT1	-	-
Retained earnings	(2,525)	(2,525)
Statutory reserve	1,186	1,186
Other Reserve	4,048	4,048
General reserve		
Share premium		
Donations and charity reserve		
General loan loss provision which qualify as capital		2,020
Available for sale revaluation reserve	703	703
Share of Available for sale revaluation reserve relating to associates not considered for regulatory capital		
Minority interest in subsidiaries' share capital	320	320
Total shareholders' equity	**68,732**	**70,752**
Total liabilities & Shareholders' Equity	**246,379**	**248,341**

Composition of Capital Disclosure Requirements (Continued)

As at 31 December 2021

Step 3: Composition of Capital Common Template as at 31 December 2021

	Composition of Capital and mapping to regulatory reports	Component of regulatory capital	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	65,000	
2	Retained earnings	943	
3	Accumulated other comprehensive income (and other reserves)	5,937	
4	Not Applicable	-	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	
6	**Common Equity Tier 1 capital before regulatory adjustments**	**71,880**	
	Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments	-	
8	Goodwill (net of related tax liability)	-	
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	29	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
11	Cash-flow hedge reserve	-	
12	Shortfall of provisions to expected losses	-	
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	-	
14	Not applicable.	-	
15	Defined-benefit pension fund net assets	-	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-	
17	Reciprocal cross-holdings in common equity	-	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	
20	Mortgage servicing rights (amount above 10% threshold)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
22	Amount exceeding the 15% threshold	-	
23	of which: significant investments in the common stock of financials	-	
24	of which: mortgage servicing rights	-	
25	of which: deferred tax assets arising from temporary differences	-	
26	National specific regulatory adjustments	-	
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	-	

Composition of Capital Disclosure Requirements (Continued)

As at 31 December 2021

	Composition of Capital and mapping to regulatory reports	Component of regulatory capital	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	**Total regulatory adjustments to Common equity Tier 1**	**-**	
29	**Common Equity Tier 1 capital (CET1)**	**71,851**	
	Additional Tier 1 capital: instruments	-	
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-	
35	of which: instruments issued by subsidiaries subject to phase out	-	
36	Additional Tier 1 capital before regulatory adjustments	-	
	Additional Tier 1 capital: regulatory adjustments	-	
37	Investments in own Additional Tier 1 instruments	-	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
41	National specific regulatory adjustments	-	
	REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	-	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43	Total regulatory adjustments to Additional Tier 1 capital	-	
44	**Additional Tier 1 capital (AT1)**	**-**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**71,851**	
	Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
47	Directly issued capital instruments subject to phase out from Tier 2	-	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	
49	of which: instruments issued by subsidiaries subject to phase out	-	
50	Provisions	1,182	
51	**Tier 2 capital before regulatory adjustments**	**1,182**	
	Tier 2 capital: regulatory adjustments		

Composition of Capital Disclosure Requirements (Continued)

As at 31 December 2021

	Composition of Capital and mapping to regulatory reports	Component of regulatory capital	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2
52	Investments in own Tier 2 instruments	-	
53	Reciprocal cross-holdings in Tier 2 instruments	-	
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments	-	
	REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	-	
	OF WHICH: [INSERT NAME OF ADJUSTMENT]	-	
	OF WHICH: …	-	
57	**Total regulatory adjustments to Tier 2 capital**	**-**	
58	**Tier 2 capital (T2)**	**1,182**	
59	**Total capital (TC = T1 + T2)**	**73,033**	
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT		
60	**Total risk weighted assets**	**112,004**	
	Capital ratios		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	64.15%	
62	Tier 1 (as a percentage of risk weighted assets)	64.15%	
63	Total capital (as a percentage of risk weighted assets)	65.21%	
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement expressed as a percentage of risk weighted assets)	9.00%	
65	of which: capital conservation buffer requirement	2.50%	
66	of which: bank specific countercyclical buffer requirement (N/A)	0.00%	
67	of which: D-SIB buffer requirement (N/A)	0.00%	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	%64.15	
	National minima including CCB (if different from Basel 3)		
69	CBB Common Equity Tier 1 minimum ratio	9.00%	
70	CBB Tier 1 minimum ratio	11.00%	
71	CBB total capital minimum ratio	%12.50	
	Amounts below the thresholds for deduction (before risk weighting)		
72	Non-significant investments in the capital of other financials	2,823	
73	Significant investments in the common stock of financials	383	

Composition of Capital Disclosure Requirements (Continued)

As at 31 December 2021

	Composition of Capital and mapping to regulatory reports	Component of regulatory capital	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2
74	Mortgage servicing rights (net of related tax liability)	-	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-	
	Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	2,020	
77	Cap on inclusion of provisions in Tier 2 under standardised approach (1.25% of Credit Risk weighted Assets)	1,182	
78	NA	-	
79	NA	-	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2020 and 1 Jan 2024)		
80	Current cap on CET1 instruments subject to phase out arrangements	-	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	
82	Current cap on AT1 instruments subject to phase out arrangements	-	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	
84	Current cap on T2 instruments subject to phase out arrangements	-	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities	-	

Composition of Capital Disclosure Requirements (Continued)

As at 31 December 2021

Disclosure template for main feature of regulatory capital instruments

1	Issuer	Bahrain Development Bank BSC
2	Unique identifier (Bahrain Bourse ticker)	BDB
3	Governing law of the instrument	All applicable laws and regulations of the Kingdom of Bahrain
	Regulatory treatment	
4	Transitional CBB rules	Common Equity Tier 1
5	Post-transitional CBB rules	Common Equity Tier 1
6	Eligible at solo/group/group & solo	Group
7	Instrument Type	Common Equity shares
8	Amount recognized in regulatory capital (currency in Millions, as of most recent reporting date)	65,000.00
9	As at 31 December 2021	BD1.00
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	Not Applicable
12	Perpetual or dated	Not Applicable
13	Original maturity date	Not Applicable
14	Issuer call subject to prior supervisory approval	Not Applicable
15	Optional call date, contingent call dates and redemption amount	Not Applicable
16	Subsequent call dates, if applicable	Not Applicable
	Coupons / dividends	Not Applicable
17	Fixed or floating dividend/coupon	Not Applicable
18	Coupon rate and any related index	Not Applicable
19	Existence of a dividend stopper	Not Applicable
20	Fully discretionary, partially discretionary or mandatory	Not Applicable
21	Existence of step up or other incentive to redeem	Not Applicable
22	Noncumulative or cumulative	Not Applicable
23	Convertible or non-convertible	Not Applicable
24	If convertible, conversion trigger (s)	Not Applicable
25	If convertible, fully or partially	Not Applicable
26	If convertible, conversion rate	Not Applicable
27	If convertible, mandatory or optional conversion	Not Applicable
28	If convertible, specify instrument type convertible into	Not Applicable
29	If convertible, specify issuer of instrument it converts into	Not Applicable
30	Write-down feature	Not Applicable
31	If write-down, write-down trigger(s)	Not Applicable
32	If write-down, full or partial	Not Applicable
33	If write-down, permanent or temporary	Not Applicable
34	If temporary write-down, description of write-up mechanism	Not Applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not Applicable
36	Non-compliant transitioned features	Not Applicable
37	If yes, specify non-compliant features	Not Applicable