



SIMPLICITY THROUGH INNOVATION

ANNUAL FINANCIAL AND SUSTAINABILITY REPORT 2022

WWW.BISB.COM

Bahrain Islamic Bank B.S.C.

P.O. Box 5240, Manama, Kingdom of Bahrain

T +973 17 515 151

F +973 17 535 808

E corporate.communications@bisb.com

www.bisb.com

Licensed as an Islamic Retail Bank by the Central Bank of Bahrain



Late Amir
His Highness
Shaikh Isa bin Salman
Al Khalifa



His Majesty
King Hamad bin Isa
Al Khalifa

The King of
the Kingdom of Bahrain



His Royal Highness
Prince Salman bin Hamad
Al Khalifa

The Crown Prince and Prime
Minister of the Kingdom of
Bahrain



ABOUT THE REPORT

The Bahrain Islamic Bank (BisB) Annual Financial and Sustainability Report (the Report or this Report) for the year 2022 highlights the Bank's financial performance and sustainability development. Through this Report, we aim to provide our stakeholders with insights into the financial value created by BisB, and highlight Environmental, Social, and Governance (ESG) targets achieved through various industry-lead initiatives and business practices.

In line with BisB's commitment to transparent ESG reporting, the Bank conducted a comprehensive review of its ESG progress in 2022 to help the key stakeholders and investors make informed decisions. To get a complete overview of BisB's performance metrics, we recommend viewing our ESG report along with our consolidated Financial Statements, Risk and capital management disclosure, Corporate Governance, and Remuneration disclosures.

2022 REPORTING SCOPE AND ORGANIZATIONAL PARAMETERS

2022 was an important year for BisB. We continued to invest in new technologies to enhance our digital products and operational capabilities. Furthermore, our bank-wide approach focused on delivering improved customer experience while ensuring ESG progress.

Reporting Boundary

The financial and sustainability information provided in this Report corresponds to the fiscal year 2022 (1st January 2022 till 31st December 2022), unless otherwise stated.

The bank has nine branches, all operating in the Kingdom of Bahrain. Therefore, BisB's Reporting boundary is within the Kingdom of Bahrain.

The consolidated financial statements include the results of the Bank and its wholly owned subsidiaries (together the "Group"). The Bank holds 100% of the share capital of Abaad Real Estate W.L.L.

National Bank of Bahrain (NBB) owns 78.81% of shares. Hence, NBB is considered as Parent of the Bank for financial reporting purposes.



Reporting Frameworks

The Report has been prepared in accordance with internationally recognized reporting standards and frameworks in order to ensure complete accountability and transparency.

This includes:

- Adhering to the International Integrated Reporting Framework (IIRF), now part of the IFRS Foundation. The framework requires complete disclosure of financial and non-financial performance to provide a holistic overview of a company's long and short-term goals and value creation.
- The consolidated financial statements have been prepared in accordance with FAS issued AAOIFI and applicable rules and regulations issued by CBB.
- Ensuring the sustainability content of the Report is in accordance with the Global Reporting Initiative (GRI).
- Following the 32 ESG metrics outlined by the Bahrain's National Stock Exchange (Bahrain Bourse), wherever possible. These metrics are aligned with the Sustainable Stock Exchanges (SSE) initiative.
- Adhering to the UN Sustainable Development Goals (SDG) that were developed to achieve environmental sustainability by world economies by 2030.
- Aligning BisB's ESG initiatives with the Bahrain Economic Vision 2030.

Relevant sections of the Report clearly outline the framework and international reporting standards they adhere to. Further details are included in the GRI Appendix at the end of the Report.

Financial Data Accuracy

Fair presentation in all material aspects underpins BisB's financial reporting. To that end, the consolidated financial statements of BisB were audited by KPMG Fakhro, an internationally recognized audit firm. Additionally, BisB's board of directors has approved these consolidated financial statements.

Reporting Integrity

The Board of Directors ensures the integrity of this Report and confirms that the disclosed information is fairly presented, in all material aspects, and is in accordance with International Integrated Reporting Framework, the Financial Accounting Standards issued by AAOIFI as well as the GRI Standards.

Disclaimer: Forward-Looking Statements:

Forward-looking statements involve uncertainty given the many external factors that could have an impact on the environment in which the Bank is operating. BisB bears no obligation to publicly update or revise any/all forward-looking statements included in the report unless required by applicable laws and regulations.



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01



WHO WE ARE

BANK PROFILE

Bahrain's Leader in Islamic Financial Services

Bahrain Islamic Bank (BisB) has been serving the community of the Kingdom of Bahrain since the Bank's establishment in 1979. BisB operates under an Islamic Retail Banking license authorized by the Central Bank of Bahrain and is listed in the Bahrain Bourse.

As Bahrain's first Islamic bank and the GCC's fourth Islamic banking entity, BisB continues to play a leading role in developing the local and global Islamic banking industry as well as the Kingdom's economy. We have helped forge the nation's banking industry, ensuring its competitiveness on a global scale.

Our success is built from our strong corporate governance, risk management, commitment to safeguarding customer assets, and investment in talent development. We have further distinguished ourselves within local and global banking markets by adopting a customer-first approach. We strive to improve the banking experience at every touch point through improved business practices and technological innovation. By providing superior financial services across the board that enable economic growth and progress, BisB has cemented its position as an innovative Shari'a-compliant bank establishing the next era of global banking.

A Pioneer in Islamic Banking

Islamic principles guide BisB's banking approach and diverse portfolio of integrated financial solutions. To improve our services and stay at the forefront of the banking industry, we constantly evolve by incorporating innovative strategies and global best practices in line with Shari'a rules. Embracing this agile yet conscious approach to banking allows us to stay ahead of changes in local and global financial markets while maintaining our competitive edge. Our approach enables us to serve clients better, anticipate their financial needs, and avoid excessive monetary risks.

One of our key business strategies is to operate in a way that simplifies money matters. The approach uses digitalization, streamlined operational methodologies, employee engagement and open communication with all stakeholders to add value and build stronger financial ecosystems.

BisB's Brand DNA

BisB is proud of playing a pivotal role in the development of the Islamic Banking industry in the Kingdom of Bahrain. Since 1979, we have been continuously innovating through robust cooperate governance structures, risk management strategies, investment in employee growth and technological innovations to add value to Bahrain's financial economy and infrastructures. Guided by our Islamic principles, we continuously strive to improve products and services to remove barriers and simplify banking.

Our Bahrain-ness value system and ideology are incorporated across all our business functions. It guides every aspect of the Bank's operations, from customer services and stakeholder interactions to our sustainability development endeavors. In our efforts to improve our products and services, we are constantly ideating innovative approaches and solutions for our customers, clients and investors to enable greater business and economic growth.

By remaining steadfast in our pursuit of excellence, trusting our values and principles to help us achieve greater success and to make a positive financial and social impact on the communities we serve, BisB aims to reimagine banking to make it forward into the future.



BANK PROFILE (Continued)

Our Brand Promise

**Fueled by Bahraini devotion, we craft new ways
of Simplifying Your Money Matters**

BANK PROFILE (Continued)

Bahraini Devotion

Our legendary national warmth and caring for others guide our approach to our customers, partners, personnel and broader society.

We

Our entire team and organization is committed to your financial well-being.

Craft

We sculpt and refine our services and products to best serve your needs

New Ways

Innovation and continuous development drive us to challenge the ordinary

Simplifying

We remove the barriers and get things done efficiently and easily for you.

1979

BisB was founded in 1979 as the first Islamic bank in the Kingdom of Bahrain



BANK PROFILE (Continued)

Pillars of BisB

Bahrain-ness:

By holding true to our Islamic heritage, BisB remains loyal to the communities we serve. Our customer relations processes are grounded in Bahrain's cultural values and principles. We serve our customers with hospitality and warmth leading to providing our services with familiarity, hence achieving excellence in customer service, which is an integral part of our banking culture.

Start-up Mindset:

The BisB Innovation Lab continues to be an incubator for creative and passionate thinking and generates valuable ideas and strategies that contribute to business growth. It exemplifies our commitment to innovation and change leading to a future-ready workforce.

Banking Reimagined:

At BisB, we are invested in modernizing our key functions and internal processes in line with technological advancements. We ensure that customer assets and data are secure and protected. Moreover, our adaptability and innovative thinking help us stay ahead of challenges to simplify our customers' banking solutions while protect their interests.

Social Innovations:

We take our innovative social responsibility very seriously and build on our commitments and initiatives to give back to the community. It is an ongoing collaborative effort to meet our world's economic, environmental, and social challenges and build a more sustainable and inclusive future.

BANK PROFILE (Continued)

Our Brand Values



At BisB, we endeavor to be:

Bahraini

As a leading Bahraini financial institution, we are proud of our cultural and religious identity. We hold the values espoused by our heritage and our religion at the heart of our banking practices, using them as guiding principles of how we conduct business and treat our customers, stakeholders, and colleagues. Attributes such as hospitality, trust, and loyalty are important aspects of our business spirit.

Innovative

We constantly improve our existing capabilities and are enthusiastic about adopting new technologies and modern business practices. Our adaptability and receptiveness to change help us better meet unforeseen local and global challenges, whether these are financial, social, or environmental.

Simple

We believe in building streamlined and lean business functions and modalities. By simplifying processes, we ensure that customers feel comfortable when dealing with our Bank, and we bring ease of business to them. At BisB, we challenge ourselves to improve customer relations and learn from our experiences.

Bold

We continuously strive to break barriers and pioneer industry-wide change. We are always amongst the first to forge ahead with new ideas and lead the Islamic banking sector in the country. By embracing change, we can drive transformational growth and provide greater value to all our stakeholders.

FINANCIAL HIGHLIGHTS



Net Profit

(BD Millions)

BD 12.6 m

2022		12.6
2021		6.1
2020		(12.6)
2019		6.2
2018		11.4

Earning Assets

(BD Millions)

BD 1,218.3 m

2022		1,218.3
2021		1,207.4
2020		1,083.6
2019		1,044.6
2018		1,090.5

Total Income

(BD Millions)

BD 50.3 m

2022		50.3
2021		47.9
2020		39.0
2019		42.3
2018		43.4

Capital Adequacy

(Percentage %)

19.5 %

2022		19.5
2021		19.1
2020		16.0
2019		14.9
2018		17.1

Earnings per Share

(Fils)

10.1 fils

2022		10.1
2021		5.8
2020		(11.9)
2019		5.9
2018		10.8

Total Islamic Financing

(BD Millions)

BD 910.0 m

2022		910.0
2021		866.8
2020		783.6
2019		779.3
2018		766.9

Owners' Equity

(BD Millions)

BD 135.8 m

2022		135.8
2021		125.8
2020		96.0
2019		120.9
2018		117.7

FINANCIAL HIGHLIGHTS (Continued)

5 Years Financial Summary

	2022	2021	2020	2019	2018
Earnings (BD Million)					
Net profit income	43.2	42.2	34.4	34.7	33.9
Other income	7.1	5.7	4.6	7.6	9.5
Total income	50.3	47.9	39.0	42.3	43.4
Total expenses	26.3	22.6	23.4	25.1	23.1
Operating profit	24.0	25.3	15.6	17.2	20.3
Net profit / (loss)	12.6	6.1	(12.6)	6.2	11.4

Financial Position (BD Millions)

Total assets	1,361.8	1,324.5	1,211.6	1,223.6	1,280.5
Total Islamic financing	910.0	866.8	783.6	779.3	766.9
Investment securities	259.0	274.6	276.6	246.2	240.1
Earning assets	1,218.3	1,207.4	1,083.6	1,044.6	1,090.5
Total deposits	1,189.4	1,168.7	1,091.9	1,081.1	1,137.6
Owners' equity	135.8	125.8	96.0	120.9	117.7

Ratios

Earnings

Return on average equity (%)	9.6	5.5	(11.6)	5.2	9.5
Return on average assets (%)	0.9	0.5	(1.0)	0.5	0.9
Earnings per share (fils)	10.1	5.8	(11.9)	5.9	10.8
Cost-to-income ratio (%)	52.3	47.1	60.0	59.3	53.3

Capital

Owners' equity as % of total assets (%)	10.0	9.5	7.9	9.9	9.2
Total liabilities and URIA to owners' equity (times)	9.0	9.5	11.6	9.1	9.9
Capital adequacy ratio (%)	19.5	19.1	16.0	14.9	17.1

ESG HIGHLIGHTS

SOLID FEMALE
EMPLOYEE
RATE OF
34%

NATIONALIZATION
RATE OF
93%

83%
OF TOTAL
PROCUREMENT
SPENDING WAS ON
LOCAL SUPPLIERS

TOTAL TRAINING
HOURS
INCREASED BY
7%
COMPARED
TO 2021

ESG HIGHLIGHTS (Continued)

**28
HOURS**

OF TRAINING ON
SUSTAINABILITY
AWARENESS
SESSIONS

**ISO
45001:2018**

CERTIFICATION
OCCUPATIONAL
HEALTH AND
SAFETY (OH&S)

COMMUNITY
INVESTMENT OF
BD 278,000

**ISO
27001:2013**

CERTIFICATION
INFORMATION
SECURITY
MANAGEMENT
SYSTEM (ISMS)

**ISO
14001:2015**

IN ENVIRONMENT
MANAGEMENT
SYSTEM (EMS)

BOARD OF DIRECTORS REPORT

As we enter 2023, we can say with confidence that the Bank continues to respond effectively to its challenges and is poised for continued growth, measured by its Financial and Environmental, Social, and Governance metrics.



Dr. Esam Abdulla Fakhro
Chairman



BOARD OF DIRECTORS REPORT

In the name of Allah, the Most Beneficent. Prayers and Peace be upon the last Apostle and Messenger, His Comrades and Relatives.

On behalf of the Board of Directors of Bahrain Islamic Bank (BisB), I am pleased to present Bahrain Islamic Bank's (BisB) annual financial & sustainability report and consolidated financial statements for the year 2022.

The focus of the 2022 annual financial & sustainability report is on 'encapsulating a sustainable banking approach' that illustrates the continued success of BisB's multi-year strategic journey that began in 2020. During the year under review, with improving macroeconomic conditions, BisB delivered strong results by virtue of a determined focus on improving operational efficiencies, diversifying our customer base and strengthening our balance sheet.

As we enter 2023, we can say with confidence that the Bank continues to respond effectively to its challenges and is poised for continued growth, measured by its financial and Environmental, Social, and Governance (ESG) metrics. Importantly, the Bank is consistently focused on improving its competitiveness and ensuring it generates sustainable value to all stakeholders.

Performance

The support offered by the Bahraini government in the last two years in response to the pandemic brought considerable relief to individuals, households, small businesses and larger companies. However, as the economy dynamically recovered and as we transitioned to the post-COVID new norm, businesses are grappling with having to go back to servicing their debt and ensuring they maintain a competitive edge to reposition themselves on a sustainable growth path. This will undoubtedly create challenges for the Bank in relation to its financing portfolio which it will need to manage with prudence.

We are pleased with the strong results this year that were driven by significantly enhanced asset quality and better balancing of our portfolio, BisB's net profit amounted to BD 12.6 million, an increase of more than 100% compared to 2021. This result was due to a significant decrease in impairment allowance and other provisions along with an increase in income from financing.

The Bank's total assets amounted to BD 1.36 billion, increasing by 3% over the last year. In addition, total Islamic financing increased by BD 43 million to BD 910 million, which is a rise of 5% year-on-year. Similarly, BisB achieved solid annualized returns whereby the return on average equity was 9.6%, compared to 5.5% in 2021 and return on average assets was 0.9% compared to 0.5% for the previous year.

Profit income growth has witnessed a turnaround as the year progressed and the business momentum reflected positively on the Bank's performance. Furthermore, non-funded income rose by more than 16%, which reflects the Bank's goal of diversification of revenue streams. Lastly, impairment allowance and other provisions has significantly decreased by 40% compared to 2021.

Looking Ahead

2023 presents its own challenges that we are certain that we will navigate successfully and overcome. There is a current global rising interest rates' trend which will increase the Bank's cost of funding and may affect economic growth. As such we will need to ensure we maintain a prudent approach to financing. More specifically we will be focusing on four major themes contributing to our evolution:

1. Harnessing further opportunities from digitalization.
2. Maintain the focus on the robust governance structure and risk management framework we have in place.
3. Diversify our revenue stream and client base, and always aim for customer service excellence.
4. Further embed ESG and climate-specific considerations into our operation.

The Bank's strategy will be largely unchanged, the Board and executive management will ensure that its implementation rigorously focuses on the impact of these four themes for a stronger tomorrow.

The Bahraini Government has developed a new national economic and fiscal balance plan. This is expected to vitalize the economy including capturing over \$30 billion of investment in strategic projects and creating new industrial investment areas across the Kingdom. Furthermore, the government has further refined the plan to incorporate an additional pillar that focuses on attracting investments totaling \$2.5 billion by the end of 2023 into the Kingdom of Bahrain.

BisB as a leading Islamic bank along with other financial institutions, will stand to play a vital role whereby we will focus on enabling the government's plan and vision through encouraging international investors, and local corporations to realize their growth aspirations via BisB's dynamic solutions and services.

Acknowledgements

On behalf of our shareholders, the Board of Directors convey their sincere gratitude and appreciation to His Majesty King Hamad bin Isa Al Khalifa, the King of the Kingdom of Bahrain, and to His Royal Highness Prince Salman bin Hamad Al Khalifa, the Crown Prince and Prime Minister for their wise leadership and continuous support for the Islamic Banking sector.

The Directors also express their appreciation to all Government ministries and authorities - in particular to the Central Bank of Bahrain and the Ministry of Industry and Commerce for their guidance and support. We are also thankful for the guidance and counsel we have received from the Bank's Shari'a Supervisory Board throughout the year. We would also like to thank our shareholders, employees, customers and management for their commitment and loyalty to BisB.

Finally, we would like to express our appreciation to the outgoing CEO, Mr. Hassan Amin Jarrar, for his leadership and service to BisB over the past 7 years. He has been succeeded by a previous Board member Mr. Yaser Abduljalil Alsharifi, who was appointed as CEO and has taken over as of October 2022. With over 27 years' experience in the financial services industry, and past senior executive roles at the National Bank of Bahrain (NBB) and Al Rajhi Holdings, Mr. Alsharifi is the right successor, and we are certain that he will support the Bank's vision to continuously evolve and ensure BisB remains the Islamic bank of choice.

BOARD OF DIRECTORS REPORT (Continued)

As part of the Bank's obligation to maintain utmost transparency with our valued shareholders, we are pleased to attach the table below that shows the remuneration of members of the Board of Directors and the Executive Management for the fiscal year ending 31st December 2022.

First: Board of directors' remuneration details:

Name	Fixed remunerations					Variable remunerations					End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
	Remunerations of the chairman and BOD*	Total allowance for attending Board and committee meetings	Salaries	Others***	Total	Remunerations of the chairman and BOD	Bonus	Incentive plans	Others****	Total			

First: Independent Directors:

1- Khalid Abdulaziz Al Jassim	26,857	26,000	-	1,035	53,892	-	-	-	-	-	-	53,892	-
2- Marwan Khaled Tabbara	26,857	23,000	-	1,035	50,892	-	-	-	-	-	-	50,892	-
3- Mohammed Abdulla Al Jalahma * End of membership on 28 th March 2022	6,446	4,867	-	1,035	12,348	-	-	-	-	-	-	12,348	-
4- Saqer Abdulmohsin Alsijari * Elected on 28 th March 2022	20,411	19,700	-	29	40,140	-	-	-	-	-	-	40,140	-
5- Mohamed Abdulla Nooruddin	26,857	23,000	-	578	50,435	-	-	-	-	-	-	50,435	-

Second: Non-Executive Directors:

1- Dr. Esam Abdulla Fakhro	40,287	12,000	-	665	52,952	-	-	-	-	-	-	52,952	-
2- Khalid Yousif Abdul Rahman	26,857	11,000	-	630	38,487	-	-	-	-	-	-	38,487	-

Third: Executive Directors:

1- Jean Christophe Durand	26,857**	10,000	-	-	36,857	-	-	-	-	-	-	36,857	-
2- Yaser Abduljalil Al Sharifi * End of membership on 13 th September 2022.	18,763 **	7,000	-	665	26,428	-	-	-	-	-	-	26,428	-
3- Dana Abdulla Buheji	26,857**	12,000	-	-	38,857	-	-	-	-	-	-	38,857	-
4- Isa Hasan Maseeh	26,857**	23,000	-	867	50,724	-	-	-	-	-	-	50,724	-
Total	273,906	171,567	-	6,539	452,012	-	-	-	-	-	-	452,012	-

Note: All amounts stated in Bahraini Dinars.

* Subject to AGM and regulatory approval.

** Remuneration is paid to the entity (shareholder) represented by these board members.

Other remunerations:

*** It includes in-kind benefits - specific amount - remuneration for technical, administrative and advisory works (if any).

**** It includes the board member's share of the profits - Granted shares (insert the value) (if any).

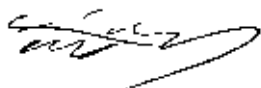
Second: Executive management remuneration details:

Executive management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/ in kind remuneration for 2022	Aggregate Amount
Top 6 remunerations for executives, including CEO* and Senior Financial Officer**	1,168,597	140,388	507,833	1,816,818

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). This includes the outgoing and incoming CEOs.

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



Dr. Esam Abdulla Fakhro
Chairman of the Board

“We are pleased with the strong results this year that were driven by significantly enhanced asset quality and better balancing of our portfolio, BisB’s net profit amounted to BD 12.6 million, an increase of more than 100% compared to 2021. This result was due to a significant decrease in impairment allowance and other provisions along with an increase in income from financing.”

BOARD OF DIRECTORS



Dr. Esam Abdulla Fakhro
Chairman



Mr. Khalid Yousif Abdul Rahman
Vice Chairman



Mr. Usman Ahmed
Vice Chairman

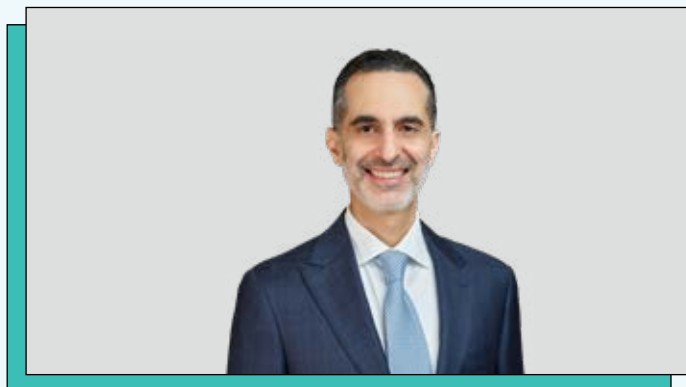


Mr. Mohamed Abdulla Nooruddin
Board Member



Mr. Khalid Abdulaziz Al Jassim
Board Member

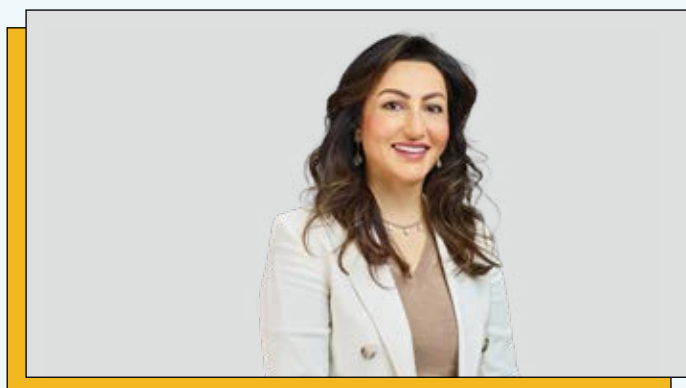
BOARD OF DIRECTORS (Continued)



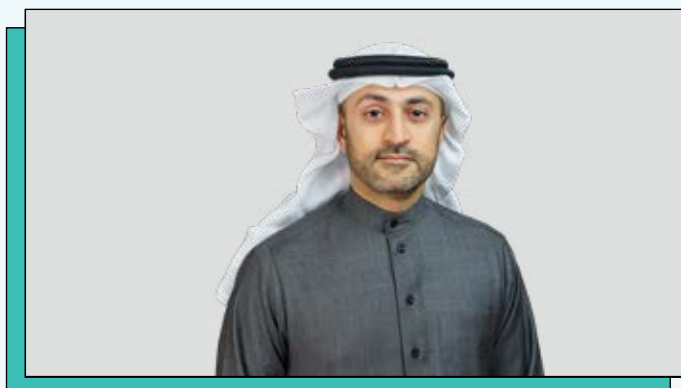
Mr. Marwan Khaled Tabbara
Board Member



Mr. Saqer Abdulmohsin Al Sijari
Board Member



Ms. Dana Abdulla Buheji
Board Member



Mr. Isa Hasan Maseeh
Board Member



Mr. Gaby Samir El Hakim
Board Member

BOARD OF DIRECTORS (Continued)

(GRI 2-2)

Dr. Esam Abdulla Fakhro

Board Chairman, Non-Executive Director, Chairman - Nomination, Remuneration, Governance & Sustainability Committee (NRGSC)

Dr. Esam Fakhro is a holder of a PhD Degree in Mechanical Engineering from London University. He was awarded the Bahrain Medal – FirstClass. He is also a former member of the Supreme Council for Education Development and AMA International University. Dr. Fakhro was a former member of the Economic Development Board. Previously, he chaired the Aluminum Bahrain Co. (ALBA), in addition to chairing the Bahrain Chamber of Commerce & Industry, and the Federation of GCC Chambers. Dr. Fakhro was a former member of Mumtalakat. Currently, he chairs Abdullah Yousif Fakhro & Sons Group in the field of transport and electronics, as well as foods and financial services. Dr. Fakhro is also the Chairman of the Board of Directors of the Bahrain Cinema Company, Bahrain Islamic Bank, and Vox Cineco. In addition, he assumes the post of the Deputy Chairman of the Board of Directors of the National Bank of Bahrain and the Qatar-Bahrain Cinema Company. He is also a member of the Board of Directors of Trafco and Bahrain Livestock Company.

Mr. Khalid Yousif Abdul Rahman

Vice Chairman, Non-Executive Director, Vice Chairman - Executive Committee

Mr. Khalid Yousif Abdul Rahman is Vice Chairman and Chief Executive Officer of Yousif Abdul Rahman Engineer Holding Company W.L.L. He is also Chairman of Food Supply Company Limited, Vice Chairman of the National Establishment of Technical and Trade Services, Vice Chairman of the National Transport Company, and Vice Chairman of Awal Dairy Company. He gained his BSc. Mechanical Engineering from Plymouth Polytechnic University, UK, and is a registered member of the Bahrain Society of Engineers as well as the Committee for Organizing Engineering Professional Practice (COEPP) Mechanical Engineering Cat. B. Mr. Abdul Rahman has over 45 years of professional experience.

Mr. Usman Ahmed

Vice Chairman, Executive Director, Chairman - Executive Committee

Mr. Usman Ahmed was appointed as the Group CEO of the National Bank of Bahrain (NBB) on January 1st, 2023. Usman has over 28 years of diverse international banking experience in emerging markets across the EMEA and Asia Pacific regions, of which for the last 14 years he has held various senior leadership roles as CEO, Managing Director, Board Member and Executive Chairman covering Corporate & Investment Banking, Capital Markets, Commercial, Consumer and Islamic Banking in London, Hong Kong, UAE, Philippines, Pakistan, Bahrain and Malaysia. Prior to joining NBB, he was the CEO and an Executive Board Director of Citi Malaysia and Executive Chairman of Citigroup Global Markets Malaysia, leading over 5,200 employees. He was also responsible for the Citi Solutions Centres, covering over 50 countries. He has also been the CEO and Managing Director of Citi Bahrain, Kuwait & Qatar, while also being the Global Head of Citi Islamic Banking business. As the Chief Operating Officer & Managing Director for Citi's Asia Pacific Corporate Bank in Hong Kong and the Corporate and Investment Banking Head for Citi in Philippines, Usman was extensively involved in leading strategy and client coverage in Asia after the global financial crisis. While at Barclays Bank, Usman was the Managing Director and Head of Corporate Banking for Emerging Markets, leading 14 countries in the MENA, Sub-Saharan Africa and South Asia regions. As a Director of Capital Markets Origination responsibility in the Citi London, Usman has executed some of the largest and most innovative conventional and Islamic financing transactions for the Middle East. He was also designated as a Senior Credit Officer of Citi for over 9 years. Usman is also currently serving on the Board of the Bahrain Association of Banks.

Mr. Mohamed Abdulla Nooruddin

Board Member, Non-Executive Director, Independent Member – Nomination, Remuneration, Governance & Sustainability Committee (NRGSC), Member - Board Risk & Compliance Committee (BRCC), Member – Board Independent Committee (BIC)

Mr. Mohamed Abdulla Nooruddin is the Chairman of Newbury Investments W.L.L., a private entity firm established in the Kingdom of Bahrain that provides financial and investment advisory services. He was also a Board member at Al Baraka Bank-Egypt and Tadhamon Capital. He is also an ex-board member of Ibdar Bank. In the past, Mr. Nooruddin has held several executive positions at Arcapita Bank, First Islamic Investment Bank, Bahrain International Bank and Gulf International Bank. He holds a BSc in Business Administration from the University of Bahrain.

Mr. Khalid Abdulaziz Al Jassim

Board Member, Non-Executive Director, Independent Chairman - Audit Committee (AC), Member - Board Risk & Compliance Committee (BRCC), Member – Board Independent Committee (BIC)

Mr. Khalid Abdulaziz Al Jassim is the Chairman and the Managing Director of Afkar Vision WLL, which specializes in investments and financial advisory. Prior to that and for more than fifteen years, he was an Executive Director at Arcapita Bank. Mr. Al Jassim started his career as marketing director at NACIC for specialty chemicals, a subsidiary of SABIC, KSA. Mr. Al Jassim has also worked for Arthur Anderson as a senior business consultant. He currently serves on the Board and is the Chairman of the Audit, Risk, Governance and Compliance Committee at Bahrain Flour Mills. He is also a Board Member at SICO Bank serving on its Investment Committee. He holds a BSc in Computer Science & Mathematics from California State University, Long Beach, USA as well as an Executive MBA from Pepperdine University in California, USA.

BOARD OF DIRECTORS (Continued)

(GRI 2-2)

Mr. Marwan Khaled Tabbara

Board Member, Non-Executive Director, Independent Chairman - Board Risk & Compliance Committee (BRCC), Member - Nomination, Remuneration, Governance & Sustainability Committee (NRGSC), Member - Board Independent Committee (BIC)

Mr. Tabbara is a co-founder and Managing Partner of Stratum, a boutique advisory services firm based in the Kingdom of Bahrain, and has over 20 years of experience in strategic, financial, and transaction advisory. Prior to Stratum, Mr. Tabbara worked in the Global Corporate & Investment Banking division of Citigroup in New York, London, and Bahrain, and supported large private and public sector clients on financing transactions within the Middle East and internationally. He currently also serves as Chairman of the Board of Directors of Bahrain Flour Mills Company BSC (publicly listed and majority owned by Mumtalakat, the sovereign wealth fund of the Kingdom of Bahrain). He has also previously served as Vice Chairman of the Board of Directors of Bahrain Bourse BSC (c) (Bahrain's National Stock Exchange) and as Board Member of Bahrain Development Bank BSC (c). Mr. Tabbara holds a Master of Engineering Management and a Bachelor of Science in Electrical Engineering and Economics from Duke University, USA.

Mr. Saqer Abdulmohsin Al Sijari

Board Member, Independent Non-Executive Director, Vice Chairman - Audit Committee (AC), Member - Board Independent Committee (BIC)

Mr. Saqer Al Sijari has gained over 30 years of vast experience and expertise across the public and private sector, where he assumed several key administrative roles. His career began in the private sector in 1992 as an Operations Officer at the Public Warehousing Company and then as Head of the Operations Management Unit in 1998. Mr. Saqer then shifted to the public sector at the Kuwait Awqaf Public Foundation as a Senior Transaction Coordinator in 1999, moving onto Deputy of Administrative Affairs in 2001 and Director of Administrative Affairs in 2003. Following an Amiri decree, he was appointed as the Deputy Secretary-General

for Administration & Support services at the Kuwait Awqaf Public Foundation from 2017 to 2022. An Amiri decree was also issued appointing him as Secretary-General for the Kuwait Awqaf Public Foundation at the level of Undersecretary in 2022. He resigned from his post as Secretary-General of the General Secretariat of the Waqfs at the beginning of 2023. Mr. Saqer holds a Bachelor of Mathematics from the College of Basic Education in Kuwait. In addition, he chairs the Board of Directors at the National Takaful Insurance Company in Kuwait.

Ms. Dana Abdulla Buheji

Board Member, Executive Director, Member - Nomination, Remuneration, Governance & Sustainability Committee (NRGSC)

Ms. Dana Buheji holds the position of Group Chief Human Resources & Sustainability Officer at the National Bank of Bahrain. Prior to joining NBB, Ms. Buheji held roles with the Bahrain Economic Development Board (EDB), Bahrain Mumtalakat Holding Company, the Ministry of Finance and National Economy, and Ahli United Bank. Ms. Buheji also serves as a Board Member for INJAZ Bahrain. She is also the Chairperson for Hope Talents and the chair of the Human Resources and Remuneration Committee and a member of the Sustainability Committee of Bahrain Association of Banks (BAB). Ms. Buheji has a B.A. in Commerce from Concordia University, Canada and a professional certification in human resources (CPP) from London, UK.

Ms. Buheji oversees the integration and provision of human resources and talent management services at both NBB and BisB. Her responsibilities include overseeing NBB's people services, empowering NBB employees to reach their full potential, creating practices that support the transformation of the Group, and representing NBB at the Board level for the Bahrain Islamic Bank. In addition, Ms. Buheji chairs NBB's Sustainability Committee, leading NBB's efforts towards incorporating sustainability considerations across the organization.

Mr. Isa Hasan Maseeh

Board Member, Executive Director, Member - Audit Committee (AC), Member - Board Risk & Compliance Committee (BRCC)

Mr. Maseeh currently holds the position of Group Chief Risk Officer at the National Bank of Bahrain (NBB). He has over 24 years of commercial and investment banking experience across Islamic and conventional institutions. Mr. Maseeh was previously the Group Chief Risk Officer of Al Salam Bank Bahrain. Mr. Maseeh is a Board Member of RE Property W.L.L. and holds an MBA (Hons) from DePaul University, USA as well as a Bachelor of Commerce from Concordia University, Canada. He is also a Chartered Financial Analyst (CFA) and a Professional Risk Manager (PRM).

Mr. Gaby Samir El Hakim

Board Member, Executive Director, Vice Chairman - Executive Committee

Mr. Gaby El Hakim has more than 21 years of banking experience spanning commercial and investment banking both Islamic & conventional in areas including, corporate finance, project finance, structured finance, capital markets, private equity, regulatory investigation as well as dispute resolutions. He is currently the Group Chief Legal Officer & Corporate Secretary at NBB.

Prior to joining NBB, Mr. El Hakim held several key positions: General Counsel at GFH Financial Group and Deputy Head of Legal at BNP Paribas CIB for MEA and Africa Region. Prior to that, he was in the private practice at regional Law firms. Mr. El Hakim holds an LLM in Banking and Finance from Osgood Hall Law School, York University, Canada and an LLB (Licence en Droit Libanais) from Sagesse University School of Law, Beirut, Lebanon and several postgraduate qualifications. He serves as a non-executive Board member and member of the board audit & risk committee at Esterad investment company. He is an independent Board member of ICC Bahrain and a Member of ICC Paris Commission on Arbitration and ADR.

SHARI'A SUPERVISORY BOARD REPORT

For the year ended on 31/12/2022

*In The Name of Allah, most Gracious,
Most Merciful Peace and Blessings Be Upon His Messenger.*

To the shareholders of Bahrain Islamic Bank B.S.C.

Assalam Alaykum Wa Rahmatu Allah Wa Barakatoh.

The Shari'a Board hereby present the following report on its activities in supervising the Bank's finances and investments from a Shari'a perspective for the financial year ending on 31st December 2022, in fulfillment to the mandate conferred upon it by BisB's Articles of Association:

First: Supervision and Revision of the Bank's Business

In coordination with the Shari'a Coordination and implementation, the Shari'a Supervisory Board has monitored the implementation on the Bank's Finances and its applicable fees and the relevant policies and procedures, in addition to advising and providing fatwas in regards to the finance agreements up to 31st December 2022 to ensure the Bank's adherence to the provisions and principles of Islamic Shari'a.

It also reviewed the Shari'a compliance report issued by the Shari'a Coordination and Implementation Department on the Shari'a reviewed and supervision work on the bank's business in accordance with the identified Shari'a risks.

The Shari'a Supervisory Board believes that ensuring the conformity of Bank's activities and investments with the provisions of Islamic Shari'a is the sole responsibility of the Management while the Shari'a Supervisory Board is only responsible for expressing an independent opinion and preparing a report to you.

Second: Shari'a Audit of the Bank's Business

1) Shari'a Internal Audit

We planned with the Shari'a Internal Audit department to carry out monitoring functions by obtaining all the information and clarifications that were deemed necessary to confirm that the Bank did not violate the principles and provisions of Islamic Shari'a and Fatwas and decisions of the Shari'a Board.

Our supervision constituted of inspection, documenting of policies followed by the Bank on the basis of examining each kind of operation either directly or indirectly by the internal Shari'a Department in conformity with the Plan and methodology approved by the Shari'a Board.

The Shari'a Internal Audit department performed its mission of auditing the transactions executed by the Bank and submitted its periodic reports to the Shari'a Supervisory Board, which confirmed the Bank's adherence in its dealings and investments with the Shari'a Board's fatwas and decisions.

The 26 reports submitted by Internal Shari'a Audit Department to the Shari'a Supervisory Board included results of auditing the files, contracts, executed deals in fulfillment to the Shari'a Board annual approved audit plan. The Shari'a Board obtained the requested information and explanations from the departments it deemed necessary to confirm that the Bank did not violate the Shari'a principles and Fatwas and decisions of the Shari'a Board.

2) Independent External Shari'a Compliance Audit

The Shari'a Supervisory Board reviewed the audit report provided by the Independent External Shari'a Auditor on the Bank's activities and the progress of work in the Shari'a Departments, which demonstrated that the Bank's operations, transactions and services have been implemented based on appropriate procedures that confirms its compliance with the Islamic Shari'a rules, principles and provisions, and that they have went through the Bank's necessary administrative channels from Senior Management, Internal Audit and Shari'a Supervisory Board.

SHARI'A SUPERVISORY BOARD REPORT (Continued)

Third: Shari'a Governance

The Shari'a Supervisory Board reviewed the Bank's Management report on Shari'a Compliance and Governance, which shows the proper functioning of the supervision procedures related to compliance structures and Shari'a governance in the Bank, and the Management's assertion on the effectiveness of the mechanism and operation of supervision procedures.

The Shari'a Supervisory Board affirms that it has fulfilled all the requirements of Shari'a Governance issued by the Central Bank of Bahrain with the Shari'a Coordination and Implementation Department and the Internal Shari'a Audit Department.

Forth: Shari'a Supervisory Board Operations

The Shari'a Board and its Committees held (22) meetings during the year and issued (91) decisions and fatwas, and approved (99) contracts.

Fifth: Financial Statements and Zakat Calculation Methods

The Shari'a Board has reviewed the financial Statements for the year ended on 31st December 2022, the income statement, the attached notes and the Zakat calculation methods.

Based on the above, the Shari'a Supervisory Board decides that:

1. All the Financial Statements inspected by the Shari'a Board conform to what has been approved by the Board, and to the standards issued by the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI).
2. Contracts, and transactions conducted by the Bank throughout were in accordance with the standard contracts pre-approved by the Shari'a Supervisory Board.
3. The distribution of profit and allocation of losses on investment accounts was in line with the basis and principles approved by the Shari'a Supervisory Board and in accordance to Islamic Shari'a.

4. Any gains resulted from sources or means prohibited by the provisions and principles of Islamic Shari'a, have been directed to the Charity and Donations Fund.
5. Zakah was calculated according to the provisions and principles of Islamic Shari'a, by the net invested assets method. And the shareholders should pay their portion of Zakah on their shares as stated in the financial report.
6. The Bank was committed to the provisions and principles of Shari'a as per Shari'a standards issued by the (AAOIFI).

We pray that Allah may grant all of us further success and prosperity.

Wassalam Alaykum Wa Rahmatu Allah Wa Barakatoh

SHARI'A SUPERVISORY BOARD



Shaikh Dr. Abdul Latif Mahmood Al Mahmood
Chairman of Shari'a Supervisory Board



Shaikh Dr. Nedham Mohamed Saleh Yacoubi
Vice Chairman of Shari'a Supervisory Board



Shaikh Mohammed Jaffar Al Juffairi
Shari'a Supervisory Board Member



Shaikh Adnan Abdulla Al Qattan
Shari'a Supervisory Board Member

SHARI'A SUPERVISORY BOARD (Continued)

Shaikh Dr. Abdul Latif Mahmood Al Mahmood

Chairman of Shari'a Supervisory Board

- Former Head of Arabic Language and Islamic Studies Department at the University of Bahrain.
- Member of the Supreme Council for Islamic Affairs, Bahrain since 2005.
- Chairman of the Shari'a Supervisory Board of Bahrain Central Bank and Member of Oman Central Bank. He has chaired and participated in Shari'a supervisory boards of several Islamic banks and insurance/reinsurance companies.
- An expert at the International Islamic Fiqh Academy of the Organization of the Islamic Conference, and a member of several Islamic Fiqh academies.
- Preacher at a number of Bahrain's Masjed since 1973.
- He gives lessons in Quranic interpretation, jurisprudence, principles of jurisprudence and preaching.
- He has participated and spoken at several Islamic jurisprudence, educational, economic, intellectual, social and cultural conferences and seminars.

Shaikh Dr. Nedham Mohamed Saleh Yacoubi

Vice Chairman of Shari'a Supervisory Board

- Member of the Shari'a Supervisory Board Central Bank of Bahrain, Abu Dhabi Islamic Bank, Sharjah Islamic Bank, Ithmaar Bank, Gulf Finance House, Khaleeji commercial Bank, and ABC Islamic Bank.
- Member of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).
- Holds several Academic degrees and awards, including the First-Degree Award of Capability for Islamic services within and outside Bahrain 2007, from the King of Bahrain, Euro Money Award for innovation in Islamic banking supervision, Malaysia, and the Malaysia Award for contribution to Islamic banking, Malaysia.
- He has participated in several Islamic jurisprudence, educational, economic, intellectual, social and cultural conferences and seminars.

Shaikh Mohammed Jaffar Al Juffairi

Shari'a Supervisory Board Member

- Studied at Al Ahliya University of Najaf and joined the Hawza studies for higher education in Shari'a sciences (Comparative Studies).
- Former judge of the High Shari'a Court of Appeal and has seconded as President of the High Shari'a Court, Ministry of Justice, Kingdom of Bahrain.
- Former Member of the Zakah Committee, Ministry of Justice.
- He has participated in several Islamic committees, courses, seminars and conferences.

Shaikh Adnan Abdulla Al Qattan

Shari'a Supervisory Board Member

- Chairman of Shari'a section, Cassation Court, Ministry of Justice and Islamic Affairs and Awqaf, Kingdom of Bahrain.
- Vice Chairman of the Royal Charity Organization.
- Chairman of the Pilgrimage Mission of the Kingdom of Bahrain.
- Preacher at Ahmed Al Fateh Islamic Masjed.
- He has participated in several Islamic committees, courses, seminars and conferences.
- He worked as a lecturer at the Islamic Studies Department, University of Bahrain.
- Member of the Shari'a Supervisory Board of Al Salam Bank and Ibdar Bank.

CHIEF EXECUTIVE OFFICER REPORT

At BisB, we measure our performance according to the value we generate for our customers, investors, shareholders, employees, and the community. Building strong relationships with all our stakeholders enables us to anticipate and meet their needs successfully. It helps us grow and deliver value that benefits everyone.



Mr. Yaser Abduljalil Alsharifi
Chief Executive Officer



CHIEF EXECUTIVE OFFICER REPORT



Bahrain Islamic Bank is committed to supporting all our diverse customer base to improve their financial outlook and strengthen the national economy.

In 2022, the world has entered the endemic stage of the COVID-19 outbreak, and consequently the economies and businesses worldwide started to recuperate. The economic landscape has continued to be challenging, whereby individuals and businesses have had to adapt to new market dynamics as the Central Bank of Bahrain ended its moratorium on debt repayments, with a heightened risk of fragility. During this period of economic challenge, we responded by modifying our processes to embrace agile approaches and support. Bahrain Islamic Bank is committed to supporting our diverse customer base to improve their financial outlook and strengthen the national economy.

BisB emerged with a strong financial performance in 2022, with a 5% increase in revenue and more than 100% increase in profit. Our strong financial position is a testament to our capabilities in navigating economic challenges to achieve business growth through further innovation, digitalization, and excellence in customer service to minimize risk and increase efficiency.

As a result of the global rise in profit rates, we continue to face a major hurdle as cost of funding rapidly increases. However, we are confident that by taking cost-effective measures, we will overcome this challenge and absorb the pressure on the Bank's net profit margin.

This difficult rate environment will impact consumers as well, due to the increase in financing and other costs. Considering this, our role at BisB is to look for ways to ease their pressure and provide them with the necessary support.

At BisB, we measure our performance according to the value we generate for our customers, investors, shareholders, employees, and the community. Building strong relationships with all our stakeholders enables us to anticipate and meet their needs successfully. It helps us grow and deliver value that benefits everyone.

Global alarms on climate change are reflected in local pressure to transition away from an oil-dependent economy and diversify avenues for growth. In BisB, we are well-positioned to play an important role in mitigating the impact of climate change by supporting sustainable businesses and continuing to serve the community and the financial sector in this endeavour. Specifically, we are systemizing our investment and project screening to examine environmental and social matters, we are marketing for new products that are ESG friendly and shifting our operations and Shari'a compliant lending practices to be in line with ESG. BisB is a key partner for businesses and organizations looking to put sustainability in their operating model by giving them financial advice to achieve growth while reducing their carbon footprint.

As CEO of BisB, I am intimately familiar with the Bank, having served on its Board of Directors and as a member of its Board executive committee since 2020. Under my leadership, BisB will continue to invest in sustainable growth and drive progress of being the Islamic bank of choice.

I am thrilled to be working with such a dedicated team across all departments and disciplines of the Bank, who have been crucial to its success over the years. Together, we will continue to connect with our customers and forge stronger bonds in order to better comprehend and serve their ever-changing needs.

Finally, I would like to take this opportunity to thank our shareholders and investors for their continued trust in the Bank to drive business and sustainable growth towards achieving our ambitious goals.

Yaser Abduljalil Alsharifi
Chief Executive Officer

EXECUTIVE MANAGEMENT



Mr. Yaser Abduljalil Alsharifi
Chief Executive Officer



Mr. Ameer Abdul Ghani Dairi
Chief Financial Officer



Ms. Afnan Ahmed Saleh
Chief Human Resources Officer

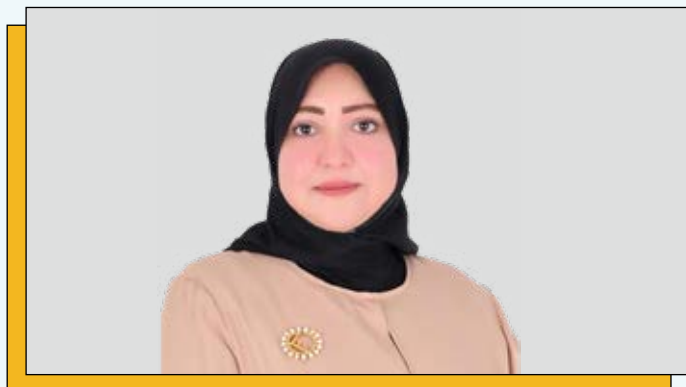


Mr. Jawad Abdul Hadi Humaidan
Chief Corporate & Institutional Banking Officer



Mr. Andrew Mario Stefan Corera
Chief Applications Officer

EXECUTIVE MANAGEMENT (Continued)



Mrs. Naeema Hasan Taheri
Chief Compliance Officer



Mr. Hussain Ebrahim Al Banna
Head of Treasury



Mr. Faisal Hamed Al Abdulla
Acting Head of Retail Banking



Mr. Ammar Mahdi Al Muharraqi
Acting Head of Internal Audit



Mr. Siddharth Kumar
Acting Chief Risk Officer

EXECUTIVE MANAGEMENT (Continued)

Mr. Yaser Abduljalil Alsharifi

Chief Executive Officer

Mr. Yaser Alsharifi has over 27 years of experience in the financial services industry in senior executive roles at the National Bank of Bahrain (NBB), Al Rajhi Holdings, and Ernst & Young. Currently, serving as a board member of several leading institutions, Mr. Alsharifi is also a member of the Young Presidents Organization (YPO) and holds a B.A. in Business Administration from the University of Massachusetts at Amherst.

Mr. Ameer Abdul Ghani Dairi

Chief Financial Officer

Mr. Ameer Dairi has over 20 years of experience in financial management, accounting and a broad commercial banking background in Bahrain. Mr. Dairi serves as a Board Member and Chairman of the Audit Committee of Liquidity Management Centre (LMC), Chairman of the Board of Directors of Abaad Real Estate W.L.L., and Board Member of Benefit. Mr. Dairi is a Certified Public Accountant (CPA) from New Hampshire Board of Accountancy, a Certified Management Accountant (CMA) licensed by the Chartered Institute of Management Accountants, US and holds a BSc in Accounting from the University of Bahrain. Mr. Dairi has been awarded a Certificate of Excellence in Data Science and Analytics from Berkeley University of California, a Leadership Grooming Program Certificate from Ivey Business School, Canada and a Certificate in Strategic Leadership in the Era of Disruption from University of Oxford, UK.

Ms. Afnan Ahmed Saleh

Chief Human Resources Officer

Bringing over 20 years of work experience to the role, Ms. Afnan Saleh began her career at the Career Counseling Office of the University of Bahrain, ultimately heading Professional Liaisons Unit. She later joined INTELNACIM as its Corporate Affairs Manager in 2006. From 2008, Ms. Afnan Saleh held several leading positions at Tharawat Investment House, notably as Director of HR & Corporate Management and Secretary of the Board of Directors before joining BisB in 2015. Ms. Afnan holds a BSc. in Business Administration from the University of Bahrain, and an MBA in Business Administration from Strathclyde University, UK.

Mr. Jawad Abdul Hadi Humaidan

Chief Corporate and Institutional Banking Officer

Mr. Jawad Humaidan is a seasoned banker with over 17 years of extensive experience in Corporate, Wholesale, Commercial, and Retail Banking. Prior to joining BisB in 2018, Mr. Humaidan held senior roles in managing corporate relationships in leading local, regional, and international banks such as National Bank of Bahrain, Mashreq Bank and Standard Chartered Bank. He currently serves on the board of Bahrain Economists Society. Mr. Humaidan is a certified arbitrator specializing in Banking & Finance. He holds a Bachelor's Degree in Economics from Carleton University in Canada, and Master's of Science Degree in Finance with distinction from DePaul University in Chicago, USA.

Mr. Andrew Mario Stefan Corera

Chief Applications Officer

Mr. Andrew Mario Stefan Corera's background comprises a blend management experience of software, technology and operations as well as governance of information systems, data & cyber security, and project and programming spanning across the banking industry for over 30 years. Having worked in multinational banks including ANZ, Grindlays and Standard Chartered (SCB), Mr. Stefan has been exposed to diverse markets including Sri Lanka, Australia, Qatar, Vietnam and Bahrain. In Bahrain, he has served on several steering committees, namely CBB for IBAN, BCTS, ECC, and has represented SCB on the Benefit Board. He holds an MBCS from the British Chartered Institute for IT and is a Chartered Information Technology Practitioner (CITP) and Project Management Certification from IPM.

EXECUTIVE MANAGEMENT (Continued)

Mrs. Naeema Hasan Taheri

Chief Compliance Officer

Mrs. Naeema Taheri possesses 30 years of expertise in the banking and financial services industry – both Islamic and Conventional. She has extensive experience in Banking Operations, Regulatory Compliance, Anti Financial Crimes, Risk Management, Quality Assurance, Trade Finance, and Training. Prior to joining BisB in April 2022, she held several senior positions at leading financial institutions, starting with Citibank, Bahrain, as Resident Vice President, Head of Compliance & MLRO at Capinnova Investment Bank, Senior Vice President at Al Salam Bank, Compliance Officer & MLRO at Gulf Finance House and a lecturer at BIBF. Mrs. Taheri is a fellow member of the U.K.-based International Compliance Association (FICA) and member of the U.S.A. based Association of Certified Anti-Money Laundering Specialists (ACAMS). She is also a fellow member of the International Academy of Business and Financial Management. Mrs. Taheri holds a bachelor's degree in Business Administration from the University of Bahrain as well as an International Diploma in Compliance (with Distinction) from the International Compliance Association (ICA) in UK. She has also obtained various certifications of the likes of Anti-Money Laundering and Compliance from the University of Reading and ICMA Centre and is a qualified Master Compliance Professional (MCP), Certified Compliance Officer (CCO), Certified Anti Money Laundering Specialist (CAMS) and has a professional Certificate in Capital Markets, Regulation and Compliance.

Mr. Hussain Ebrahim Al Banna

Head of Treasury

Mr. Hussain Al Banna is a treasury leader with more than 17 years of experience in foreign exchange (FX), money market (MM), sukuk portfolio, Asset Liability Management (ALM), and Corporate Treasury sales across conventional and Islamic banks in various capacities. He entered the industry in 2004 working in the Regional Treasury Operations of BNP Paribas. In 2005, he joined the Executive Management Trainee Program at Bank of Bahrain and Kuwait (BBK) and then joined BisB in 2008. He holds a BSc in Banking and Finance from the University of Bahrain and has successfully completed the Treasury and Capital Markets Diploma from Bahrain Institute of Banking and Finance (BIBF).

Mr. Faisal Hamed Al Abdulla

Acting Head of Retail Banking

Mr. Faisal Al Abdulla has over 18 years of extensive financial, banking, sales and wealth management experience and has joined BisB back in February 2014 as Head of Al Thuraya Department. Prior to joining BisB, Mr. Faisal held various leading positions in both conventional and Islamic banks, with a focus on retail banking. Mr. Faisal holds a BSC in Banking & Finance from Ahlia University in Bahrain and is a graduate of BIBF's Investment Representative Program.

Mr. Ammar Mahdi Al Muharraqi

Acting Head of Internal Audit

Mr. Ammar Mahdi Al Muharraqi has over 15 years of experience in the fields of Internal Audit, Operational Risk, Information Security and Information Technology at banking and financial services sectors. Prior to joining BisB in 2022, he worked as Senior Manager in Internal Audit, Operational Risk & Information Security Manager at Arab Financial Services and IT Assistant Manager at Arab Bank - Bahrain. He is a Certified Information Systems Auditor (CISA), Certified Information Security Manager (CISM) from the Information Systems Audit and Control Association (ISACA) and Certified Information Systems Security Professional (CISSP) from International Information System Security Certification Consortium (ISC2) along with other Information Security and Technology certificates. Mr. Al Muharraqi holds a bachelor's degree in computer engineering from the University of Bahrain.

Mr. Siddharth Kumar

Acting Chief Risk Officer

Mr. Siddharth Kumar has over 19 years of financial risk management experience spanning both retail and investment banks along with risk consultancy. Prior to joining the bank, he worked with institutions like Credit Suisse and the Export Credit Guarantee Corporation of India, in the domains of asset liability management, credit and market risk management. He is a postgraduate from Mumbai University and holds the Chartered Financial Analyst (CFA) charter along with Professional Risk Manager (PRM) and Certified Islamic Banker (CIBAFI) certifications.

02

OUR STRATEGIC DIRECTION



OUR BUSINESS STRATEGY

As an Islamic Bank the ethical foundation is embedded in our DNA. Our strategy is based on the following foundations:

01

Exploit more digitalization opportunities.

02

Effective governance structure and risk management strategy.

03

Diversify sources of income and the client base.

04

Strive for operational and customer service excellence.

05

Further incorporate Sustainability and climate-specific factors into our business practices.

The Bank continually achieves this through frequent review of our resources and seeking out the best approaches to adapt to the demands of the modern environment and surrounding circumstances. As the Bahraini economy opened up completely in 2022 and proceeded with business in a post-Covid environment, the Bank focused on encapsulating a sustainable banking approach.

As such, we refocused on our Corporate Banking, as well as further enhancing our Retail Banking to obtain further growth within the primary revenue segments. As part of our strategic business plan and strong risk management framework, which ultimately strengthens the Bank's credit portfolio, the Bank continued to diversify exposures in 2022.

The most critical changes are related to digital transformation, which facilitates our ability to thrive in a post-COVID-19 environment. We have continued to enhance our end-to-end digital services across multiple business segments, easing the interaction of customers with the Bank and creating new digital first solutions across product lines.

This was further supported by improvements in various areas of governance and risk management, to ensure that the Bank undertakes prudent measures in servicing existing customers and acquiring new business.

Strategic outlook

BisB's strategic foundation rests on leveraging its strong Banking capabilities across segments and product areas while growing its digital capabilities that is focused on targeting new demographics. Pursuing such a strategic positioning best aligns with the Bank's strengths and viable market opportunities. BisB will continually enhance its client facing and back-office capabilities to deliver a differentiated value proposition.

Investments in Bank-wide capabilities such as data analytics and innovation will enable the Bank to acquire new customers in a heavily competitive market while also leveraging its large customer base.

INTEGRATION WITH NBB

Bahrain Islamic Bank (BisB) was acquired by the National Bank of Bahrain (NBB) in 2020. The integration of BisB with NBB was a pivotal moment for the two financial institutions, positioning them for exponential growth locally as well as regionally.

The two entities combined their forces, and the resulting synergies have allowed them to capture a significant share of the country's banking sector. The two banks have a combined market share of 20% of Bahrain's retail banking market. They can offer a diverse portfolio of services and products that includes conventional banking and Islamic finance as a result of the integration.

Under the acquisition terms, NBB and BisB operate as two distinct entities and have maintained their independent portfolios and niche market services. The integration will result in BisB's ability to access a wider reach of potential customers.

The integration has led to increased optimization in systems and a widening of the talent pool, expertise and enhanced technological resources. NBB and BisB constantly strive to improve internal systems and customer experiences through digitalization and innovation.

Realized Synergies:

- Synergy in capital flows – This has resulted in lowered profit rate risk, along with the cost of funds.
- Strengthened capital adequacy ratio
- Increased group-wide efficiency in governance systems
- Improved Liquidity growth
- Increased overall proficiency in banking functions and processes.
- Cost Synergy.

ANTICIPATING RISKS

As an Islamic financial institution, BisB is susceptible to standard banking risks, including credit risk, liquidity risk, market and operational risk, reputational risk, strategic risk, Cyber security risks, and Shari'a compliance risk. These risks, and more, are strategically evaluated and planned, to inform the Bank's risk management framework. Given the current economic climate, in this section of the report we discuss the specific risks that banks may be vulnerable to in 2023.

Rising Profit Rates

Central banks worldwide have been increasing interest rates to combat inflation and economic stagnation. The increased interest rates pose a challenge to a bank's profitability margins. In November 2022, the Central Bank of Bahrain raised its key policy interest rate on its one-week facility by 75 basis points to 4.75% following the US Federal Reserve's fourth straight hike. The CBB also increased the overnight deposit rate by 75 bps to 4.5%, the four-week deposit rate to 5.5%, and the lending rate to 6%.

Interest rate hikes directly impact a bank's rate of return. Higher interest rates impact benchmark rates, and when they go up, increase cost of funding, lowers the net return income, and consequently impacts the overall profitability.

Post Covid Credit Risk

The COVID-19 pandemic posed several challenges for the global economy as supply chains were massively affected. The Central Bank of Bahrain took several measures to relieve pressure on local businesses and residents, including putting a six-month moratorium on loan repayments, introducing the Economic Support Scheme, and the Household Support Scheme to provide financial assistance where needed. Moreover, the CBB issued guidelines for national banks on deferring individual loan payments on a case-by-case basis.

However, as economies started to gain momentum post-Covid, governments ended their stimulus programs as well as the pandemic-era financial support to businesses. This has given rise to significant credit risk uncertainty as many businesses are still struggling to recover and adapt to evolving market dynamics. Therefore, banks grapple with this volatile and uncertain lending landscape that exposes them to greater default risk.

Cybersecurity Risk

Financial institutions must guard themselves against malicious attacks over the internet, such as phishing scams, social engineering attacks, and malware infections. These attacks are specifically designed to cause data breaches, financial loss, and reputational damage. In Bahrain, all financial institutions, are required to put in robust cybersecurity measures aligned with the Central Bank Cyber Security regulations and industry best practices.

Additionally, with newer sophisticated technology and innovation like cloud computing, emerging technologies, and artificial intelligence comes a greater cyber threat for financial institutions. To mitigate these risks, banks must use state-of-the-art security systems, including firewalls, intrusion detection, prevention systems, and regular security testing and monitoring, architected to achieve "Security in Depth" methodology, with layered security controls in across all domains. They must also conduct regular cyber security training for employees to maintain hyper-vigilance against threats and fortify security protocols. Services are jointly developed through "Security by Design" and "Privacy by Design" principles that ensures that elements of security and privacy are embedded into the core of digital services and products provided to our customers.

Climate Change Risk

Climate change mitigation and adaptation is changing the global business landscape, which is also impacting the banking sector, exposing banks to significant operational, credit, and transition risks. As a result, banks are beginning to perform climate-scenario stress testing and analyses to assess their risk exposure. In Bahrain, the CBB has issued many circulars and guidance requesting banks to assess climate change risk on their financing portfolios.

Moreover, countries worldwide are introducing policies and regulations to decarbonize their economies. Banks and businesses are being expected to comply with climate policies and standards, altering the economic environment, and changing how they assess credit risk.

OUR APPROACH TO ESG

(GRI 2-12, GRI 2-14, GRI 203- 2)

BisB's Approach

BisB is conscious of its economic and social responsibility to drive sustainable development in the country. As a leading financial institution in Bahrain, BisB is uniquely positioned to support the government achieve its environmental and social objectives by allocating capital that positions Bahrain as a beacon of sustainability. To realize our potential for positive impact, we strive to finance the transition to a more sustainable economy as well as powerful ideas and solutions that are helping build a sustainable future for all.

At BisB, we are also on a mission to redefine corporate sustainability. We are leading the way in initiating company-wide programs that address the environmental and social impact of our business operations. We are focused on understanding ESG issues that are most relevant to our stakeholders so that we can formulate policies and innovate practices that align with our values and vision.

We continue to build on our ESG commitments through a 3-year sustainability roadmap, which is built on 6 fundamental pillars.

Our ESG approach is further underpinned by our belief that to achieve long-term sustainability, we need to take ESG into consideration at every level of our organization. We are currently implementing systemic and sustained changes in all aspects of our business operations and redefining our core business values to achieve company-wide transformations in line with our ESG principles.

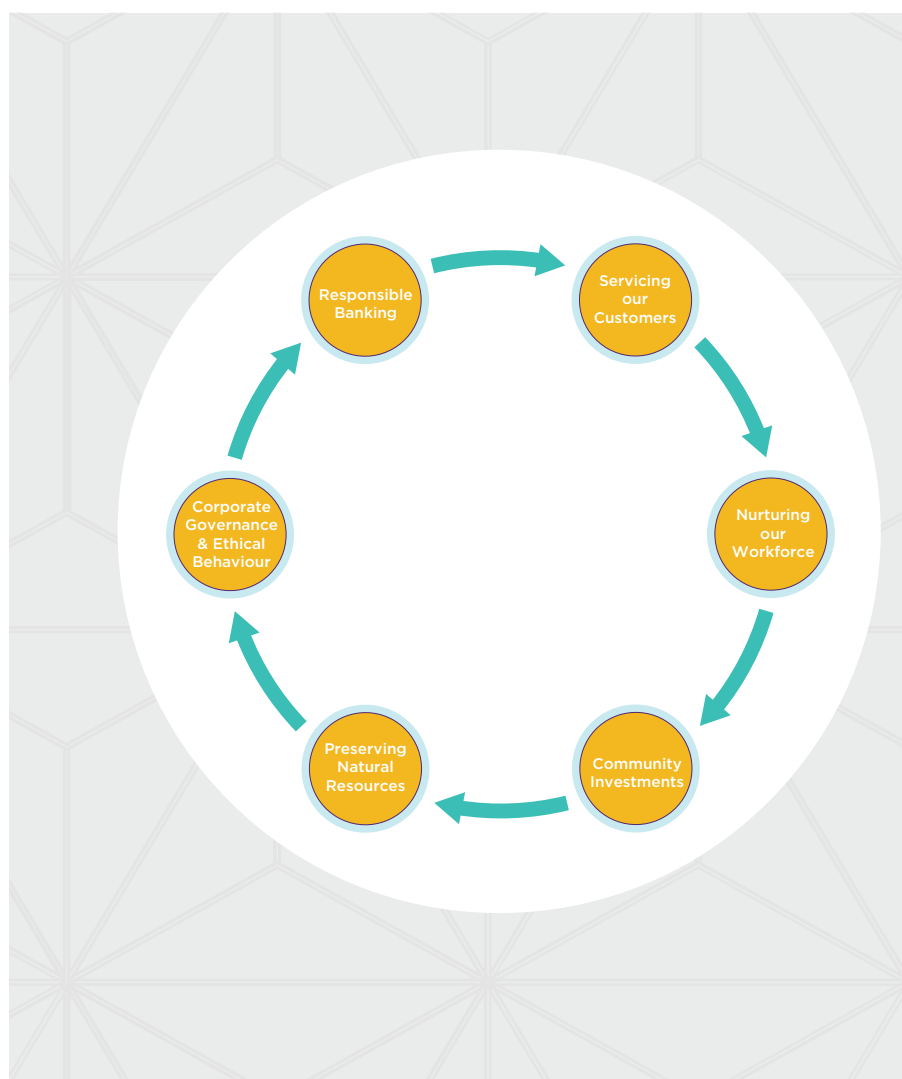
As an institution we are proud to have underscored our commitment to ESG endeavours through the following achievements in 2022:

- **ISO 45001: Occupational Health and Safety Certification**

The ISO 45001 Occupational Health and Safety (OH&S) outlines requirements for OH&S management systems, detailing guidance for usage and implementation across organizations. The certification enables BisB to provide safe and healthy workplaces by preventing work-related injury and ill health, as well as by proactively improving its OH&S performance. BisB is proud to continually improve on its OH&S performance standards by fulfilling all legal requirements to achieve its OH&S objectives.

- **ISO 27001: Information Security Management System Certification**

BisB is committed to safeguarding customer information and enforcing data security. In this regard we are dedicated to the highest standards of information protection through our certification against ISO 27001. We operate in the financial ecosystem as a business differentiator that is pledged to managing valuable client information assets, data and intellectual property. These security measures help us create new opportunities for our customers and help protect BisB from exposure to risk.



OUR APPROACH TO ESG (Continued)

(GRI 2-12, GRI 2-14, GRI 203- 2)

• ISO 14001: 2015 in Environment Management System (EMS)

The requirements for an environmental management system that BisB implements to improve its environmental performance are laid forth in the ISO 14001:2015 in Environment Management System (EMS). The Bank applies the ISO 14001:2015 to manage its environmental responsibilities in a methodical way that supports the environmental pillar of sustainability. The environmental management system's outputs, which are in line with the Bank's environmental policy, include enhancement of environmental performance, fulfilment of compliance obligations, and achievement of environmental objectives.

• ISO22301: 2019 Business Continuity Management System

This year, BisB maintained its ISO 22301 accreditation, which it uses to plan for and recover from business interruptions. By adopting procedures and controls through the adoption and certification of ISO 22301, the Bank has concentrated on measures to reduce the amount of time and money that could be wasted in the case of an operating delay.

BisB is dedicated to conducting our banking operations in a responsible, impactful, and sustainable manner. We have taken several initiatives to achieve these goals.

1. Identifying key stakeholders and engaging with them continuously to identify issues most important to them, as these are taken into consideration when planning our ESG policies and initiatives.
2. Ensuring transparency in our efforts to meet ESG targets and providing a comprehensive overview of our efforts to all stakeholders.
3. Measuring our ESG performance against international standards and best practices.
4. Regularly conducting workshops across all levels of the company, from junior employees all the way up to board members, in an effort to raise awareness around sustainability.
5. Regularly reviewing our ESG policies and updating them in accordance with the latest information and best practices standards. BisB is currently putting measures in place to reduce its carbon footprint and taking steps to promote employee diversity with the aim of becoming an equal-opportunity employer.

To accelerate sustainable development at BisB and widen our impact, we plan to initiate a number of ESG projects and initiatives in 2023 which include:

- Continue to expand offering of sustainability-related and responsible banking related products and services.
- Disclose and monitor performance against targets and impacts of products and services on the community.
- Consistently link broader sustainability benefits and impacts in the product/service marketing & communication methods.
- Initiate additional products with a clear environmental/social benefit attached.
- Launch programs to support and reward employees that propose/develop high sustainability impact products/services/initiatives.

- Engage with policy makers to influence policy and regulatory outcomes that encourage greater participation from the finance industry in the transition to a low carbon, climate resilient economy.
- Enhance green procurement.
- Ensure maximum level of global ESG practices are in place, particularly at the governance level.

Our commitment to sustainable growth, social responsibility, and good governance is a key feature of all our future growth and planning. BisB's ESG vision is also aligned with NBB, our main shareholder. Together, we believe that strong ESG principles and values will bolster our contribution to Bahrain's economic future in a sustainable and responsible manner.

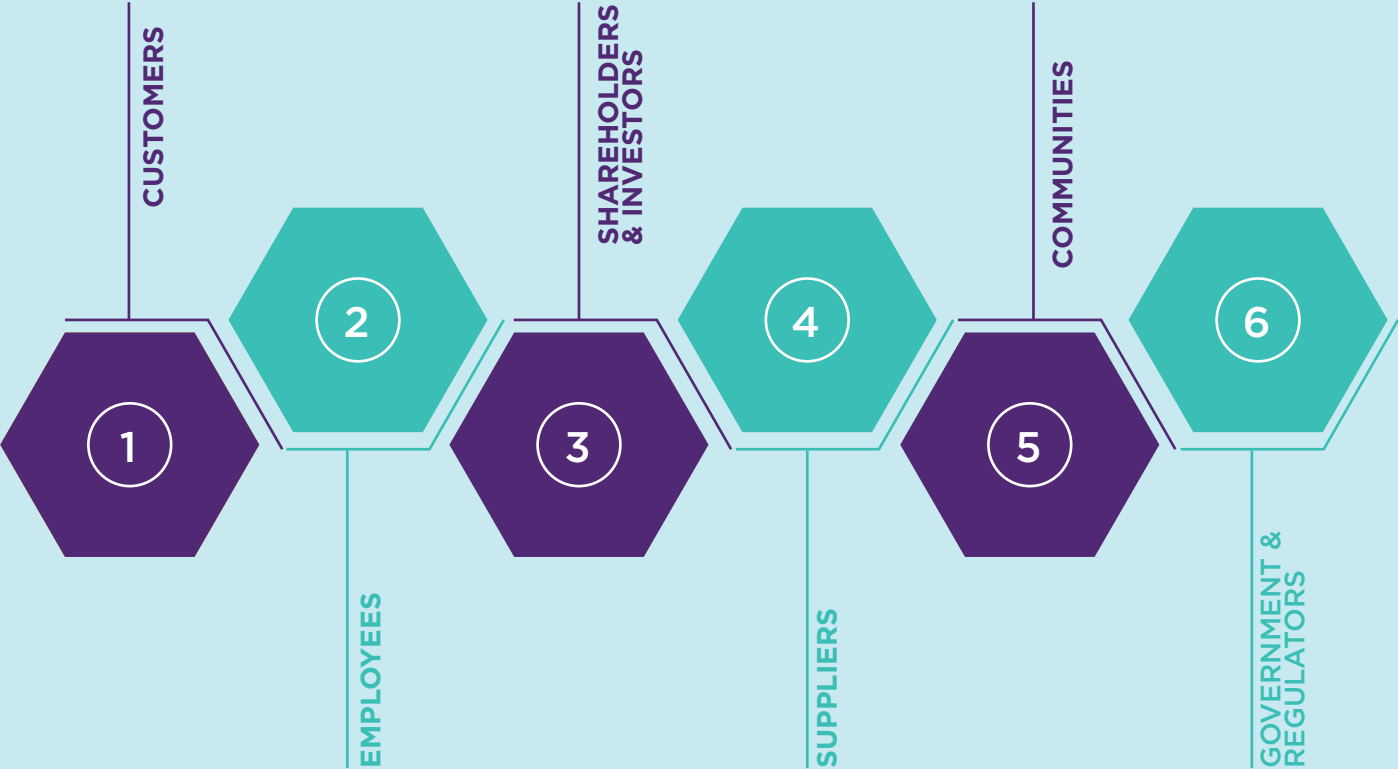
LISTENING TO OUR STAKEHOLDERS

One of BisB’s core missions is to ensure the sustainable creation of value for its stakeholders. We achieve this through integration of ESG principles into our risk assessment, lending, and investment practices. To successfully serve our stakeholders, it is important to identify who they are and how we interact with each at different business touchpoints. Our goal is to be knowledgeable about their interests and priorities.

In our efforts to engage with our stakeholders and determine ESG topics material to them, we undertook an extensive stakeholder mapping exercise, which consisted of three phases:



The process was critical in helping BisB identify its stakeholders, define their priorities, and establish ways to align with their key interests through collaborative efforts. Our mapping exercise also helped us identify the environmental, social, and governance issues most important to our stakeholders and how they impact decision-making.



LISTENING TO OUR STAKEHOLDERS (Continued)

Stakeholder	Value Creation	Needs and Expectations	Methods of Engagement
Customers	Our core business activity is providing financial services to our customers. At BisB, we constantly strive to improve our customer service experience by accommodating and prioritizing customer needs through streamlined processes and newer technologies that make transactions simple and secure.	Our customers trust us to provide cordial and prompt customer service, competitive rates and fees, innovative products and services, and accessible staff, branches, and ATMs.	Social Media: Twitter, Facebook, Instagram, YouTube (Suwalif BisB), and LinkedIn. Personal Communication: Email, phone, Mobile app, customer service units, Bank branches, and contact centers.
Employees	We foster a creative and supportive work environment and strive to build employee confidence to facilitate greater productivity. BisB also supports career growth and talent development through various policies and initiatives. We value diversity in our talent pool and are an equal opportunity employer.	Our employees trust us to provide career progression and skill development opportunities, competitive salaries and benefits, recognition of work, an inclusive, diverse, and equal opportunity work environment, ease of communication, and access to upper management.	Human resource and talent development departments. Training sessions and workshops. Our in-house innovation lab, e-learning library, and my career platform. Open communication channels and official whistleblowing policy.
Shareholders & Investors	We are committed to serving the interests of our shareholders and investors and ensuring that BisB is always on a sustainable prosperity path. BisB's expertise in the sector and prudent approach to banking enables its financial growth at minimum risk.	Our shareholders trust us to deliver strong and stable financial returns and increase our company's value. They also expect transparent and open discourse.	Complete accountability and transparent communication through BisB's annual financial and sustainability report, annual general meetings, as well as quarterly financial statements.
Government & Regulators	BisB ensures compliance with the Bahrain Central Bank, the Bahrain Stock Exchange, and the Ministry of Industry and Commerce. We follow government regulations and directives and are fully aligned with the government's vision and strategic objectives.	Our government trusts us to provide trustworthy banking that positively impacts the country's economy and environment.	Active participation in regulator and government initiatives, program and projects.
Communities	We take our commitment to corporate social responsibility (CSR) very seriously. BisB has invested in giving back to the communities we operate in and has contributed to several social campaigns and charity projects.	Our communities trust us to sponsor philanthropic programs in the country, participate in development programs and support technological and economic innovation.	Community outreach and service through Jood, the Bank's official CSR program. Supporting education and innovation through scholarship and corporate funding programs and Zakat programs for community wellness.
Suppliers	BisB upholds all its commitments and contracts with suppliers and corporate partners. We follow stringent selection processes, and ensure that our suppliers abide by our supplier code of conduct. In addition, we always ensure to support local suppliers.	Our suppliers trust us to execute contractual obligations in a timely and prompt fashion and uphold fair and transparent bidding systems.	All supplier agreements are governed by contractual terms with equal protection for all parties. Proper procedures are followed to ensure the confidentiality of all concerned parties.

LISTENING TO OUR STAKEHOLDERS (Continued)

Materiality Mapping

Once we identified our stakeholders and understood their needs and expectations, we decided to engage in a materiality mapping exercise. Materiality mapping is an essential tool for BisB, helping us assess the environmental, social, and governance (ESG) issues that directly impact the organization and are most aligned with its mission statement and values.

The process includes stakeholder engagement to identify the issues that impact the organization's reputation, operations, and financial performance and that are most important to its stakeholders. Based on the double materiality approach of the GRI Standards, we also assess the Bank's impact on society and the environment and identify those topics that the Bank should adopt to ensure sustainable value creation. The assessment is then used to map out ESG issues and their relative importance.

BisB's conducted materiality analysis produced 15 issues/topics that were significant to BisB and its shareholders. These topics are further classified into three categories depending on their level of importance.

Very Material

- 1. Compliance and Ethical Behavior**
Development of robust mechanisms to ensure compliance with government regulations and customer demands.
- 2. Data Privacy and Security**
Stringent security protocols and systems to ensure data security, especially from potential breaches in digital systems.
- 3. Responsible Customer Relationships**
Earning customer trust by addressing their needs and requirements, finding convenient solutions to their problems, facilitating customer feedback, and delivering a prompt response.
- 4. Financial and Economic Performance**
Ensuring sustainable earnings for our shareholders to enable continuity of service and ensure brand loyalty, as well as investing in new opportunities to mitigate financial risk and contribute to the nation's economic growth.
- 5. Governance, Transparency, and Accountability**
Ensuring that business functions and processes follow national and international codes and ethics of banking rules and provide complete transparency to our stakeholders.

Somewhat Material

- 6. Digital Transformation and Innovation**
Digitalization and ease of use through state-of-the-art technologies are the basic standards of service at BisB. Technological innovation is critical in helping us provide solutions and efficient customer service. It helps us increase efficiency and reduce costs.
- 7. Employee Training and Development**
Investing in employee skill development through training workshops and programs helps retain top talent due to higher employee satisfaction. It also increases work efficiency and innovation.
- 8. Financial Inclusion**
Social reform is an important component of our ESG framework. It provides financial services to all communities without discrimination.
- 9. Diversity, Inclusion, and Equal Opportunity**
We promote and ensure inclusivity and diversity in our workforce. We provide equal opportunities to all employees based on merit, which leads to higher employee satisfaction and productivity.
- 10. Community Investment**
We have sponsored as well as implemented several welfare and development programs to benefit local communities.
- 11. Workforce Well-being**
We look out for the well-being of our employees and ensure that they feel valued, and their needs are met.

LISTENING TO OUR STAKEHOLDERS (Continued)

Least Material

12. Integration of Environmental and Social Factors in Lending Activities

We consider the environmental and social impact of our banking systems and products, especially our lending activities.

13. Integration of ESG in Investment Activities

We also consider the potential ESG impact of all investment opportunities.

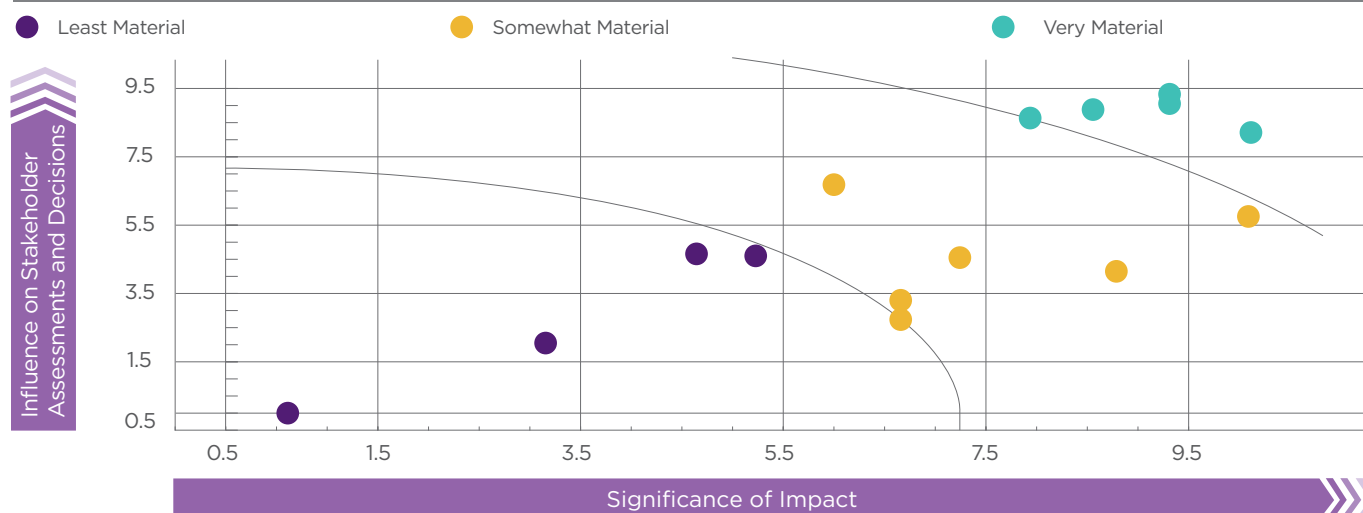
14. Environmental Impact

Reducing our carbon footprint is important to our stakeholders and us. It is why we aim for sustainable development in line with national and international efforts to tackle climate change.

15. Responsible Sourcing

We strive to work in ways where our supply chains are aligned with our own code of ethics. This means ensuring that our suppliers comply with sustainable products, ethical materials sourcing, and internationally accepted labor practices.

BisB Material Matrix



Material Topic

Very Material	1	Compliance and ethical behaviour
	2	Data privacy and security
	3	Responsible customer relationships
	4	Financial and economic performance
	5	Governance, transparency and accountability
Somewhat Material	6	Digital transformation and innovation
	7	Employee training and development
	8	Financial inclusion
	9	Diversity, inclusion and equal opportunity
	10	Community investment
	11	Workforce wellbeing
Least Material	12	Integration of environmental and social factors in lending activities
	13	Integration of ESG in investment activities
	14	Environmental impact
	15	Responsible sourcing

03

DELIVERING VALUE THROUGH OUR CAPITALS



1

Financial Capital

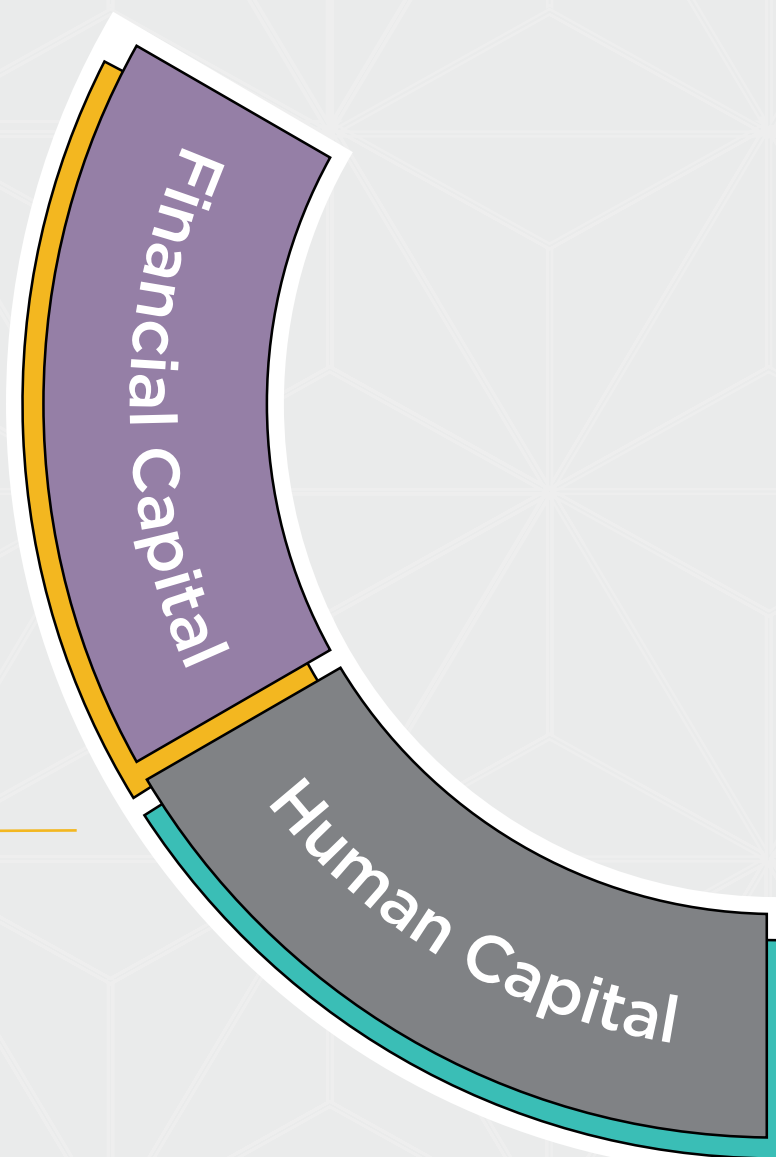
We provide innovative financial products and services to our customers to help fulfill their daily transactional needs protect assets and increase their financial wealth.

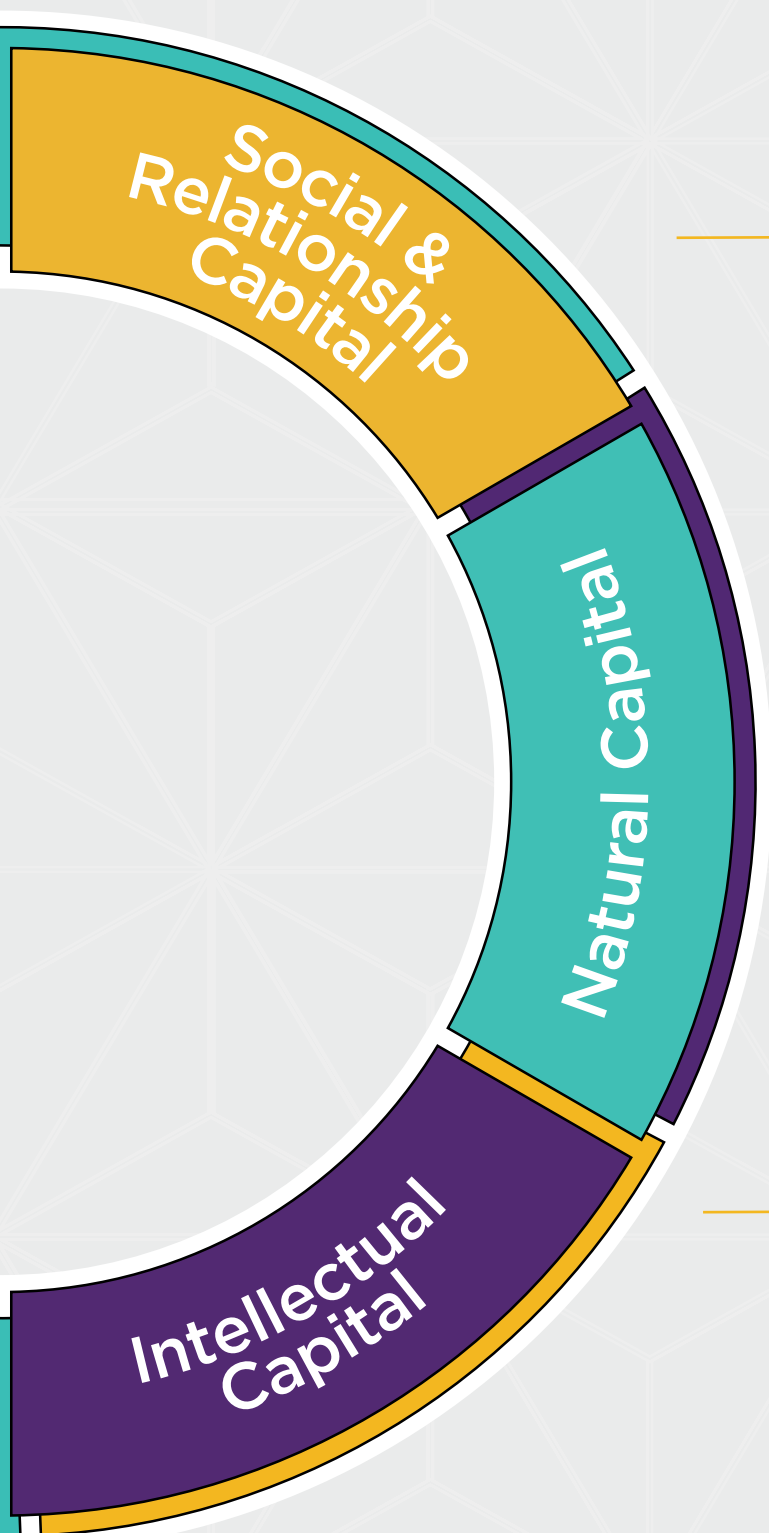


2

Human Capital

Our people are at the heart of our Bank. We've been able to lead and dominate the local and regional banking industry because of our unwavering commitment to our employees.





3

Intellectual Capital

We use technology to simplify services for customers through online banking, mobile services and self-service kiosks with ease of onboarding. It has ensured our market dominance.



4

Natural Capital

Managing our environmental footprint is a core pillar of our ESG strategy. It is a precursor to operating as a sustainable organization that works in harmony with our natural ecosystem.



5

Social & Relationship Capital

Since its establishment BisB has been committed to its corporate social responsibility. Over the years we have implemented and supported various initiatives to strengthen our local communities in line with our Islamic principles and commitment to giving back.

VALUE CREATION MODEL

INPUT

FINANCIAL CAPITAL

BD '000

Total Assets: 1,361,817

Total Owners' Equity: 135,751

Core income: 62,049

HUMAN CAPITAL

324 dedicated and skilled employees

Diverse and inclusive workforce with 21% female presence in senior management positions

A total of 2,346 hours of training provided to all 324 employees

INTELLECTUAL CAPITAL

A culture of innovation, and continuous digital improvement

89% of new customers in 2022 were onboarded through the bank's digital platform versus 11% through branches

In full compliance with the government's personal data privacy law and robust data privacy policy and controls

NATURAL CAPITAL

Managing our environmental footprint is a core pillar of BisB's ESG strategy

Continuously building awareness about sustainability practices

Objective of optimizing energy consumption and minimizing waste and water consumption

SOCIAL & RELATIONSHIP CAPITAL

Bahrain's first Islamic bank and the GCC's fourth Islamic banking entity

Integral part of Team Bahrain and Supporter of the Bahrain Vision 2030

Community focused through initiatives, contributions and employee volunteering

Key focus area revolves around Future Leaders of Tomorrow via educational and informative mediums in partnership with local schools and universities.

BisB continues to play a leading role in developing the local and global Islamic banking industry as well as the Kingdom's economy.

BUSINESS

Our Brand Promise -

Fueled by Bahraini devotion, we craft new ways of Simplifying Your Money Matters

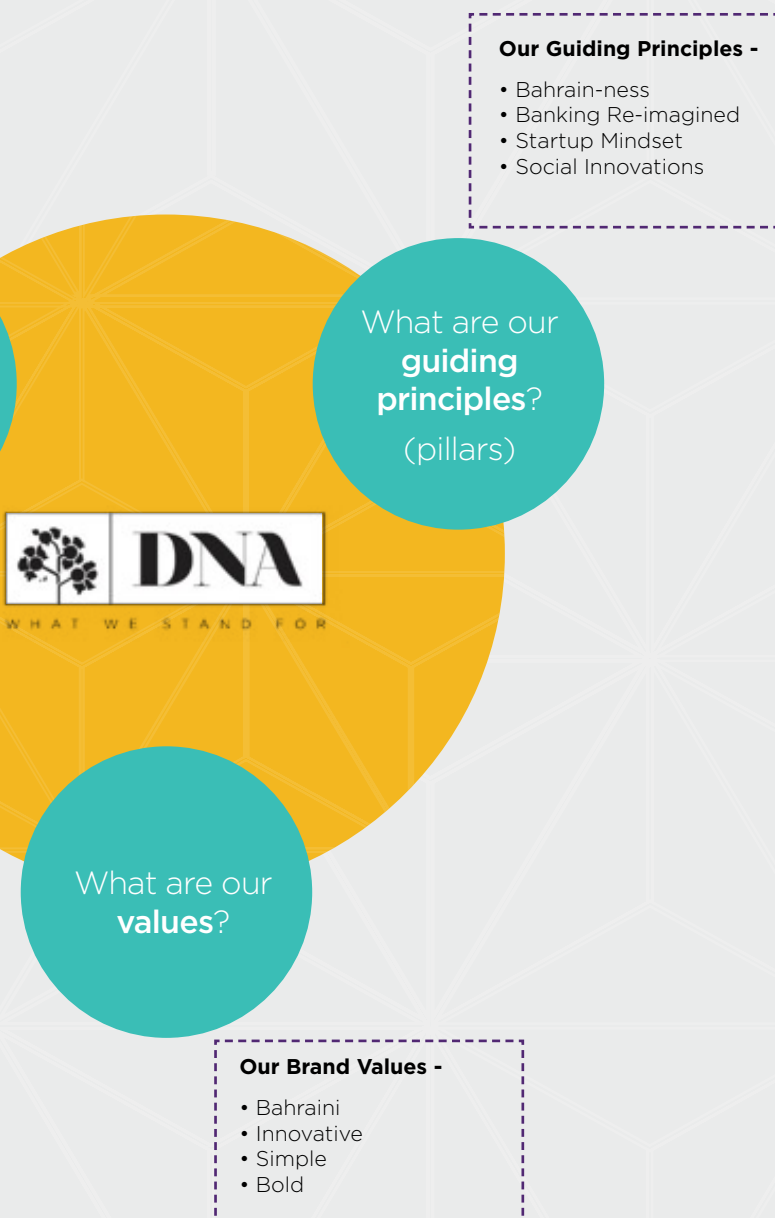
What is our
promise?

RETAIL BANKING

OUR BUSINESS

CORPORATE

MODEL



OUTPUT & OUTCOME

FINANCIAL CAPITAL

Return on average Assets: 0.9%

Return on average Equity: 9.6%

Net Profit BD'000: 12,568

HUMAN CAPITAL

Paid to employees in staff costs: BD 13.09 million

Bahrainisation rate at: 93%

A healthy turnover rate of 8.6%

INTELLECTUAL CAPITAL

Total number of digital services offered by the bank amount to 30

91 customer complaints representing less than 0.1% of the Bank's total active customer base

Zero reported breaches

NATURAL CAPITAL

0.99 million papers saved in 2022 as a result of our digitalization efforts

Proactive approach to reducing the Bank's GHG emissions and incorporating climate risk in our risk management framework

We aim to increase climate risk awareness within the bank and developing risk assessment tools related to ESG and climate change

SOCIAL & RELATIONSHIP CAPITAL

Over 200,000 client base

More than 70 trees and shrubs planted in 2022

A total of 28 hours of sustainability awareness training

INSPIRE had 5 mentees selected exclusively from the RISE program

In 2022, we introduced three educational initiatives to increase financial literacy in our youth in partnership with INJAZ Bahrain, University of Bahrain and Riffa Views International school

BUSINESS SEGMENTS

RETAIL BANKING

INVESTMENT BANKING

04

Financial Capital

Putting customers first

At BisB, we endeavor to serve a wide range of customers, varying from individuals, SMEs to large multinational corporations and global financial institutions. To successfully cater to the diverse needs of our different target clients, our financial core is split into three service categories.





FINANCIAL CAPITAL

(GRI 201-1, GRI 201-3, GRI 201-4)

We constantly revitalize our business activities to diversify and bolster client solutions, which ultimately leads to diversification of the revenue stream combined with lowering costs through the use of banking technology and efficient operating systems.

FINANCIAL STRENGTH

Our Financial Core

At BisB, we constantly revitalize our business activities to diversify and bolster client solutions, which ultimately leads to diversification of the revenue stream combined with lowering costs through the use of banking technology and efficient operating systems.

In 2022, profit rates remained high globally, including Bahrain, due to high inflation and the resulting, tightening of monetary policies. Economies slowed down, as threats of a global recession loomed. As a result, both banks and corporates had to reorient themselves to strengthen their financial positions and shield themselves against potential losses.

In 2022, our focus was on solidifying existing revenue streams and diversifying our portfolios to safeguard them against macro-economic risks without compromising our ability to serve our customers. Some of the measures undertaken by BisB included the following:

1. Diversifying our sources of funds to protect our income streams.
2. Taping into re-purchase agreements from the Parent worth of USD 289 million.
3. Initiating the transition of our balance sheet from fixed profit rates to floating to reduce our exposure to profit rate risk.
4. Entered profit rate swaps to hedge the Bank's position against the increase in profit rates.

The diversification of our source of funding allows us to offset the impact of higher cost of funding. BisB is already better off than its competitors in this regard as its acquisition by National Bank of Bahrain allows it to benefit from a lower cost of funding.

We constantly strive to improve our business functions to remain adaptable and ready for economic challenges. Our flexibility and commitment to our clients enabled us to customize and innovate solutions to help local businesses withstand the challenges imposed by Covid-19 and help them bounce back stronger in 2022.

FINANCIAL CAPITAL (Continued)

(GRI 201-1, GRI 201-3, GRI 201-4)

FINANCIAL STRENGTH

(Continued)

Our Business Segments

At BisB, we endeavor to serve a wide range of customers, varying from individuals, SMEs to large multinational corporations and global financial institutions. To successfully cater to the diverse needs of our different target clients, our financial core is split into three service categories:

- Retail Banking

BisB is Bahrain's leading institution for Islamic financing and banking. Our retail banking operations focus on providing Bahraini nationals and residents with a complete range of Shari'a-compliant financing and transactional services. Our retail customers have convenient and easy access to all our products and services through our vast branch network, online banking platform, mobile application, Automated Teller Machines (ATM), Interactive Teller Machines (ITM), and bulk Cash Deposit Machines (CDM). We lead the market in traditional retail products, such as current and savings accounts, debit and credit card services, and consumer financing solutions.

- Corporate Banking

BisB is committed to providing customers with an exceptional corporate banking experience where digital transformation plays a central role. We strive to be the preferred choice for customers using our state-of-the-art digital banking services and seamless digital account opening. Our Digital Platform has proven to be a disruptive innovation. Its introduction has improved end-user experience by making banking transactions efficient and cost effective. The platform is considered as one of BisB's core strengths in creating sustainable outcomes.

The Banks end-to-end digital services allows all types of companies to open corporate accounts in a matter of few minutes. More than 2,950 corporate customers have opened their accounts by using the Digital Onboarding platform, hence simplifying the process and allowing them to focus their time and energy on what is important: Their business. In addition, the Digital Onboarding Platform also caters to under formation accounts, which allows for depositing of the initial capital and issuance of the capital certificate seamlessly online.

We continue to support our corporate customers by providing innovative Shari'a compliant financing and depository solutions. By offering a wide variety of flexible and cost-effective financing solutions we have selectively expanded the C&IB asset base by more than 6% from BD 280 million to BD 297 million. Some of the financing products offered include project finance, trade finance, working capital and capital expenditure financing. We have also built upon our relationship with Tamkeen to offer clients innovative financing solutions with preferential terms. Being a Bahraini Islamic Bank, we have a responsibility to support the economy and cater to local businesses and have dedicated tailor made programs and specialized solutions to support the SME sector. In addition to our financing solutions, our depository products range from simple operating accounts to complex Shari'a compliant structured investment solutions.

Local and global communities are currently facing several challenges such as inflation, tightening monetary policy, supply chain disruptions and effects from Covid-19. BisB strives to be the Bank of choice by providing its corporate customers with the support they need to overcome these challenges through simplicity, loyalty, flexibility, adaptability and innovation.

At BisB's Financial Institution Unit, we cater for the clients need for a safe, fast and reliable financial transactions through our wide partnerships with a network of local and global banks. We also offer a range a of Shari'a compliant products and services that will caters for the Banks and Non-Banks FI's short and long terms needs in addition to streamline the correspondent banking activities with the banks main business lines: Corporate, Trade Finance, Treasury, Retail and Private Banking.

Investment Banking

2022 proved to be one of the most turbulent years investors have ever seen. From the beginning and as it became clear that COVID was not going to shutter the global economy again, the geopolitics between Ukraine & Russia coupled with inflation fears and the fast-paced actions by global central banks on raising benchmark rates roiled global markets as the repricing exercise affected every asset class. The U.S dollar index saw it's biggest rally in more than a decade - a sign of tightening global liquidity which did put pressure on overall funding costs witnessed by financial institutions. Despite the conditions, BisB successfully entered into its first profit rate hedge under Profit Rate Swap (PRS) early during the year swapping fixed returns with a spread over SOFR related returns on a total of US\$ 257 million securities which helped cushion against rising cost of rates and simultaneously increasing borrowings under repurchase agreements while keeping intact regulatory metrics, such as Liquidity Coverage Ratio and Net Stable Funding Ratio. In terms of portfolio management, the entire Sukuk portfolio is Sovereign and stood at BHD 238.5 million.

FINANCIAL CAPITAL (Continued)

(GRI 201-1, GRI 201-3, GRI 201-4)

ECONOMIC IMPACT

Creating Value for The Local Economy

BisB’s informed approach to strengthening its financial core allows the Bank to promptly tackle economic challenges, maintain its profitability, and continue creating value for all stakeholders.

By ensuring sustainable growth at optimal risk, we help positively contribute to Bahrain’s economy. Our Shari’a-compliant financial products and services empower individuals, businesses, and the government through capital and financing support that enables them to create economic value while remaining globally competitive.

However, it is not only our core banking services that drive economic growth in Bahrain. Our Bank’s impact on the economy also stems from its employment practices, supply chain activities, and relationship with local and foreign investors and businesses. For example, we are one of the country’s biggest employers, supporting many households. In 2022, we paid around BD 13 million in staff costs. This year, we mapped out and reported our complete economic

impact. All disclosures pertaining to our contribution to the local economy are in line with standards set by the Global Reporting Initiative (GRI).

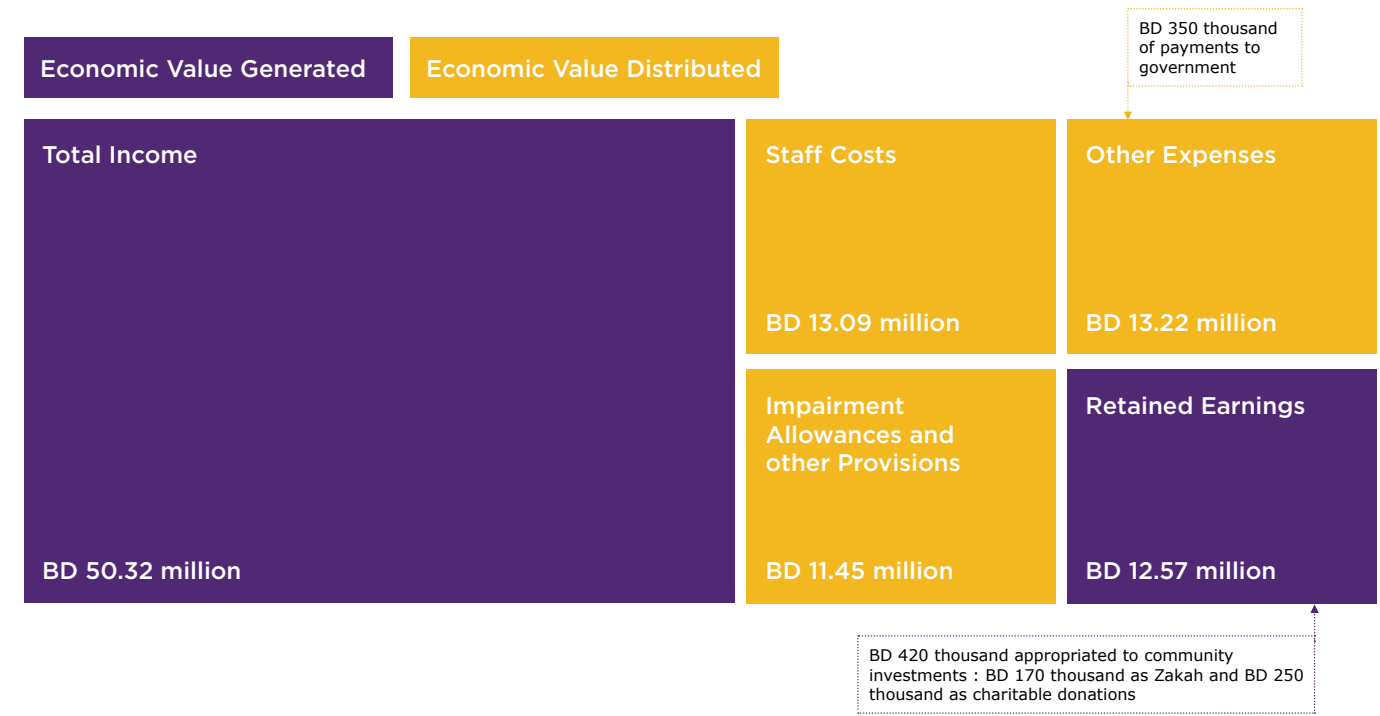
Moreover, our goal is to achieve sustainable earnings growth for our shareholders. In addition, our Bank ownership structure includes a majority stake by the NBB, which is a public bank with individual, corporate, and government stakeholders. Therefore, maximizing our shareholder value powers economic growth through distribution of wealth across the economy.

As one of the leading banks in Bahrain, BisB plays an important role in generating wealth that strengthens the country’s economy and uplifts local communities. BisB is also fulfilling its commitment to support local communities by investing in local businesses and donating to philanthropic organizations. We have designed and implemented various CSR initiatives across the country. The Community Investments section in this Report contains more information on our CSR programs. Furthermore, the Bank’s contribution to the country also includes the tax that is paid to the government.

Measuring our Impact

We use GRI standards and guidelines to calculate the value created for all stakeholders. We generate stakeholder value specifically through our various revenue streams. Our Economic Value Distributed is then spread among suppliers, vendors, employees, government, and other stakeholders in the form of expenses and VAT. Other Economic Value Distributed includes dividends to shareholders or retained earnings for re-investment in the Bank. We have computed BisBs’ economic value generated and distributed. It covers the following elements:

- Total Income and Retained Earnings represent the direct economic value generated.
- Total Expenses including payments to the government, staff costs and impairment allowances and other provisions: These represent the company’s economic value distributed.



FINANCIAL CAPITAL (Continued)

(GRI 201-1, GRI 201-3, GRI 201-4)

FINANCIAL INCLUSION & LITERACY

Financial Inclusion

At BisB, we envision a financially empowered Bahrain where everyone can access basic financial products and services. Our product and service portfolio, based on the principles of Islamic Finance, is fit for the needs of all people and businesses in the country.

We ensure financial inclusion by making our services readily accessible all individuals and businesses across the Kingdom of Bahrain, enabled by our digital activities. Also, the development of the national economy is aided by utilizing a variety of Islamic banking products, including social housing programs to individuals in coordination with Eskin Bank and the Qard Al-Hassan profit free financing solutions. Furthermore, BisB has partnered with the Ministry of Finance and Tamkeen to offer liquidity to clients at substantially subsidised rates through a variety of initiatives to small and medium enterprises (SMEs). It aims to provide SMEs with the much-needed support to grow and eventually achieve their goals, especially in the light of the ongoing consequences of the current economic environment.

We also seek to raise awareness of financial matters across society. Our relationship managers are trained to provide their clients the most appropriate financial advice and ensure that our product offering provides the best possible match to our clients' requirements. In 2022, the proportion of our retail accounts opened by first-time account holders was 93%, which highlights the Bank's efforts to include wider strata of the society in the country's banking ecosystem.

Financial Literacy in Practice

BisB is invested in providing financial awareness and education to the youth of Bahrain. In this endeavor, we launched our Future Leaders Camp in partnership with INJAZ Bahrain. The camp was organized to promote our youth-centric products and services, including cashless forms of payments such as prepaid cards and wristbands that allow parents to track the financial activities of their children.

The camp also instructs children about fiscal management through interactive games and learning activities. Through this and other similar initiatives, BisB is increasing financial literacy in Bahrain, enabling our people to make smart financial decisions from an early age.

05

Human Capital

Empowering Bahraini nationals

We firmly believe that investment in human capital is vital to creating sustainable value for the Bank, the local economy, and the communities in which we operate.





HUMAN CAPITAL

(GRI 2-7, GRI 2-8, GRI 202-2, GRI 401-1, GRI 401-2, GRI 401-3, GRI 403-8, GRI 403-9, GRI 403-10, GRI 404 1, GRI 404-2, GRI 404-3, GRI 405-1, GRI 406-1, S2, S4, S5, S6, S3, S7, S8, G5)

We firmly believe that investment in human capital is vital to creating sustainable value for the Bank, the local economy, and the communities in which we operate.

WORKFORCE WELL-BEING

A People-First Strategy

Our people are the heart of our Bank. We've been able to lead and dominate the local and regional banking industry because of our unwavering commitment to our employees. Our employee-first approach is reflected through our investment in their growth and development as a globally competitive banking professionals.

To that end, our Human Resource Division plays a mission-critical role in advancing the Bank's vision and progress toward our objectives. The HR team at BisB is empowered and equipped with the resources it needs to create a sustainable and supportive work environment that embraces a collaborative, high-performance culture. Experienced HR experts lead the team with complete autonomy in employee management, training, and

development. Their goal is to remain flexible and adaptive to evolving market dynamics to align BisB's HR policies with the Bank's overall ESG strategy.

Following an iterative process, our HR team developed and implemented a comprehensive three-year model in 2021 based on global best practices and emerging HR trends. The BisB HR model outlines diverse initiatives that have been employed by the Bank across four key tenets of our people-first strategy. The model also details how we track our progress.

BisB as the "Employer of Choice"

BisB's core strategic objective is to become the 'Employer of Choice' in the local and regional banking and finance industry. This year, in line with this overarching goal, we worked to enhance our internal and external HR communication and invest in employee development through various growth and training initiatives.

We firmly believe that investment in human capital is vital to creating sustainable value for the Bank, the local economy, and the communities in which we operate.

Our people-first strategy requires us to ensure that our employees have ample opportunities to develop their skills, enhance their knowledge, and build on their expertise at every turn. Therefore, HR at BisB is always looking to introduce new training programs and upskilling tools that set up our employees for accelerated career progression.

In 2022, BisB transformed its HR Management System. Under the new BisB HRMS, employee management and communication have been streamlined. Employee documentation, enhanced performance evaluations, and feedback have been made more easily accessible for all employees. The new HRMS is expected to significantly optimize time spent on back-end HR processes and improve internal engagement and communication, embracing a green paperless environment.

We plan to further integrate advanced technology into our HRMS to automate employee lifecycles in the upcoming year. Talent acquisition and development to succession and transition processes will be digitalized. In addition, the improved HRMS will be utilized to implement and track individual employee succession and development through automated processes and guidelines.

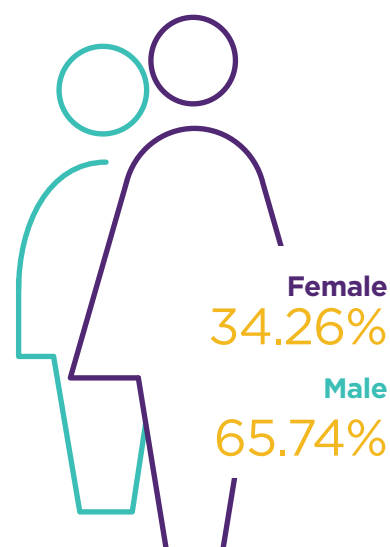
HUMAN CAPITAL (Continued)

(GRI 2-7, GRI 2-8, GRI 202-2, GRI 401-1, GRI 401-2, GRI 401-3, GRI 403-8, GRI 403-9, GRI 403-10, GRI 404 1, GRI 404-2, GRI 404-3, GRI 405-1, GRI 406-1, S2, S4, S5, S6, S3, S7, S8, G5)

WORKFORCE WELL-BEING (Continued)

TOTAL EMPLOYEES

2022		324
2021		331
2020		350



2022 Breakdown by Gender	Number of Employees
Male	213
Female	111
Total	324

TOTAL EMPLOYEES BY JOB CATEGORY AND BY GENDER

Year	Entry-Level		Mid-Level		Senior Executive Level	
	Male	Female	Male	Female	Male	Female
2020	62.69%	37.31%	63.55%	36.45%	80.95%	19.05%
2021	63.49%	36.51%	64.76%	35.24%	81.08%	18.92%
2022	62.16%	37.84%	67.62%	32.38%	79.41%	20.59%

TOTAL EMPLOYEES BY JOB CATEGORY AND BY AGE GROUP

Year	Entry-Level			Mid-Level			Senior Executive Level		
	Below 30 years old	30-50 years old	Over 50 years old	Below 30 years old	30-50 years old	Over 50 years old	Below 30 years old	30-50 years old	Over 50 years old
2020	29.35%	68.66%	1.99%	2.80%	95.33%	1.87%	-	88.10%	11.90%
2021	22.22%	75.66%	2.12%	4.76%	92.38%	2.86%	-	89.19%	10.81%
2022	12.43%	85.41%	2.16%	2.86%	94.29%	2.86%	-	88.24%	11.76%

At BisB, we take a structured approach to set ourselves up as the 'Employer of Choice' for the industry's top talent. Our efforts are focused on the following HR aspects.

HUMAN CAPITAL (Continued)

(GRI 2-7, GRI 2-8, GRI 202-2, GRI 401-1, GRI 401-2, GRI 401-3, GRI 403-8, GRI 403-9, GRI 403-10, GRI 404 1, GRI 404-2, GRI 404-3, GRI 405-1, GRI 406-1, S2, S4, S5, S6, S3, S7, S8, G5)

WORKFORCE WELL-BEING (Continued)

Attracting New Talent

An extremely competitive job market characterizes the Bahraini financial industry. Therefore, BisB has had to innovate and implement a unique approach to talent acquisition and retention to remain an Employer of Choice for the best of the industry's talent.

Our primary strategy is to attract top talent through our unparalleled employee well-being programs. BisB remains unmatched in the industry regarding flexible work arrangements, employee development opportunities, career progression, and monetary and non-monetary benefits. These programs constitute our unique selling point as an employer. They are front and center in all BisB job advertisements, media promotions, and our website.

To recruit the best local and global talent, BisB focuses on building a strong employer brand. This has been achieved by consistently delivering on promises to employees, promoting the Bank's values within the industry, and showcasing our learning-conducive culture through our media channels. We are proud to be recognized as an organization that prioritizes employee well-being, growth, and development.

In 2022, we also increased focus on on-campus recruitment by partnering with local educational institutions for internship programs and graduates hiring. The enterprise enables us to invest in the professional development of our youth. It also helps us train a future workforce to benefit our communities and the economy.

Whether on campus or otherwise, BisB's talent acquisition strategies target diversity and inclusion as the baseline for attracting new talent. We actively seek out capable candidates from underrepresented groups.

Competitive Employee Benefits

BisB leads the market in its employee benefits packages. In addition to competitive monthly remuneration, we also provide life insurance coverage to all our employees. Other benefits include health insurance, flexible work arrangements, competitive bonuses and incentives, attractive vacation, personal time off, and more. These benefits are regularly revised to ensure we remain competitive and in line with market expectations.

Protecting our Workforce

BisB ensures employee well-being by maintaining a safe and productive workplace environment. We protect our workforce through three distinct approaches.

- **Health & Safety Program:** BisB has implemented a comprehensive health and safety program which provides comprehensive training, detailed inspections, and outlines emergency protocols. The program also comprised Covid-19 protection measures. The program's success is reflected in our achievement of a 0% injury rate across the organizations and our sub-contractors in 2022.

- **Information Security Human Security**

Program: We continued our journey to further educate our employees on information and cyber security principles, the program aims to develop a behavioral approach to embed safe and security information security principles across the workforce, to ensure their safe and secure habits are practiced at work, home and on the go.

- **Employee Empowerment:** At BisB, we endeavor to remain flexible, entrusting our employees to adopt work practices that best fit their health and safety needs. We ensure that all employees are valued and supported in their professional journey and receive support to eliminate stress and avoid burnout.

- **Anti-Discrimination and Harassment**

Policies: We have stringent policies to protect all our employees against discrimination and harassment in the workplace. We also strive to maintain an atmosphere where affected employees feel safe and comfortable reporting discriminatory and/or harassment incidents.

This three-pronged approach to workforce protection has proven successful in helping BisB foster a safe and supportive environment. We are committed to updating our policies and initiatives to ensure their effectiveness in protecting our people.

HUMAN CAPITAL (Continued)

(GRI 2-7, GRI 2-8, GRI 202-2, GRI 401-1, GRI 401-2, GRI 401-3, GRI 403-8, GRI 403-9, GRI 403-10, GRI 404 1, GRI 404-2, GRI 404-3, GRI 405-1, GRI 406-1, S2, S4, S5, S6, S3, S7, S8, G5)

WORKFORCE WELL-BEING (Continued)

Employee Satisfaction, Engagement & Retention

BisB dedicates time, energy, and resources to employee satisfaction and productivity. This year, our focus on employee well-being yielded the following benefits:

- **Increased Employee Loyalty:** When our employees feel valued, they develop a strong loyalty to the Bank. We believe dedicated employees who align with our values are better placed to attract loyal customers.
- **Reduced Turnover:** High employee satisfaction has reduced voluntary employee attrition at BisB. In 2022, our turnover rate decreased by 0.7% year-on-year. Lower turnover translates into reduced recruitment, new-hire training costs, and a stable and experienced workforce.
- **Improved Productivity:** Satisfied employees are more engaged and motivated to contribute positively toward the Bank's mission and objectives. They are more productive, perform better, and ultimately drive an increase in efficiency, customer satisfaction, and revenue growth.
- **Improved Organizational Culture:** We have found that satisfied and engaged BisB employees better align with the Bank's values and culture. They actively foster a healthy workplace environment by improving the morale between colleagues and taking the initiative.
- **Cementing Employer Brand:** Satisfied employees often engage in positive word of mouth and improve BisB's reputation as the 'Employer of Choice' within the industry.
- **Improved Customer Service:** Satisfied frontline employees provide better customer service, which results in customer satisfaction. At BisB, we have maintained a 98% customer satisfaction rate in 2022 and have experienced an increase in customer loyalty year on year.

Keeping our employees happy and engaged is results in direct value generation. To that end, we have multiple practices and policies that help satisfy our employees. We focus on providing our employees with both extrinsic and intrinsic motivation.

Intrinsic motivation is provided through BisB's comprehensive training and development programs, effective communication, engagement with employees, ensuring a healthy work-life balance, and providing employees with greater autonomy and flexibility.

Extrinsic motivation at BisB is offered through competitive remuneration packages, performance-based rewards, and recognition. To keep updated on employee satisfaction, the Bank's leadership team actively mentoring employees and setting the right example through model behaviour.

Following an iterative process, our HR team developed and implemented a comprehensive three-year model in 2021 based on global best practices and emerging HR trends. The BisB HR model outlines diverse initiatives that have been employed by the Bank across four key tenets of our people-first strategy.

HUMAN CAPITAL (Continued)

(GRI 2-7, GRI 2-8, GRI 202-2, GRI 401-1, GRI 401-2, GRI 401-3, GRI 403-8, GRI 403-9, GRI 403-10, GRI 404 1, GRI 404-2, GRI 404-3, GRI 405-1, GRI 406-1, S2, S4, S5, S6, S3, S7, S8, G5)

WORKFORCE WELL-BEING

(Continued)

TOTAL NEW HIRES BY GENDER*

Year	Male	%	Female	%	TOTAL
2020	6	2.63%	2	1.64%	8
2021	11	5.05%	1	0.88%	12
2022	11	5.16%	10	9.01%	21

* The percentage calculation is as per the new GRI Standards

TOTAL NEW HIRES BY AGE GROUP*

Year	Below 30 years old		Between 30-50 years old		Over 50 years old		TOTAL
	#	%	#	%	#	%	
2020	4	5.26%	4	1.52%	-	-	8
2021	5	9.26%	6	2.25%	1	10.00%	12
2022	11	26.19%	9	3.32%	1	9.09%	21

* The percentage calculation is as per the new GRI Standards

TOTAL EMPLOYEES THAT LEFT BY GENDER*

Year	Male	%	Female	%	TOTAL
2020	11	4.82%	8	6.56%	19
2021	21	9.63%	10	8.85%	31
2022	15	7.04%	13	11.71%	28

* The percentage calculation is as per the new GRI Standards

TOTAL EMPLOYEES THAT LEFT BY AGE GROUP*

Year	Below 30 years old		Between 30-50 years old		Over 50 years old		TOTAL
	#	%	#	%	#	%	
2020	2	2.63%	17	6.46%	-	-	19
2021	3	5.56%	26	9.74%	2	20.00%	31
2022	2	4.76%	24	8.86%	2	18.18%	28

* The percentage calculation is as per the new GRI Standards

Year	TOTAL NEW HIRE RATE	TOTAL TURNOVER RATE
2020	2.3%	5.4%
2021	3.6%	9.4%
2022	6.5%	8.6%

HUMAN CAPITAL (Continued)

(GRI 2-7, GRI 2-8, GRI 202-2, GRI 401-1, GRI 401-2, GRI 401-3, GRI 403-8, GRI 403-9, GRI 403-10, GRI 404 1, GRI 404-2, GRI 404-3, GRI 405-1, GRI 406-1, S2, S4, S5, S6, S3, S7, S8, G5)

WORKFORCE WELL-BEING (Continued)

Health & Safety

Our employee's health and safety (H&S) is a top priority. BisB has a formal safety management system with embedded risk management guidelines and protocols. The safety program is compliant with all Bahrain Health & Safety regulations.

The H&S system at BisB mandates employee compliance with our comprehensive safety manual. The program's scope extends beyond the Bank's operations and covers our contractor's safety practices. It comprises regular inspections, safety training, induction material and procedures, incident reporting and investigation protocols, and emergency guidelines.

Safety and security training is an important aspect of the BisB H&S program. In addition to detailed training covering several aspects of workplace safety, BisB provides monthly hands-on training to its maintenance staff to ensure compliance with all health standards. Furthermore, all our floors and Bank branches have first-aid personnel on call and two trained fire marshals. A yearly fire drill is also carried out across the organization in collaboration with the Civil Defence Authority to assess employee readiness in an emergency.

Information Security

Every organization needs protection against cyber-attacks and security threats. Information security is paramount for BisB as it protects customers data, sensitive financial and personal information. It also protects the Bank from any kind of cyber-attacks, theft, unauthorized access, and other types of digital breaches.

As a leading financial institution within the Bahraini economy, we are conscious of our role in sustaining and building customer trust and mitigating any loss of reputation to institutions or financial loss to customers. It is for this reason that the Bank adheres to strict regulations such as the General Data Protection Regulation (GDPR) and Payment Card Industry Data Security Standard (PCI DSS) to implement robust information security measures to protect customer data. These measures help us ensure informational security, maintenance of stability and credibility within the banking industry.

Number of Employees			
	Safety and security training	Understanding PCI DSS	Safety procedures training
2021	265	194	258
2022	324	324	324

To further ensure the safety of our employees, we maintain transparent reporting standards. Monthly information reports on HSE incidents are compiled and reported to the senior management and the Operation Risk and HR departments. In addition, following BisB's integration with NBB, the Bank partakes in an H&S audit and has an H&S policy in place. We are proud to report that there were 0 injuries across the Bank and its contractors in 2022.

HUMAN CAPITAL (Continued)

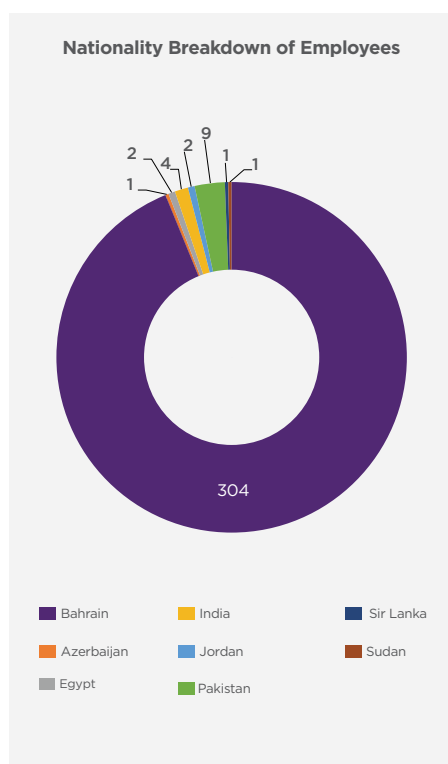
(GRI 2-7, GRI 2-8, GRI 202-2, GRI 401-1, GRI 401-2, GRI 401-3, GRI 403-8, GRI 403-9, GRI 403-10, GRI 404 1, GRI 404-2, GRI 404-3, GRI 405-1, GRI 406-1, S2, S4, S5, S6, S3, S7, S8, G5)

DIVERSITY, INCLUSION AND EQUAL OPPORTUNITY

BisB is an equal opportunity employer committed to building a diverse workforce and an inclusive workplace culture. Our HR policy clearly instructs against discrimination based on age, gender, ethnicity, marital status, religion, or otherwise. BisB does not tolerate any breach of our anti-discriminatory policies. We expect all line managers to ensure that no discrimination occurs in any aspect of our operations, including recruitment, remuneration, promotions, etc.

Moreover, at BisB, we constantly strive to build a diverse, representative workforce. We are committed to increasing female representation, which currently stands at 34% of our workforce, and representation of Bahraini nationals, which currently stands at 94% of our total workforce.

However, we don't stop at diversity. We are going one step further to ensure an inclusive workplace where all our employees feel valued and supported and share a strong sense of belonging to the organization.



Female Empowerment at BisB

Female empowerment is important to us at BisB. We understand and acknowledge the positive impact of an empowered female workforce on the Bank. Our goal is to tap into the potential of our female employees by creating the right environment for them and providing them with the support and tools they need to perform at their highest level. Some of our HR initiatives focused on empowering female employees include:

- Increasing parental leave from 1 to 3 working days. This policy extends to male employees.
- Providing paid maternal leave of up to 90 days for a regular birth and 120 days for premature birth.
- An unpaid motherhood leave of up to 6 months to care for children under the age of 7.

- A total of three unpaid leave periods are available throughout an employee's service. However, the leaves are not considered part of the service, so no social insurance contribution is paid.
- Miscarriage leave, as part of paid sick leave, of up to 15 days.
- Nursing periods of 2 hours per day for 1 year and 1 hour a day for the second year after birth.
- Vaccination leave of 1 working day for female employees on the day of any vaccination till their child reaches 2 years of age.
- Option for 'Light Duty' for a female employee undergoing fertility treatment. This includes reduced working hours (6 per workday) for up to 45 calendar days.
- Paid leave of 3 working days for the birth of up to 3 grandchildren.

Total number of employees that took parental leave

Year	Female	Male
2020	7	6
2021	8	6
2022	8	8

Total number of employees that returned to work after parental leave ended

Year	Female	Male
2020	7	6
2021	8	6
2022	8	8

These measures have positioned BisB as an attractive place of work for female employees. They have allowed us to improve female representation within the Bank. Women at BisB are empowered to take on key managerial and C-Suite roles. There are currently a total of 111 female employees at the Bank, accounting for 34% of our total workforce. In addition, 32% of the

Bank's middle management and 21% of the senior management is female. Additionally, the median compensation of a woman's salary when compared to a man, sits at around 31%. We currently have one female Board Member as well. These numbers reflect our commitment to female representation, which aligns with the Kingdom of Bahrain's strategy to empower women.

HUMAN CAPITAL (Continued)

(GRI 2-7, GRI 2-8, GRI 202-2, GRI 401-1, GRI 401-2, GRI 401-3, GRI 403-8, GRI 403-9, GRI 403-10, GRI 404 1, GRI 404-2, GRI 404-3, GRI 405-1, GRI 406-1, S2, S4, S5, S6, S3, S7, S8, G5)

DIVERSITY, INCLUSION AND EQUAL OPPORTUNITY (Continued)

Youth Empowerment at BisB

Youth empowerment is an important aspect of BisB's HR strategy. Our vision for youth empowerment comprises several key elements:

- **Education & Training:** The Bank has several education and training programs for youth that are designed to develop their skills and improve their professional knowledge. These programs take the shape of internships, apprenticeships, and training workshops.
- **Entrepreneurship Support:** Our partnership with INJAZ allows us to support young entrepreneurs. We provide them with the resources and mentorship they need to start and grow businesses. Some resources offered include investment guidance, entrepreneurship courses, and networking opportunities.
- **Financial Literacy:** BisB plays an important role in improving financial literacy in the youth. We have several financial education programs that teach young people how to manage their money, invest, save, and plan.
- **Career Development:** We have partnered with several local educational institutions to offer career guidance and support to students navigating the job market and exploring different career paths. Our support includes job internship, career counseling, and more.
- **Creative Innovation:** We host competitions in collaboration with INJAZ that push the youth to think creatively and ideate innovative solutions to complex problems.

In 2022, we introduced 5 unique initiatives across these verticals that involved more than 500 students. These initiatives embrace our vision for youth empowerment and our commitment to building a better future for Bahrain.

EMPLOYEE TRAINING AND DEVELOPMENT

Developing Our Workforce

Employee training and development is central to our people-first approach to business. It plays a vital role in helping our employees grow personally, develop professionally, and advance in their careers and lives. In addition, as an Islamic Bank, it is more important for our employees to remain well-versed in the technical and practical know-how required to successfully offer complex products in a Shari'a-compliant manner. Therefore, skilled and trained employees are the ultimate key to creating sustainable value for our Bank, economy, and communities.

	Total training delivered in alignment with Islamic principles (Hours)	Number of employees who completed sustainability-related awareness/ training programs (Number)	Number of Shari'a related awareness campaigns
2020	2,068	67	1
2021	1,181	153	1
2022	2,346	324	5

We want to ensure that all our employees are equipped to effectively serve our customers in the best way possible, manage risk efficiently, and maintain our compliance with constantly evolving market regulations. To that end, we foster a culture of continuous learning within the organization. Covering all these aspects and more is an expansive training program comprising courses and learning opportunities for employees at all levels. We deliver this training through our guidance centers, specialized programs, and partnerships with education organizations. In 2022, we delivered an average of 113 hours of training to 324 employees.

Average Training Hours by Gender

Year	Female	Male	TOTAL
2020	39	40	79
2021	52	54	106
2022	59	54	113

Total Training Hours by Job Category

Year	Entry-Level	Mid-Level	Senior Executive Level	TOTAL
2020	6,484	4,913	2,461	13,858
2021	10,190	5,530	1,852	17,572
2022	9,532	6,664	1,866	18,062

Apart from technical and operational training, we are also focused on creating strong leaders. We recently launched several leadership programs designed to upskill our top performers and develop their leadership skills.

HUMAN CAPITAL (Continued)

(GRI 2-7, GRI 2-8, GRI 202-2, GRI 401-1, GRI 401-2, GRI 401-3, GRI 403-8, GRI 403-9, GRI 403-10, GRI 404 1, GRI 404-2, GRI 404-3, GRI 405-1, GRI 406-1, S2, S4, S5, S6, S3, S7, S8, G5)

EMPLOYEE TRAINING AND DEVELOPMENT (Continued)

RISE

RISE is a one-year managerial training program designed to train BisB's best and brightest for future leadership roles. Developed in partnership with international training consultants, the initiative is an essential part of our succession planning strategy and our efforts to nurture the next generation of BisB leaders. The program focuses on developing both the soft and hard skills of our Bahraini employees who demonstrate the potential to become future leaders. Candidates are selected following a highly rigorous process involving assessments, personality and aptitude tests, and interviews conducted by executive management. Selected candidates then take on modules focusing on developing various skills. Candidates are also required to complete special assignments and carry out their regular duties.

INSPIRE

INSPIRE is BisB's mentorship program. It is geared toward developing our junior employees and accelerating growth. In 2022, INSPIRE had 5 mentees selected exclusively from the RISE program mentored by 20 leaders from the executive management team.

VIRTUAL TRAINING

The Covid-19 pandemic in 2020 pushed us to switch to virtual training programs, and we have not looked back. These sessions are now standard practice at BisB, especially while onboarding recruits.

To stay competitive in the financial industry, we must stay flexible, agile, and updated on evolving technologies, practices, and regulations. Our focus on upskilling employees through rigorous training is a necessity. By investing in our workforce, we can better navigate market challenges and adapt to disruptions in a cost-efficient and timely manner.

We are also committed to improving and adjusting our approach to training and development based on the needs of our employees. We conduct regular Bank -wide surveys throughout the year to assess training effectiveness, identify areas of improvement, and understand employee shortfalls. The feedback is used to adjust and improve the following year's training. Taking this iterative and inclusive approach to training and development has allowed us to increase employee engagement and satisfaction.

Sustainability Awareness at BisB

Sustainability awareness is essential to BisB's ESG strategy. In recent years, we have been hosting regular sustainability awareness sessions that aim to educate all our employees on the importance of ESG, inform them about the Bank's ESG impact, and align them with our group-level ESG vision and mission.

In 2022, a total of 28.5 hours of sustainability awareness training were offered over 11 sessions. The sessions were designed to be interactive to increase impact and keep employees engaged. The sessions were also conducted for our Board of Directors. We believe our focus on increasing sustainability awareness goes a long way in helping us advance toward our sustainability objectives and building an engaged and responsible workforce.

HUMAN CAPITAL (Continued)

(GRI 2-7, GRI 2-8, GRI 202-2, GRI 401-1, GRI 401-2, GRI 401-3, GRI 403-8, GRI 403-9, GRI 403-10, GRI 404 1, GRI 404-2, GRI 404-3, GRI 405-1, GRI 406-1, S2, S4, S5, S6, S3, S7, S8, G5)

EMPLOYEE TRAINING AND DEVELOPMENT (Continued)

CASE STUDY 1: EMBRACING OUR BAHRAIN-NESS

Being Bahraini is at the heart of our Bank's identity. Our Bahrain-ness defines our values, and guiding principles – to remain friendly, respectful, open, and warm. One of our overarching goals is to remain connected with our roots as we continue to grow. Therefore, we are constantly striving to align our daily operations with Bahraini values. We hope to leverage local insights and advantages to improve our business approach, enhance our customer service, and innovate the future of banking in Bahrain and beyond.

Bahrain-ness in BisB HR

We have implemented key initiatives supporting the nationalization (Bahrainization) of the workforce. These initiatives are aligned with the nationalization policy of the Bahraini government and keep us compliant with the Bahrain Bourse requirements on ESG disclosures. Our Bahrain-ness is also reflected in our HR policies, especially our approach to recruitment.

In 2022, 94% of our employees were Bahraini nationals, with Bahraini nationals in senior roles comprising 9% of our total workforce. In the upcoming year, we aim to increase this percentage across all our departments by focusing on recruiting Bahraini graduates specifically and nurturing them for growth in their careers.

In addition to recruitment, we also prioritize Bahraini employees regarding promotions. We aim to first find the right talent internally and only recruit externally if needed.

Bahrainization of our workforce is important in ensuring that our operations align with local business and cultural expectations. Having experienced staff with local knowledge better positions us to understand the needs and expectations of our customers and maneuver the changing dynamics of the local financial market. Furthermore, hiring Bahraini talent has resulted in an increased sense of community and ownership in the workplace at BisB, as well as improved customer trust and loyalty.

Year	Total Female Bahraini Nationals	Total Male Bahraini Nationals
2020	37%	63%
2021	36%	64%
2022	36%	64%

Number of Bahrain Nationals

Year	Entry-Level & Admin	Mid-Level	Senior Executive Level
2020	60%	30%	10%
2021	60%	31%	9%
2022	60%	31%	9%

06

Intellectual Capital

Innovation through expertise

At BisB, we use technology to simplify services for customers, through online banking, mobile services, and self-service kiosks with ease of onboarding. It has ensured our market dominance.





INTELLECTUAL CAPITAL

(GRI 203-2, GRI 204-1, GRI 418-1, G5)

Continued improvement in online banking at BisB has notably made customer onboarding easier, resulting in an exponential increase in customer acquisitions in the last 2-3 years.

DIGITAL TRANSFORMATION AND INNOVATION

Powering Innovation through Digital Technology

In 2022, BisB made significant progress on its digital transformation journey. Digital solutions allow us to streamline our offerings, offer remote access to our customers, and improve data security. Digitalization of our internal processes and customer journey is essential to delivering exceptional customer experience at every touchpoint. In 2022, we actively invested in integrating newer technologies to innovate our banking systems and services.

In an effort to provide value to customers, BisB uses technology to simplify their services for customers, through online banking, mobile services, and self-service kiosks with ease of onboarding. It has ensured our market dominance.

We began the digital transformation of our operations and services four years ago by offering our personal banking services and facilities, 'Money Matters,' through online channels. Timely adoption of technology allowed us to weather the challenges brought by the COVID-19 pandemic and ensured continuity of service for our customers. Continued improvement in online banking at BisB has notably made customer onboarding easier, resulting in an exponential increase in customer acquisitions in the last 2-3 years.

Digitalization at BisB extends to internal and back office processes as well. We leverage a robust IT banking infrastructure to streamline our processes and business functions. It has resulted in increased operational efficiency through greater coordination between departments, removed bottlenecks, and sped up data recovery and analysis. Ultimately, we have been able to lower costs and drive innovation in product development to remain competitive.

BisB is keen on technological innovation to improve its banking services and products. Going forward, it will continue expanding its digital portfolio. Here is a breakdown of our digital initiatives.

In 2022, BisB made significant progress on its digital transformation journey. Digital solutions allow us to streamline our offerings, offer remote access to our customers, and improve data security.

INTELLECTUAL CAPITAL (Continued)

(GRI 203-2, GRI 204-1, GRI 418-1, G5)

DIGITAL TRANSFORMATION AND INNOVATION (Continued)

Individual Customers

- i. Enhanced onboarding at self-service kiosks:
Previously, customer onboarding digitally through the kiosks entailed requiring additional documents. With BisB systems now integrated with government portals and KYC databases, our customers can open an account or access our services by simply uploading their selfie with an ID in a completely digital process.
- ii. Improved Credit Card Application:
Customers can initiate their credit scoring and evaluation process through our mobile application or Customer Service Representative (CSR). Their data is processed within minutes, and based on the assessment, they can proceed with their credit card application digitally.
- iii. Chatbot assistance
- iv. Secure customer data update procedure through ID scans and validation

Corporate Clients

- i. Smooth corporate onboarding through the Mobile App:
Previously only available for SMEs, our digital onboarding process can now be utilized by all corporate clients.
- ii. Automated KYC update
Automatic daily update of expired Corporate CRs by fetching the data from Sijilat and our corporate clients can also update their information through online channels without the need to visit us.

Back-End System Transformation

Our goal is to automate as many internal processes as possible to reduce paperwork. Some of the positive developments include:

- i. IT infrastructure enhancements, including upgrades to core banking software, hardware, and infrastructure setup.
- ii. Expansion of the use of thin client computing and Virtual Desktop Infrastructure (VDI) and upgrades to reduce its carbon footprint and enforce principles of Zero Trust Network Access (ZTNA).
- iii. Renewed PCI certification, ensuring customer card data security.
- iv. Obtained independent attestation against the latest version of SWIFT's cyber security control framework, SWIFT Customer Security Controls Framework (CSCF v2022).
- v. Achieved ISO 27001:2013, Information Security Management System certification.
- vi. Maintained ISO 22301:2019, Business Continuity Management System certification.
- vii. Automated card creation and updates.
- viii. Upgrades to Kiosk machines at branches.
- ix. Improved database infrastructure and bank connectivity
- x. Upgrades to our application and internal network systems to strengthen customer data protection and privacy.

BISB FUTURE LEADERS INITIATIVE

BisB's commitment to innovation led to the Future Leaders initiative, which includes an NFC-enabled wristband and a prepaid card for payments on the go.

The Future Leaders products were developed specifically for young children to safely teach them financial management. They provide several key benefits to users:

- Safe and secure online shopping
- Compatible with all NFC-enabled POS machines
- Secure transactions supported by 3D Secure 2.0 framework
- Reload anytime through BisB's online portal or Benefit Pay
- 24/7 customer service
- Exclusive discounts and promotions
- Track and manage finances.

Parents can create a Future Leaders account for their children, link it with their own accounts, and easily transfer money. Cashless payment forms make transactions secure, and the tracking mechanism allows parents to monitor their children's financial activity. Through the program, children learn to use banking services, manage expenses, and gain financial independence.

INTELLECTUAL CAPITAL

(GRI 203-2, GRI 204-1, GRI 418-1, G5)

DIGITAL TRANSFORMATION AND INNOVATION

(Continued)

BisB is the first bank in Bahrain to offer all our services through online and digital platforms. A digital bank has reduced overheads and dependency on physical branches. Digital technology has also enabled first-time customers to sign up using National ID cards. They can take a selfie and upload their picture and fill out all forms electronically. IDs are validated through extensive authenticity checks and matched against selfies that are subject to extensive liveness checks and security controls.

In 2022 the number of first-time customers who signed up through our digital platforms was higher at 89% than those who onboarded at our brick-and-mortar branches, which was 11%.

Additionally, back-end processes at BisB were enhanced using technological innovation:

- Compliance with PCI certification to ensure the security of credit card data.
- Core banking software and database systems upgraded.
- Debit card systems upgraded to support new technology.

- Signature capture and verification systems updated.
- Virtual desktop infrastructure improved to enhance the capacity of user-friendly virtual desktop systems.
- Electronic approval systems improved.
- SMS technology upgraded.
- Carried out a disaster recovery (DR) drill where critical services functions were switched over to the DR environment for 24 business hours, and all live transactions were processed from that environment.
- Improved automated services for the Mazaya subsidy program
- Enhanced Open Banking Interface, which enabled international funds transfer (normal, standard orders, and future dated), domestic standing orders, and public data API for the list of ATMs and branch locations.

RESPONSIBLE CUSTOMER RELATIONSHIPS

BisB is constantly striving to improve customer relationships and service. This is achieved through training programs for our employees, simplified processes, digitalization that enhanced customer experience to streamline internal processes and speed up banking services. Our customer service includes catering to individual customer needs, listening to their concerns, and taking prompt action on complaints.

BisB offers its customers various channels for communication with the Bank:

- Contact centers
- Electronic forms on the Bank's website
- Social media accounts
- Customer support email
- Visiting any of our branches

As a Retail Bank with a large customer base, day-to-day operational issues can lead to customer complaints. Customer-facing employees are charged with resolving routine issues without further escalation. Customer complaints are reported to the management and the Board designated committee.

During the year 2022, the Bank received 91 customer complaints representing less than 0.1% of the Bank's total active customer base of over two hundred thousand customers. The Bank is committed to responding, resolving, and reporting customer complaints in accordance with regulatory requirements.

SUSTAINABILITY THROUGH AUTOMATION

BisB automated and digitalized many corporate and personal banking services, eliminated paper-based systems, and enabled remote access and transactions. This facilitated quicker transaction and processing speeds to help reduce our carbon footprint. Seven new core banking services were digitalized, taking the total number of digital services offered by the bank to 30. As a result, BisB was able to save 0.99 million papers in 2022.

INTELLECTUAL CAPITAL (Continued)

(GRI 203-2, GRI 204-1, GRI 418-1, G5)

DATA PRIVACY AND SECURITY

(GRI 410-1, GRI 418-1, G6)

We adopted a wide range of best practices in information security, privacy, continuity, and resilience. The Bank is certified against ISO27001:2013 Information Security Management System, ISO22301:2019 Business Continuity Management System, Payment Card Industry Data Security Standard (PCI-DSS 3.2), and SWIFT Customer Security Controls Framework (CSCF). The Bank is also aligning business processes in line with leading best practices including the NIST Cybersecurity Framework, the Business Continuity Institute (BCI), Good Practice Guideline (GPG), The Open Web Application Security Project and the Center of Internet Security (CIS) benchmark and the Open Worldwide Application Security Project (OWASP).

As an institution, we value customer data privacy and security. We believe

privacy is a fundamental value aligned with Shari'a law and ethical business practices.

We continue to embed continuity, security, privacy and awareness into the culture and working ethos of our organization. We aim to ensure that customized and strategically designed security principles are applied to existing and newly enhanced processes, products, and services. Our layered, security-controls approach is entrenched in everything we do as we transform our business.

We value the importance of transparency and place great regard on customers trusting the Bank's products and services. It is our core mandate to ensure that all communications with customers are fair and transparent, and that any sensitive communications with customers and third parties is sufficiently vetted by professionally trained frontline staff from respective departments, such as Marketing, Corporate Communications, Legal,

Compliance, Information Security and Business Units.

Our range of security and privacy measures enable us to safeguard our customers and facilitate transactions across different platforms: online, mobile, self-service Kiosks, ATMs and ITMs. To build on this endeavor, training programmes and awareness activities took place over the year to further embed privacy, security, and operational resilience into our culture. This included the practice of ensuring that privacy-by-design and security-by-design principles are followed in the development, maintenance and operations of products and services we introduce and operate. We are pleased to report that no security breaches were reported this year.

	2020	2021	2022
Control of Technical Vulnerabilities			
Number of technical vulnerabilities on public assets and websites rated, high and critical	-	-	-
Security breaches reported internally			
Number of reported security breaches	-	-	-
Security and privacy awareness program			
Campaign failure rate (%)	5.47%	0.26%	5.40%
Number of computer-based training modules completed	252	484	612
Average security awareness score (%)	88%	89%	89%
Team competency			
Number of professional certifications in the information security, continuity and privacy field	25	20	28
Number of unique professional certifications or award in the field, where BisB security professional is the first to achieve in Bahrain	4	3	5

INTELLECTUAL CAPITAL

(GRI 203-2, GRI 204-1, GRI 418-1, G5)

DATA PRIVACY AND SECURITY (Continued)

(GRI 410-1, GRI 418-1, G6)

Business Continuity Management

We have become the first organization in Bahrain, and among the first worldwide, to achieve ISO 22301:2019 Business Continuity Management System certification. We have implemented a Business Continuity Management (BCM) programme that allows us to enhance the resilience and continuity of critical services.

We continued maintaining and enhancing our Business Continuity and Operational Resilience framework, through utilization of innovative cloud-based management solutions. During the year, several exercises were conducted to simulate the response to site unavailability, cyber-attacks, and business disruptions and asset our response and recovery operations through extensive tests and exercises that were conducted on live and simulated disaster recovery environments.

We organized a training and professional certification program for our team on business continuity and resilience best practices through training them on the Business Continuity Institute (BCI) certification program.

Our contribution was expanded to participate in various international and regional projects and initiatives. Our CISO heads the Bahrain Association of Bank's Business Continuity Committee in Bahrain and is a professional jury member in all six BCI awards program across all regions. He was also a member in the BCI Award Working Party, involved in enhancing the award program and is the only Middle East participant in the BCI Good Practice Guideline (GPG) 2023 Working Group. Which consists of international experts tasked with developing the next version of the international best practice in Business Continuity and Resilience.

The integration in NBB has enabled us to further develop our BCM framework. A core team of individuals with expertise in the fields of resilience, information, and cyber security have worked together to develop and implement new systems for BCM across the group. Work has involved implementing, testing and auditing components, structures, templates and documentation for an enhanced BCM system. The first group wide BCM framework was jointly developed and approved by the Board at the end of 2021. Our approach is closely aligned with best practices and international standards. The system has enabled us to better understand the challenges, gaps in infrastructure,

interdependencies, and potential scenarios. The full BCM framework, which is cloud-based and paperless, brings a number of advantages including process efficiencies, the provision of computer-based training that is accessible for all staff and new joiners, enhanced exercises, automation of key processes, the development of new measures and performance indicators that are linked to the Board approved policies, and reductions in cost. Our success in carrying out this project was marked by the receipt of multiple Business Continuity Institute (BCI) awards since 2020, which recognized the progress we have made towards creating a unified group operation and adapting global best practices in business continuity and resilience. The synergy between the two organizations was highlighted by achieving the BCI Continuity and Resilience Team Award for the Middle East and Global Award program. Making us the first organization in Bahrain to achieve an award in the global category and the first to achieve four awards from the BCI within a span of three years.

TEAM COMPETENCY

Professional certification

28

The total number of professional certifications in the information security, continuity and privacy field.

Computer-based training

612

The total number of computer-based training modules completed by our staff.

INTELLECTUAL CAPITAL (Continued)

(GRI 203-2, GRI 204-1, GRI 418-1, G5)

DATA PRIVACY AND SECURITY (Continued)

(GRI 410-1, GRI 418-1, G6)

Case Study: Leveraging Technology to Streamline Customer Onboarding

BisB continues to digitalize its customer onboarding processes to eliminate manual documentation and paperwork. In addition, digital platforms provide BisB client's greater security, accessibility, privacy, convenience, and process efficiency, resulting in time savings for both customers and the Bank.

BisB is ensuring that its digital platforms are proficient and user-friendly, attracting more customers and improving the Bank's bottom line. Digital technology is helping us facilitate background checks and compliance with know-your-customer (KYC) and anti-money laundering (AML) regulations through automation and integration with AI-driven identity verification services.

Furthermore, digitalization automates data storage and access, improving internal processes' efficiency.

Automation also assists in research and data analysis, which is useful in improving business functions.

BisB developed several new digital processes in 2022 to automate customer onboarding.

• Kiosks

The Bank set up kiosks for new customers. The system was integrated with Wathiq, the National electronic know-your-customer (eKYC) platform. The technology automates the customer data verification process, reducing the need for paper documentation.

• Credit-card application

BisB automated its credit-card application process, which allows customers to apply for new credit cards through online banking and the Bank's app.

• Mobile corporate onboarding

BisB has also automated its systems to sign up new corporate accounts. Companies can open a business account with the Bank remotely with back-end integration with Sijilat, the Bahraini government's digital platform for issuing commercial licenses and business registration. Corporate account holders can also access their information through the Bank's digital platforms and update data as needed.

Digital platforms provide BisB client's greater security, accessibility, privacy, convenience, and process efficiency, resulting in time savings for both customers and the Bank.

07

Natural Capital

Preserving natural resources

We aim to measure, track, and minimize our environmental footprint using a targeted approach that focuses on our energy consumption, water usage, waste reduction, and more.





NATURAL CAPITAL

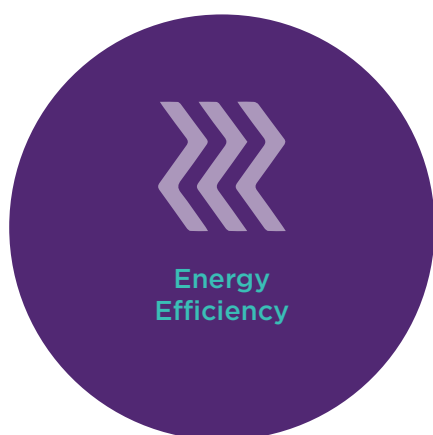
(GRI 302-1, GRI 302-2, GRI 302-4, GRI 303-5, GRI 305-1, GRI 305-2, GRI 305-3, GRI 305-4, GRI 305-5, GRI 306-4, E1, E2, E3, E4, E5, E6)

ENVIRONMENTAL IMPACT

Managing our environmental footprint is a core pillar of our ESG strategy. It is a precursor to operating as a sustainable organization that works in harmony with our natural ecosystem. We aim to measure, track, and minimize our environmental footprint using a targeted approach that focuses on our energy consumption, water usage, waste reduction, and more.

This year we continued to build our awareness of sustainability practices, reviewed our internal policies, and identified areas of opportunity where we can reduce our environmental footprint. Based on our assessment of environmental best practices and the interaction of the Bank with all its stakeholders, we continued with several positive initiatives.

BisB also implemented new programs focusing on improving our energy efficiency, conserving water usage, reducing waste generation, and mitigating climate risk. All our targets, processes, and monitoring activities across these 4 areas were aligned with NBB this year using a comprehensive Environmental Management System.



NATURAL CAPITAL (Continued)

(GRI 302-1, GRI 302-2, GRI 302-4, GRI 303-5, GRI 305-1, GRI 305-2, GRI 305-3, GRI 305-4, GRI 305-5, GRI 306-4, E1, E2, E3, E4, E5, E6)

ENVIRONMENTAL IMPACT (Continued)

Energy Efficiency

Our objective is to optimize our energy consumption. We undertook steps to track our energy use across various activities, including Bank operations, overseas travel, and more. With key markers, we have actively worked to minimize our consumption of different energy sources, such as electricity and fuel, across these activities.

Water Conservation

Water conservation measures at BisB include tracking our water consumption and expenditure, implementing different methods of minimizing wastage, including raising awareness among staff.

Energy Consumption

Energy Consumption	Scope	Unit	2020	2021	2022
Fuel from Owned Vehicles	Direct (Scope 1)	GJ	N/A	N/A	164.95
Electricity	Indirect (Scope 2)	GJ	13,359.23	13,082.04	14,025.63
Total Energy Consumption	Direct & Indirect (Scopes 1 & 2)	GJ	13,359.23	13,082.04	14,190.58

Energy Intensity

Energy Intensity (GJ/Employee)	Scope	2020	2021	2022
Fuel from Owned Vehicles	Direct (Scope 1)	-	-	0.51
Electricity	Indirect (Scope 2)	38.17	39.52	43.29
Total Energy Intensity	Direct & Indirect (Scopes 1 & 2)	38.17	39.52	43.80

Water Consumption

Energy Intensity (GJ/Employee)	Scope	Unit	2020	2021	2022
Water Consumption	Scope 3	m ³	8,326	6,613	8,020

Water Intensity

Water Intensity (M3/Employee)	Scope	2020	2021	2022
Water Intensity	Scope 3	23.79	19.98	24.75

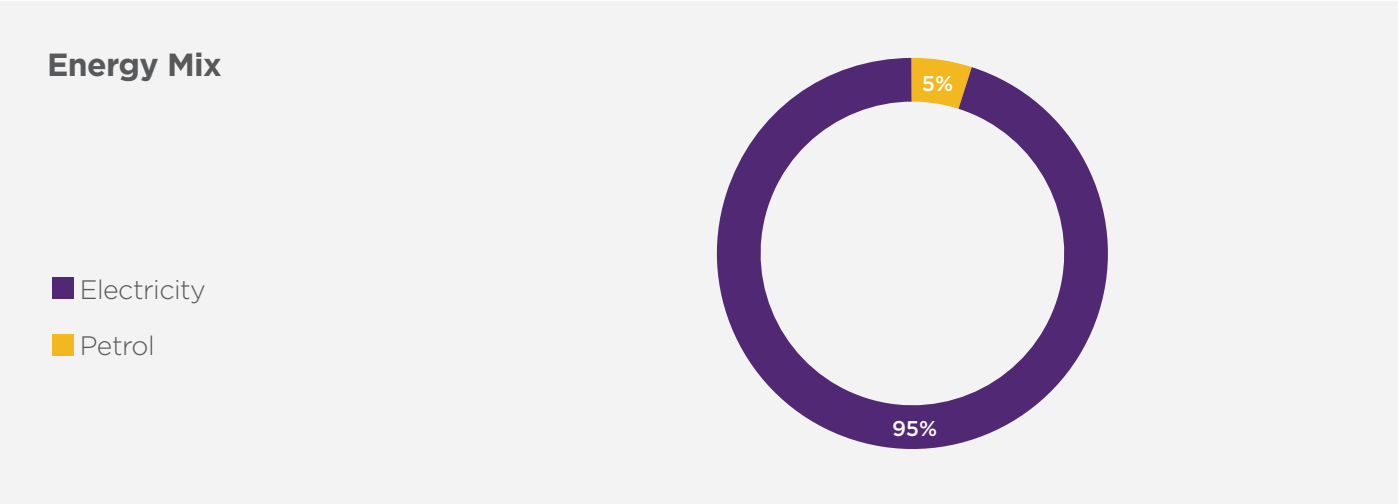
Waste Reduction

We strive to reduce our waste generation by implementing recycling and composting programs, promoting eco-friendly products across our offices, and reducing our reliance on paper and packaged products.

NATURAL CAPITAL

(GRI 302-1, GRI 302-2, GRI 302-4, GRI 303-5, GRI 305-1, GRI 305-2, GRI 305-3, GRI 305-4, GRI 305-5, GRI 306-4, E1, E2, E3, E4, E5, E6)

ENVIRONMENTAL IMPACT (Continued)



GHG Emissions

GHG Emissions (MT CO ₂ e)	2020	2021	2022
Scope 1 (Fuel)*	-	-	9.64
Scope 2 (Electricity)	1,649.46	1,615.23	1,731.73
Scope 3 (Water, Wastewater, Waste, Paper consumption)**	33.95	27.37	33.75
Total	1,683.41	1,642.60	1,775.12

* Scope 1 data is only available for 2022

** Scope 3 data is inclusive of 2021 and 2022 only

Climate Risk

With increasing climate change, BisB faces climate risks like all other banks and businesses worldwide. To successfully mitigate climate risk, financial and non-financial organizations worldwide must take proactive steps to reduce their emissions, invest in clean technologies, and engage with their policymakers to drive decarbonization.

Financial institutions face specific challenges and greater risks from climate change. Climate change vastly increases exposure to expected and unforeseen default risk, hampering banks' lending and investment activities. Borrowers in heavy emitting industries add to the default risk, which is also impacted by the threat to physical assets and infrastructure from climate-caused disasters.

Climate change will expose financial institutions to greater systemic market and economic risk.

To mitigate against climate risk, we actively consider exposure in our operational decisions, lending, and investment activities. We plan on incorporating climate risk in our risk management framework and processes. We are taking a proactive approach to reducing our Bank's greenhouse gas emissions. We are also starting to focus our financing and investment practices on the clean technology sector.

2023 will be a crucial year for climate risk mitigation at BisB. We aim to increase climate risk awareness within the Bank and its stakeholders while also developing risk assessment tools for our clients that considers climate related and overall ESG exposure.

To minimize our direct environmental footprint, we have also developed an ESG questionnaire in collaboration with our corporate clients. The questionnaire aims to develop their awareness of ESG issues. It is designed to help us understand how we can help them become more sustainable through existing and new financial products and services. For example, the responses to the questionnaire are used in the credit applications of our clients, enable preferential pricing for more sustainable clients, and have enabled us to create green financing solutions.

08

Social & Relationship Capital

Supporting our community

Since its establishment, BisB has been committed to its corporate social responsibility. Over the years, we have implemented and supported various initiatives to strengthen our local communities in line with our Islamic principles and commitment to giving back.





SOCIAL & RELATIONSHIP CAPITAL

(GRI 203-2, GRI 413-1, S12)

The Jood social responsibility Team comprises sponsorship of welfare programs, zakat collection and distribution, and regular donations to charity organizations aligned with BisB values.

COMMUNITY INVESTMENT

How We Support Our Communities

Since its establishment, BisB has been committed to its corporate social responsibility. Over the years, we have implemented and supported various initiatives to strengthen our local communities in line with our Islamic principles and commitment to giving back.

Our dedicated volunteer Team, Jood, primarily leads philanthropy and CSR at BisB. The Jood social responsibility Team comprises sponsorship of welfare programs, zakat collection and distribution, and regular donations to charity organizations aligned with BisB values. Jood has consistently delivered on BisB's promise to support the communities where we operate through programs aimed at social welfare, education, health, the environment, and community development.

We also regularly partner with government agencies and NGOs on community development and sustainability initiatives. The success of our philanthropic efforts is largely due to the commitment of our employees who volunteer their time to worthy causes in their communities.

Community Service in Practice

In 2022, BisB organized and supported several programs as part of its corporate social responsibility agenda.

• April

Throughout the year, BisB supported various educational programs and initiatives. One of these was a virtual workshop organized by the NGO INJAZ Bahrain. Executives from the Bank helped judge the World of Innovation workshop, which was designed to teach students how to solve real-world business problems. The participants were judged on their creative thinking, innovation, teamwork, and leadership skills.

That same month, Jood organized the 'Iftar on the Road' drive that distributed Iftar packages to help people break their fast during Ramadan. Through this initiative, we embraced the spirit of generosity and reaffirmed our devotion to our communities.

• May

BisB welcomed senior students from Riffa Views International School to its headquarters, continuing its promise to support educational programs in the country. They toured different departments and offices and witnessed how an Islamic finance institution conducts its day-to-day operations. They also received a tour of BisB's Innovation Lab and saw how we use technology to innovate our business functions.

BD9.6million

We support our local communities and businesses by sourcing directly from them. In 2022, 80% of the Bank's suppliers were locally based and earned a total of BHD 9.6 million from the Bank.

SOCIAL & RELATIONSHIP CAPITAL (Continued)

(GRI 203-2, GRI 413-1, S12)

COMMUNITY INVESTMENT (Continued)

• June

As part of its CSR activities, the Social Committee of BisB organized a blood donation drive for its employees on World Blood Donor Day, held on June 14. The event was organized in collaboration with the Friends of Health Association and King Hamad University Hospital. The drive was also geared toward raising awareness about safe blood and the importance of the contributions of voluntary blood donors to national health systems worldwide.

• July

July was a busy month for the Bank's outreach and community service activities. Several new initiatives and programs were launched. Team Jood collaborated with the Future Society for Youth for their 'Smile' initiative to provide mental health support to children suffering from cancer and their families. Volunteers from BisB and the NGO organized a fun day for young cancer patients and their families at Magic Island in Seef Mall. Later, the children were given presents in celebration of Eid Al Adha.

In July, Jood organized a community service day at the Al Sanabel Orphan Care Society. BisB volunteers accompanied 30 children from the orphanage on a shopping day, buying them presents ahead of Eid Al Adha.

BisB also kicked off another initiative to support education in the country during July. We finalized a partnership with the University of Bahrain's College of Business Administration, committing to an internship program for its students. Under the program, qualifying students will receive a six-month internship at the Bank where they get hands-on experience, work in different departments, and receive training for their future professional careers.

BisB joined another collaborative effort with the University of Bahrain to provide practical training to students enrolled in the Master of Financial Technology (FinTech) program. The collaboration supports the Central Bank of Bahrain's FinTech and Innovation initiative. Students are given access to the central bank's digital lab FinHub 973 and learn about personal finance management at BisB.

• August

As part of its zakat program, BisB procured and distributed school supplies among the less privileged children of Bahrain during August.

• September

In September, BisB partnered with INJAZ Bahrain once more to organize the Future Leaders Camp. BisB organized the event to promote its Future Leaders line of financial products geared toward children. The camp consisted of events teaching children financial management, innovative thinking, and leadership skills. These included sessions on cashless payments, such as prepaid cards and wristbands, enabling parents to track and manage their children's finances.

• October

BisB sponsored the 9th conference of the Bahrain Society of Child Development in line with its promise of supporting educational research. The conference's topic was Childhood and Technology: Opportunities and Challenges. Participants discussed the psychological, economic, health, social, and educational impact of digital technology on children, how it can be leveraged to teach youth skills, and ways to mitigate the risk of excessive use and dependency.

One of BisB's most innovative programs to support small and new businesses was announced in October. Under the initiative, new corporate accounts will be offered a complimentary branding package, which includes logo design and other graphic designing services, to help new businesses with their initial design and marketing campaigns. Moreover, BisB is also supporting young graphic design graduates through this program by hiring them to provide these services to help them gain valuable real-world experience.

• November

As part of its ESG initiatives, BisB began an annual tree-planting drive in 2022 in cooperation with the Ministry of Municipalities Affairs and the Supreme Council for Environment. The 2022 drive was held at the Sheikh Abdulla bin Khalid Al Khalifa Health Center, where more than 70 trees and shrubs were planted. In attendance at the event were Her Excellency Shaikha Maram bint Isa Al Khalifa, the Secretary-General of NIAD, Dr. Lulwa Showaiter, Acting Chief Executive of the Primary Healthcare Centers, Mr. Yaser Alsharifi, Chief Executive Officer of BisB, and several volunteers from BisB's Team Jood as well as a number of the Bank's employees from various departments. The "Forever Green" campaign is backed by the patronage of her Royal Highness Princess Sabeeka bint Ibrahim Al Khalifa.

• December

As part of its Zakah program, BisB distributed grocery store coupons among single mothers to help them feed their families.

SOCIAL & RELATIONSHIP CAPITAL (Continued)

(GRI 203-2, GRI 413-1, S12)

RESPONSIBLE SOURCING

BisB is driven to promote sustainability and social responsibility across its supply chain to eliminate risk to the Bank's reputation, support the local business community, and manage abate some of its Scope 3 Greenhouse Gas Emissions. Responsible sourcing entails ensuring that all of BisB's supply chain partners use ethical and sustainable practices to procure their materials. It also means ensuring that all our suppliers use fair labor practices, minimize their environmental impact, and provide safe working conditions.

In addition, responsible resource procurement is essential in our efforts to boost the local economy. We support our local communities and businesses by sourcing directly from them. In 2022, 80% of the Bank's suppliers were locally based and earned a total of BHD 9.6 million from the Bank.

Year	Total Number of Suppliers	Local Suppliers Percentage
2020	286	79%
2021	250	78%
2022	133	83%

Year	Total Procurement Spending (in BD)	Total Procurement Spending on Local Suppliers (in BD)
2020	10.4 million	8.7 million
2021	8.4 million	7.1 million
2022	11.5 million	9.6 million

At BisB, sourcing and promoting the national economy by supporting local businesses and suppliers. We put all prospective suppliers through a rigorous vetting process to measure service quality, vendor capability, and cost competitiveness.

SOCIAL & RELATIONSHIP CAPITAL (Continued)

(GRI 203-2, GRI 413-1, S12)

RESPONSIBLE SOURCING

(Continued)

Case Study: Creating Future Leaders Through Education and Innovation

A country's future is its youth. Therefore, it is critical that Bahrain invests in the education and training of its future leaders to enable them to become valuable drivers for economic growth, social improvement, and sustainability transformation. BisB is playing its part in supporting and providing financial education and training to children in Bahrain. We have implemented and supported several programs that teach skills like financial management to high school and college students.

Investing in Financial Literacy

Prudent financial literacy is the key to empowering young adults and ensuring they make smart economic decisions. In 2022, we introduced various educational initiatives to increase financial literacy in our youth. Our programs were organized in collaboration with the following:

- **INJAZ Bahrain**

One of our key financial literacy programs, Future Leaders Camp, was conducted in partnership with the NGO INJAZ Bahrain. The initiative was developed to promote BisB's financial products designed for children to help them learn financial management safely and securely. The camp included interactive games and activities to teach children how to solve real-world business problems. Conversations were led about concepts like cashless payment systems like prepaid cards and wristbands, which give children financial independence and enables parents to track and manage their children's financial activity through our digital platforms.

We also hosted the World of Innovation tournament in partnership with INJAZ. The tournament pushed students to devise innovative solutions to real-life challenges in the business world by thinking creatively and working together. The initiative also tested the participating students' leadership, critical thinking, and presentation skills, teaching them the basics of starting a business in today's environment.

- **Riffa Views International School**

Continuing its commitment to providing financial literacy to children, BisB opened its doors to high school students from Riffa Views International School. The students toured our headquarters, visited different departments and offices, and learned about Islamic financing and banking.

- **University of Bahrain**

BisB also partnered with the University of Bahrain's College of Business Administration and launched an internship plan for students enrolled in the FinTech master's program. The internship program is designed to take students out of the classroom and give them a six-month practical training in banking and financial management. Participants in the program are rotated through different departments so they can get a comprehensive understanding of a Bank's operations.

Under the program, CBB's masters of FinTech students also access the Central Bank of Bahrain's digital lab FinHub 973 to learn about the latest innovations and digital transformations taking place in the banking industry.

09

SAFEGUARDING VALUE



At BisB, we safeguard the financial interests of our stakeholders by ensuring a comprehensive system of checks, balances, and accountability. The Bank maintains its financial stability and business continuity by ensuring sufficient liquidity, implementing effective risk management and internal control systems, and complying with all relevant laws and regulations.

We have put in place systematic checks to ensure business functions are performed efficiently, and our risk exposure is minimized. Our robust internal governance system aligns our operations with our core mission of delivering financial growth to our customers and shareholders through innovative banking services.

BisB also strives to have a robust compliance framework that ensures all employees and departments follow internal policies and the regulatory requirements of all relevant authorities. The governance structure at BisB comprises several board committees that ensure separation of functions on our financial performance, remunerations, governance, and sustainability practices.

Moreover, our risk management division monitors our services and operations and assesses our credit, liquidity, market, and reputation risks. We aim to keep our risk exposure at a minimum and avoid breaches of internal and external policies and regulations. Our independent internal audit function plays a crucial role here, providing extra protection against internal and external threats.



SAFEGUARDING VALUE

(GRI 2-9, GRI 405-1, GRI 2-23, GRI 2-24, GRI 410-1, G1, G2, G3, S9, S10)

ROBUST GOVERNANCE STRUCTURE

(GRI 2-25, GRI 2-26, GRI 2-27, GRI 205-1, GRI 205-2, GRI 205-3, G6)

At BisB we recognize that responsible and ethical governance is essential to the success of any organization, especially as we assume greater economic responsibility and exposure to risk.

BisB's governance structure identifies key individuals and committees that provide oversight to the Bank's operations in line with our internal rules and external regulations. Our Board of directors and executive management are responsible for making strategic decisions and ensuring company-wide alignment with the Bank's vision, mission, and guiding principles.

Our governance structure is supported by policies and frameworks that define business rules. These protocols primarily govern our human resources and financial management. Furthermore, we have formal frameworks for whistleblowing, countering money laundering, and fraud prevention to ensure compliance with regulatory requirements and ethical business practices.

BisB's governance structure aims to ensure that the Bank is run efficiently, in line with industry best practices and protects the interests of all stakeholders.

Board of Directors

BisB has 5 board committees that oversee the Bank's operations and ensure good governance:

- Executive Committee
It is empowered by the Board to manage the group's ongoing credit activities. Decisions by the Board Executive Committee are taken at periodic meetings or when (and if) circumstances call for it.
- Nomination, Remuneration, Governance & Sustainability Committee
It determines all Bank employees' rewards and incentive structures, advising the Bank's compensation policies and practices. It also determines the variables across remuneration packages. This committee aims to ensure fair and responsible compensation for all employees.
- Audit Committee
It is responsible for conducting internal audits of business functions to ensure adherence to internal control processes and procedures.

- Board Risk & Compliance Committee
It is responsible for overseeing the Bank's risk management governance, specifically concerning identifying, measuring, monitoring, and reporting the risks critical to the Bank's operations.

- Board Independent Committee
It oversees supervising the acquisition of BisB's shares. The Board Independent Committee has been reactivated to handle an advisory role and provide advice and recommendations to the Board of Directors on issues related to synergies between the National Bank of Bahrain (NBB) and BisB.

SAFEGUARDING VALUE (Continued)

(GRI 2-9, GRI 405-1, GRI 2-23, GRI 2-24, GRI 410-1, G1, G2, G3, S9, S10)

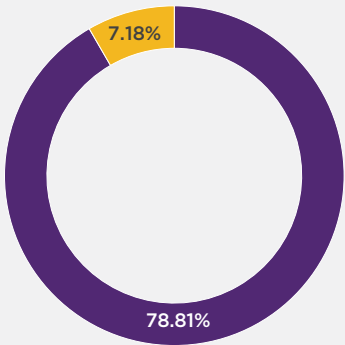
ROBUST GOVERNANCE STRUCTURE (Continued)

(GRI 2-25, GRI 2-26, GRI 2-27, GRI 205-1, GRI 205-2, GRI 205-3, G6)

BisB Ownership Structure

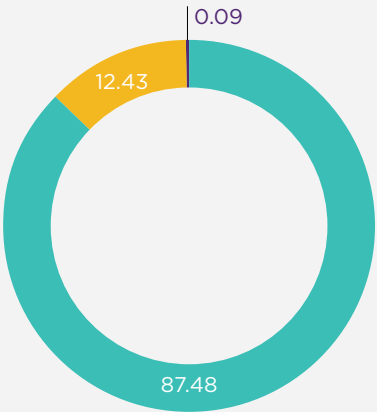
Major Shareholders

- National Bank of Bahrain
- General Council of Kuwaiti Awqaf



Shares by Nationality

- Bahrain
- GCC
- Others



SAFEGUARDING VALUE (Continued)

(GRI 2-9, GRI 405-1, GRI 2-23, GRI 2-24, GRI 410-1, G1, G2, G3, S9, S10)

COMPLIANCE

BisB is committed to ensuring that the activities of the Bank and its employees are conducted in accordance with the applicable laws and regulations issued by relevant regulatory authorities, as well as the Bank's internal policies and procedures. The Compliance function at BisB is independent of any Business Unit and reports directly to the Board Risk and Compliance Committee (BRCC). The Compliance Department assists in the development of a healthy compliance culture by increasing awareness of the regulatory environment and the compliance risks that the Bank is exposed to. Its role includes covering against the risk of legal or regulatory sanctions, material financial loss, or loss of reputation that the Bank may suffer as a result of its failure to comply with laws, regulations, directives, directions, reporting requirements and codes of conduct, including internal code of conduct.

The Compliance functions fall under the second line of defence alongside other support functions, such as risk management, legal, human resources, finance, operations, and information technology. Each of these functions, in close relationship with the business units, ensures that risks in the business units have been appropriately identified and managed. The business support functions work closely to help define strategy, implement Bank policies and procedures, and collect information to create a Bank -wide view of risks.

We strive to strengthen our compliance culture and are committed to enhancing our policies, procedures, systems, and controls. Considering the regulatory updates and the Bank's internal guidelines, the Compliance Department ensures that the Bank's policies and procedures are periodically reviewed and approved by the Management, and the Board of Directors, as applicable. Accordingly, Compliance risk monitoring is a continuous process of examining whether sufficient Compliance risk controls are designed and working effectively.

BisB is committed to implementing Anti-Money Laundering and Combating the Financing of Terrorism ("AML/CFT") Policy and Procedures Framework in conformity with the legal and regulatory requirements of the Kingdom of Bahrain as well as the Central Bank of Bahrain's Financial Crime Module - Rulebook - (Volume 2). These legal and regulatory requirements align with The International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation, including the FATF's Recommendations. The Framework also includes adopting procedures reasonably designed to comply with the requirements of applicable local and International Sanctions Programs.

INTERNAL AUDIT

BisB's internal audit division is responsible for evaluating and providing reasonable, objective and independent opinions about the adequacy and the effectiveness of the bank's internal controls, risk management, and governance processes. Our audit committee charter, internal audit charter, and whistleblowing policy were updated and aligned with the recommendations made by the Group, this year.

The bank's internal system software provides access to the Board's Audit Committee, and our Annual Audit Report provides key insights into the bank's performance, risk management, and outlook.

The internal audit team conducts regular audits of the bank's operations and systems to identify any areas of weakness or risk and provides recommendations for improvement. The internal audit team members are encouraged to continue learning at the Data Literacy Academy or using other learning sources to improve performance and proficiently use data analytics tools. In addition, BisB has expanded its internal audit team, showing its commitment to improving the bank's operations via audit reviews

that are conducted. Furthermore, our bank's internal audit team collaborated with the Group's internal audit team on several projects to raise awareness about relevant issues within the organization.

RISK MANAGEMENT

BisB's risk management division is responsible for identifying, assessing, and managing the Bank's risks. The main objective is to maintain the Bank's profitability, protect financial assets, and minimize risk.

The division develops and implements policies and procedures to mitigate risks, monitor, and report the Bank's overall risk profile. This includes identifying and measuring the Bank's exposure to continuously monitor if the bank is operating within limits. The Board's Risk and Compliance Committee advises the Board of Directors on the risk limits the bank should set. The limits set forth and the Bank's overall risk management policy protect asset values, revenue streams, and the value of our portfolios. They are binding on all bank employees.

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CORPORATE GOVERNANCE REVIEW

Corporate Governance Framework

Bahrain Islamic Bank B.S.C. (“BisB” or the “Bank”) is committed to upholding the highest standards of corporate governance by way of balancing entrepreneurship, regulatory compliance, and industry best practices, while creating value for all stakeholders. It also involves having the right checks and balances in place throughout the organization to ensure that the Bank’s processes are within an adequate, efficient, and robust internal control and governance framework.

Statement of Responsibility

The Board of Director (the “Board”) is ultimately accountable to the shareholders for the creation and delivery of strong sustainable financial performance and long-term shareholder value through strategic initiatives. The Chairman is responsible for leading the Board, ensuring its effectiveness, monitoring the performance of the Executive Management and maintaining a dialogue with the Bank’s shareholders. The Board has established the following Committees to assist it in carrying out its responsibilities:

1. Executive Committee (“EC”);
2. Audit Committee (“AC”);
3. Nomination, Remuneration, Governance, and Sustainability Committee (“NRGSC”);
4. Board Risk and Compliance Committee (“BRCC”); and
5. Board Independent Committee* (BIC).

* The Board Independent Committee has been formed to handle an advisory role and provide advice and recommendations to the Board of Directors on issues related to integration and synergies between National Bank of Bahrain (NBB) and Bahrain Islamic Bank (BisB). BisB’s corporate governance framework is built on a code of business conduct, policies, procedures, internal controls, risk management, Shari’a review and audit, internal and external audit and compliance functions. The framework is based on effective communications, transparent disclosures, performance measurement and accountability. An independent Internal Audit function is established within the Bank that reports functionally to the AC.

Code of Business Conduct

BisB conducts its business in accordance with the highest standards of ethical behavior. A Code of Business Conduct has been developed, based on the Central Bank of Bahrain (“CBB”) Principles of Business regulations, to govern the personal and professional conduct of the directors and employees of the Bank. The code is based on the following principals:

- | | |
|-----------------------------------|--------------------------------------|
| 1. Integrity; | 6. Customer Assets; |
| 2. Conflicts of Interest; | 7. Customer Interests; |
| 3. Due Skill, Care and Diligence; | 8. Relations with Regulators; |
| 4. Confidentiality; | 9. Adequate Resources; |
| 5. Market Conduct; | 10. Management, System and Controls. |

The requirements under each of the above principles are made available to the Board and employees of the Bank. The Board monitors any exceptions to the above principles by way of reviewing formal reports issued to the Board’s AC.

CORPORATE GOVERNANCE REVIEW (Continued)

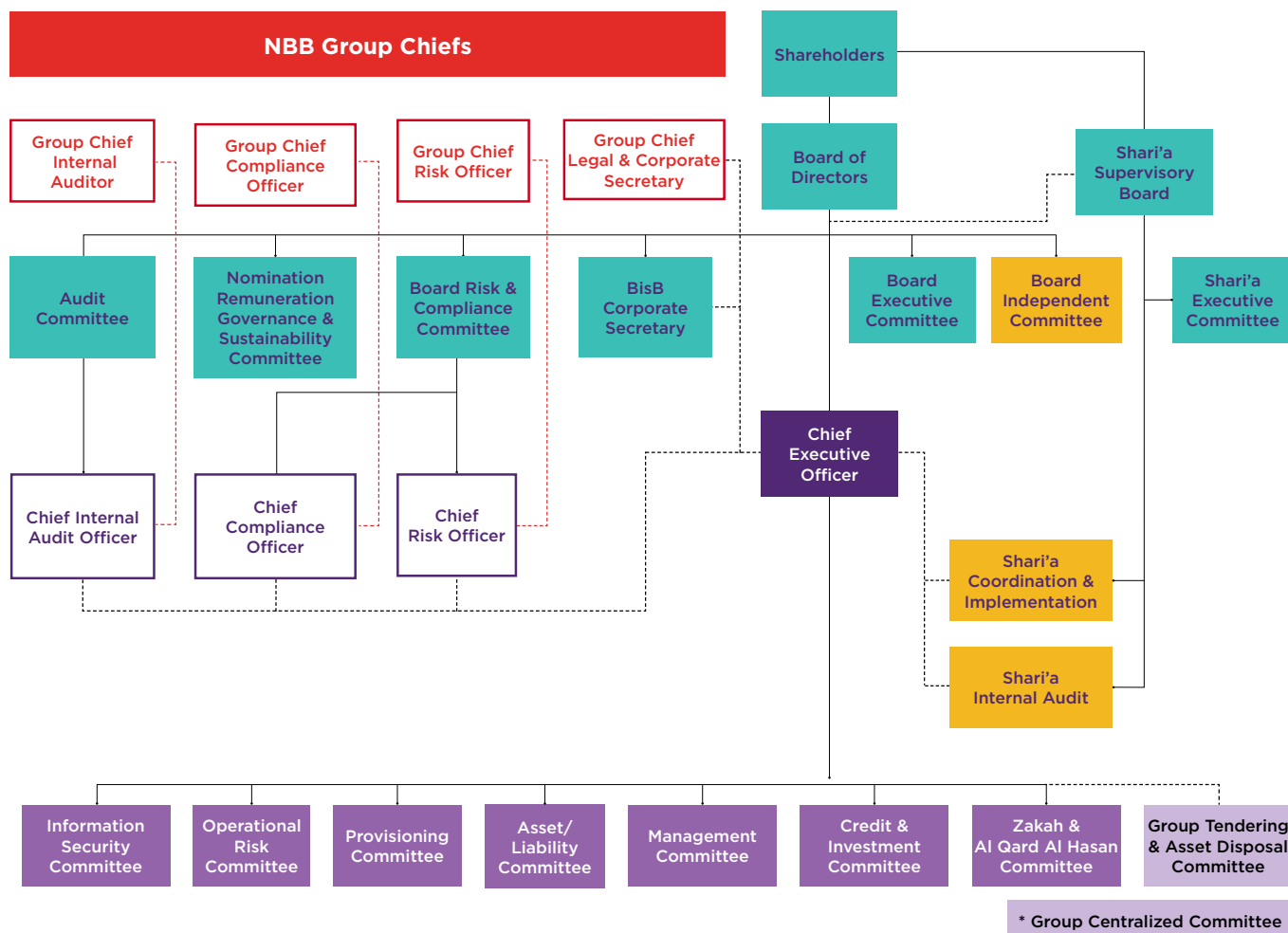
Compliance

Compliance is an independent function that reports to the BRCC. The Compliance function, guided by the Board's approved policies, works with various business and control functions of the Bank to ensure compliance with the applicable rules and regulations of the relevant regulatory authorities. Given the digital business strategy of the Bank, as well as the expanding regulatory scrutiny and enforcement, the Compliance Department of the Bank is keeping up with the digital advancements by participating in the risk management process from regulatory compliance perspective.

Communications

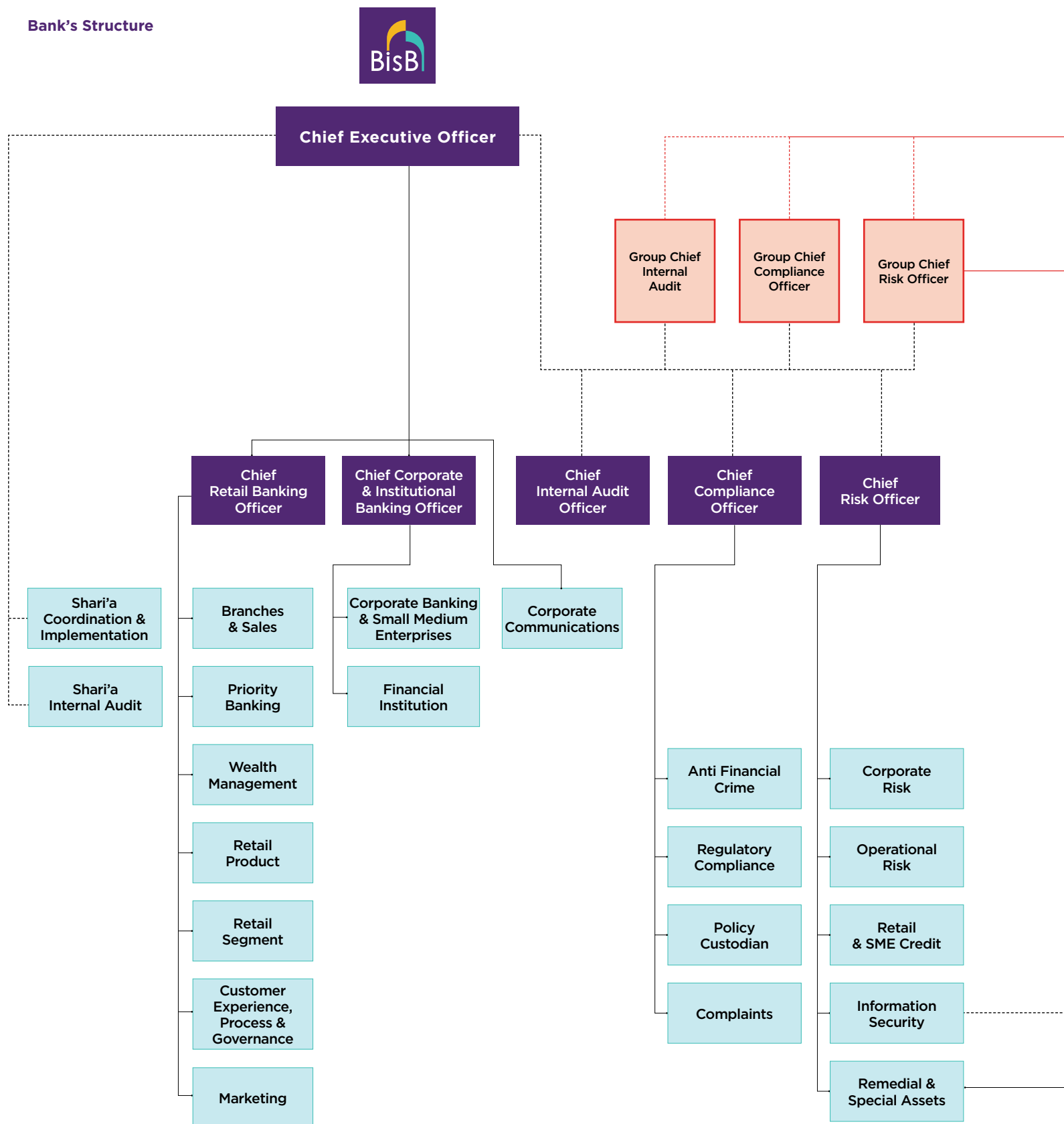
BisB conducts all communications with its stakeholders in a professional, honest, transparent, understandable, accurate and timely manner. Main communication channels include the annual report, website, and regular announcements in the appropriate local media.

Governance Structure

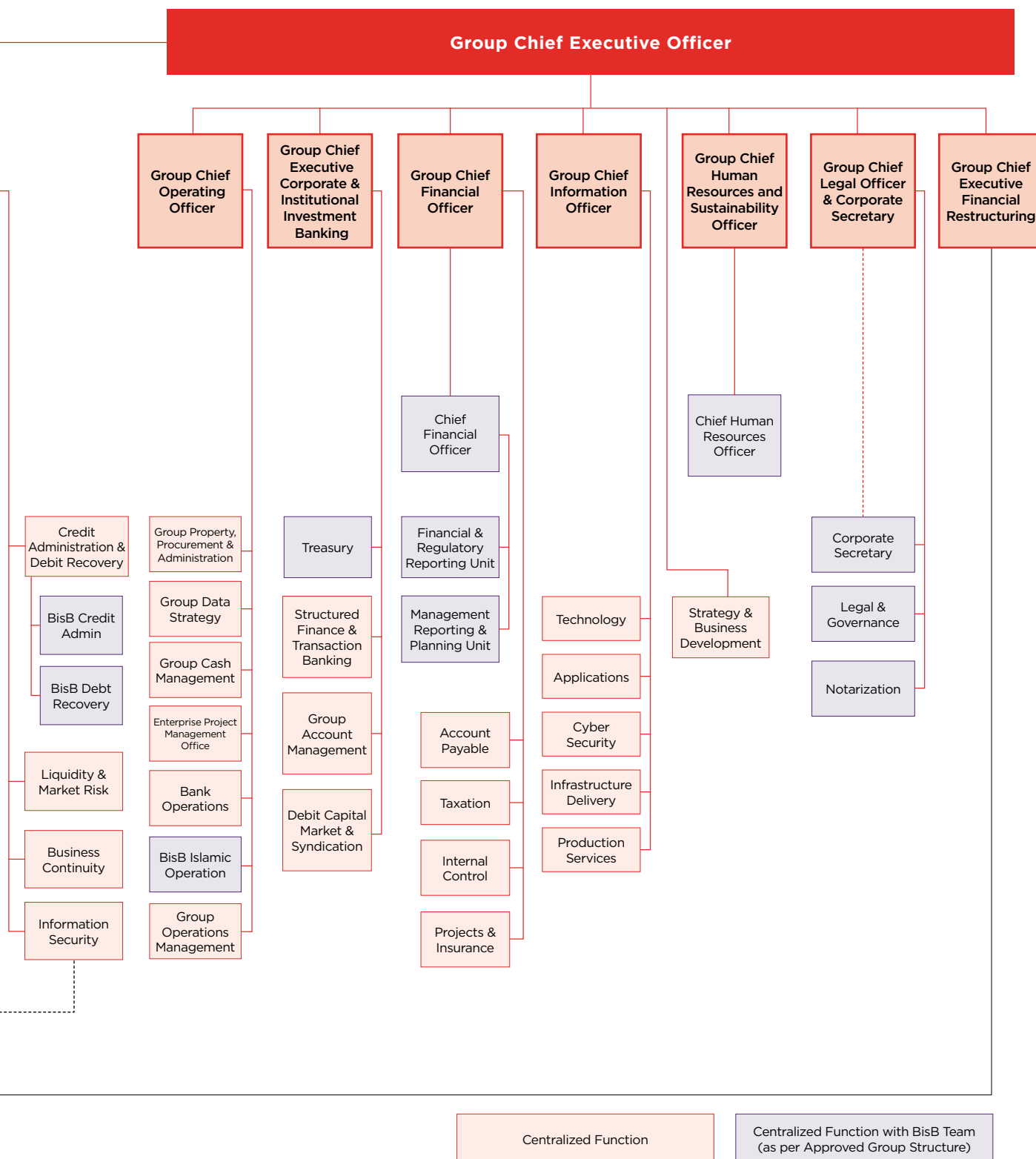


CORPORATE GOVERNANCE REVIEW (Continued)

Bank's Structure



CORPORATE GOVERNANCE REVIEW (Continued)



CORPORATE GOVERNANCE REVIEW (Continued)

Board of Directors Composition*

No.	Director	Designation	Start Date	Term
1.	Dr. Esam Abdulla Fakhro	Non-Executive & Non-Independent	23 Mar 2016	Third
2.	Mr. Khaled Yusuf AbdulRahman	Non-Executive & Non-Independent	23 Mar 2016	Third
3.	Mr. Jean Christophe Durand	Executive Director	05 Feb 2020	Second
4.	Mr. Khalid Abdulaziz Al Jassim	Non-Executive & Independent	21 Mar 2019	Second
5.	Mr. Marwan Khaled Tabbara	Non-Executive & Independent	21 Mar 2019	Second
6.	Mr. Mohammed Abdulla Nooruddin	Non-Executive & Independent	21 Mar 2019	Second
7.	Mr. Saqer Abdulmohsin Alsijari	Non-Executive & Independent	28 Mar 2022	First
8.	Mr. Yaser Abduljalil Alsharifi**	Executive Director	05 Feb 2020	Second
9.	Ms. Dana Abdulla Buheji	Executive Director	05 Feb 2020	Second
10.	Mr. Isa Hasan Maseeh	Executive Director	19 Apr 2020	Second

* 10% of the Board Members is represented by women.

** Resigned from BisB Board on 13 Sep 2022.

The detailed profiles of the Board members are available on the Bank's website.

Board of Directors' Responsibilities

The primary responsibility of the Board of Directors is to provide effective governance over the Bank's affairs for the benefit of its stakeholders and to balance the interests of its diverse constituencies, including associated concerns, employees, and other stakeholders. In all actions taken by the Board, the Directors are expected to exercise their business judgment in what they reasonably believe to be in the best interests of the Bank.

The Board will approve and oversee the implementation of the Bank's strategies and will review and approve the Bank's strategic plan. As part of its strategic review process the Board will review major action and business plans, set performance objectives, and oversee major investments, divestitures, and acquisitions. The Board is also ultimately responsible to ensure effective risk management function, regulatory compliance, adequate internal controls, preparation of financial statements as well as compliance with Shari'a rulings. Every year, at an annual Board strategy session, the Board will formally reassess the Bank's objectives, strategies and plans.

One of the Board's most important responsibilities is identifying, evaluating and selecting candidates for the Board of Directors. The Board will seek members from diverse professional backgrounds who combine a broad spectrum of experience and expertise with a reputation for integrity. Directors should have had experience in positions with a high degree of responsibility, be leaders in the companies or institutions with which they are affiliated and be selected based upon the contributions they can make to the Board.

The Board may not necessarily carry out all these responsibilities but should ensure that these have been delegated to various board committees or executive management committees to act on their behalf and communicate periodic reports to the Board for their review.

Induction of New Directors

The Bank provides an orientation program for new Directors which includes presentations by senior management on the Bank's strategic plans, its significant financial, accounting and risk management issues, its compliance programs, its operations, its Code of Conduct, its management structure and executive officers and its internal and external auditors. A guideline for new board members were created under codified document called the "New Board Member Onboarding Guidelines". This document is put in place to ensure that new board members are able to fulfil their governance responsibilities and director duties, and most importantly adjust to the Bank as soon as possible.

CORPORATE GOVERNANCE REVIEW (Continued)

Code of Conduct

The Bank adopts a Code of Conduct and other internal policies and guidelines to comply with the laws, rules and regulations that govern the Bank's business operations. The Code of Conduct applies to all employees of the Bank as well as to Directors.

Review of Internal Control Processes and Procedures

The Audit Committee assists the Board in fulfilling its oversight responsibility relating to the performance of the internal audit function, which regularly reviews and ensures adherence to internal control processes and procedures.

Board Membership

The Board of Directors' membership term is three years, subject to renewal. The current term started in March 2022 and is expected to end in March 2025. Shareholders owning 10% or more of the share capital have the right to nominate a representative on the Board of Directors in proportion to the number of Board members. A secret ballot is held at the Ordinary General Meeting for electing the remaining Board members. The Board of Directors elect, by a secret ballot, a Chairman and Vice Chairman for a renewable term of three years.

Membership of the Board of Directors can be terminated in the following cases:

1. If a member fails to attend at-least 75% of the meetings without a reasonable excuse;
2. If he/she tenders his resignation in writing;
3. If he/she fails to fulfil any related conditions referred to the Bank's Articles of Association;
4. If he/she is appointed or elected in violation of the provisions of the CBB Law and/or Bahrain Commercial Companies Law;
5. If he/she abuses his/her membership for carrying on other business that competes with or is detrimental to the Bank's business;
6. If the shareholder who nominated him/her applies for his/her removal; or
7. If the shareholder who nominated him/her is no longer a shareholder or loses its eligibility to nominate a representative on the board of directors.

Board Meetings and Attendance

Minimum Number of Meetings Required = 4

Members	15 Feb 22	28 Mar 22	25 Apr 22	27 Jul 22	24 Oct 22	28 Nov 22	27 Dec 22	Attendance Percentage
Dr. Esam Abdulla Fakhro	✓	✓	✓	✓	✓	✓	✓	100%
Mr. Khalid Yousif Abdul Rahman	✓	✓	✓	✓	✓	✓	✓	100%
Mr. Jean Christophe Durand	✓	✓	✓	✓	✓	✓	–	86%
Mr. Mohamed Abdulla Nooruddin	✓	✓	✓	✓	✓	✓	✓	100%
Mr. Khalid Abdulaziz Al Jassim	✓	✓	✓	✓	✓	✓	✓	100%
Mr. Marwan Khaled Tabbara	✓	✓	✓	✓	✓	✓	✓	100%
Mr. Saqer Abdulmohsin Al Sijari*	–	–	✓	✓	✓	✓	✓	83%
Mr. Yaser Abduljalil Alsharifi**	✓	–	✓	✓	–	–	–	75%
Ms. Dana Abdulla Buheji	✓	✓	✓	✓	✓	✓	✓	100%
Mr. Isa Hasan Maseeh	✓	✓	✓	✓	✓	✓	✓	100%

* Inducted as a new elected director on 28 Mar 2022 post "the Annual General Meeting" (AGM)

** Mr. Yaser Alsharifi resigned from BisB Board on 13 Sep 2022.

✓ Participated physically

✓ Participated via phone/video link

CORPORATE GOVERNANCE REVIEW (Continued)

Board Members Committee

Board Committee	Members	Objectives
Executive Committee (EC)	Mr. Jean Christophe Durand (Chairperson) Members: 1. Mr. Khalid Yousif Abdul Rahman 2. Mr. Yaser Abduljalil Alsharifi* 3. Mr. Hassan Amin Jarrar (non-voting member) ** * Resigned from BisB Board on 13 Sep 2022. ** Retired from BisB on 30 Sep 2022.	The EC assists the Board of Directors in fulfilling their responsibilities with regards to financing and investments activities, as well as any other matters not delegated to a specific Board Committee. Accordingly, the EC is empowered to approve specific credit and investment proposals, review budgets, plans and major initiatives for eventual submission to the Board for approval, and to monitor the Bank's performance against business plan objectives.
Audit Committee (AC)	Mr. Khalid Abdulaziz Al Jassim (Chairperson) Members: 1. Mr. Saqer Abdulmohsin Al Sijari 2. Mr. Isa Hasan Maseeh	The AC oversees the integrity and reporting of the Bank's quarterly and annual financial statements. It also covers review of audit findings, provisions, and impairments.
Nomination, Remuneration, Governance, and Sustainability Committee (NRGSC)	Dr. Esam Abdulla Fakhro (Chairperson) Members: 1. Mr. Mohamed Abdulla Nooruddin 2. Mr. Marwan Khaled Tabbara 3. Ms. Dana Abdulla Buheji	The NRGSC is responsible for developing and recommending changes from time to time in the Bank's nomination and remuneration policy, including the variable payment policy. It is also entrusted to identify and recommend persons occupying senior positions including board members. Furthermore, the committee also oversees Bank's governance related matters. NRGSC is also responsible of ensuring the availability of a continuously growing awareness around Environmental, Social, and Governance (ESG) and sustainability areas.
Board Risk and Compliance Committee (BRCC)	Mr. Marwan Khaled Tabbara (Chairperson) Members: 1. Mr. Mohamed Abdulla Nooruddin 2. Mr. Khalid Abdulaziz Al Jassim 3. Mr. Isa Hasan Maseeh	The BRCC is formed to assist the Board of Directors in fulfilling their regulatory as well as fiduciary responsibilities towards the stakeholders. Furthermore, the Committee also oversees compliance with legal and regulatory requirements.
Board Independent Committee (BIC)	Mr. Mohamed Abdulla Nooruddin (Chairperson) Members: 1. Mr. Khalid Abdulaziz Al Jassim 2. Mr. Marwan Khaled Tabbara 3. Mr. Saqer Abdulmohsin Al Sijari	The Board Independent Committee of Bahrain Islamic Bank (BIC) which was initially formed to supervise the acquisition of BisB's shares has been reactivated to provide advice and recommendations to the Board of Directors on issues related to integration and synergies between National Bank of Bahrain (NBB) and Bahrain Islamic Bank (BisB).

CORPORATE GOVERNANCE REVIEW (Continued)

Executive Committee Meetings and Attendance

Minimum Number of Meetings Required = 4

Members	24 Jan 2022	20 Feb 2022	21 Mar 2022	12 Jun 2022	20 Jun 2022	12 Sep 2022	07 th Nov 2022	Percentage
Mr. Jean Christophe Durand	✓	✓	✓	✓	✓	✓	✓	100%
Mr. Khalid Yousif Abdul Rahman	✓	✓	✓	✓	✓	✓	✓	100%
Mr. Yaser Abduljalil Alsharifi *	✓	✓	✓	✓	✓	✓	-	100%
Mr. Hassan Amin Jarrar ** (non-voting member)	✓	✓	✓	✓	✓	✓	-	100%

* Resigned as a member and appointed as a CEO.

** Retired.

✓ Participated physically

✓ Participated via phone/video link

Audit Committee Meetings and Attendance

Minimum Number of Meetings Required = 4

Members	08 Feb 2022	13 Mar 2022	24 Apr 2022	15 May 2022	21 Jun 2022	26 Jul 2022	20 Sep 2022	23 Oct 2022	27 Nov 2022	Percentage
Mr. Khalid Abdulaziz Aljassim	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
Mr. Saqer Abdulmohsin Alsijari *	-	-	✓	✓	✓	✓	✓	✓	✓	100%
Mr. Isa Hasan Maseeh	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%

* Inducted as a new elected director on 28 Mar 2022 post AGM

✓ Participated physically

✓ Participated via phone/video link

Nomination, Remuneration, Governance, and Sustainability Committee Meetings and Attendance

Minimum Number of Meetings Required = 2

Members	31 Jan 2022	10 Feb 2022	27 Jun 2022	07 Jul 2022	14 Nov 2022	20 Dec 2022	Percentages
Dr. Esam Abdulla Fakhro	✓	✓	✓	✓	✓	✓	100%
Mr. Mohammed Abdulla Nooruddin	✓	✓	✓	✓	✓	✓	100%
Mr. Marwan Khaled Tabbara	✓	✓	✓	✓	✓	✓	100%
Ms. Dana Abdulla Buheji	✓	✓	✓	✓	✓	✓	100%

✓ Participated physically

✓ Participated via phone/video link

CORPORATE GOVERNANCE REVIEW (Continued)

Board Risk and Compliance Committee Meetings and Attendance

Minimum Number of Meetings Required = 4

Members	25 Jan 2022	16 Mar 2022	22 May 2022	23 Jun 2022	29 Jun 2022	22 Sep 2022	16 Nov 2022	27 Nov 2022	Percentage
Mr. Marwan Khaled Tabbara	✓	✓	✓	✓	✓	✓	✓	✓	100%
Mr. Mohammed Abdulla Nooruddin	✓	✓	✓	✓	✓	✓	✓	✓	100%
Mr. Khalid Abdulaziz Aljassim	✓	✓	✓	✓	✓	✓	✓	✓	100%
Mr. Isa Hasan Maseeh	✓	✓	✓	✓	✓	✓	✓	✓	100%

✓ Participated physically

✓ Participated via phone/video link

Board Independent Committee Meetings and Attendance

Minimum Number of Meetings Required = Upon Request

Members	30 Jan 2022	16 May 2022	03 Oct 2022	Percentage
Mr. Mohammed Abdulla Nooruddin	✓	✓	✓	100%
Mr. Khalid Abdulaziz Aljassim	✓	✓	✓	100%
Mr. Marwan Khaled Tabbara	✓	✓	✓	100%
Mr. Saqer Abdulmohsin Alsijari*	-	✓	✓	100%

* Inducted as a new elected director on 28 Mar 2022 post AGM.

✓ Participated physically

✓ Participated via phone/video link

Evaluation of the Board and Each Committee

An enhanced Board performance evaluation has been conducted electronically for the year 2022 through the completion of a structured performance evaluation questionnaire form against certain pre-defined criteria as per the mandate of the Board and each of its committees on the effectiveness and contribution of the overall performance of the Board, its committees and the performance of each Board member. The Nomination, Remuneration, Governance, Sustainability Committee (NRGSC) carried out an evaluation of the Board, its committees and all board members through the distribution of questionnaires to each Board member. The NRGSC expressed its satisfaction with the positive results of the evaluation. The Board considers this as a beneficial exercise that can maintain the highest standards of governance to comply with the CBB rules and regulations.

Board of Directors Remuneration and Sitting Fees

The Board of Directors are paid an annual remuneration as approved by the shareholders at the Ordinary General Meeting. While the amount of the remuneration is not directly linked to the performance of the Bank, factors such as the Bank's performance, industry comparison and the time and effort committed by the Directors to the Bank, are considered for determining the total remuneration. In addition, Directors are paid sitting fees for attending the meetings of the Board and its various subcommittees. Non-resident directors are also entitled to travel expenses. Further details on the remunerations paid to Board as well as Senior Management are available under the remuneration disclosures of the annual financial and sustainability report.

CORPORATE GOVERNANCE REVIEW (Continued)

Shari'a Supervisory Board Objective

The main objective of Shari'a Supervisory Board (SSB) is to advise the Bank on any Shari'a matter and to ensure compliance with the Shari'a tenets and requirements in their operations. The Shari'a Supervisory Board is entrusted with the duty of directing, reviewing, and supervising the activities of the Bank in order to ensure that the Bank is in compliance with Shari'a rules and Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). The profiles of the Shari'a Supervisory Board are available on the Bank's website.

The Shari'a Supervisory Board has established a Shari'a Coordination & Implementation function to ensure the Shari'a compliance of the Bank and performance of supervision and reviewer from the Shari'a point of view, in addition to the secretariat of the Shari'a Supervisory Board. The Shari'a Supervisory Board has also established an independent Internal Shari'a Audit function that reports any exceptions to the Shari'a fatwas and guidelines.

Shari'a Board Meetings

Members	03 Mar 2022	12 Jun 2022	02 Oct 2022	28 Nov 2022*	04 Dec 2022	Attendance Percentage
Sh. Dr. Abdul Latif Al Mahmood	✓	✓	-	✓	✓	80%
Sh. Dr. Nedham Yacoubi	✓	✓	✓	✓	✓	100%
Sh. Adnan Al Qattan	✓	✓	✓	✓	✓	100%
Sh. Mohammed Al Juffairi	✓	✓	✓	-	✓	80%

* Meeting on the 28th of November was conducted with the Board of Directors.

✓ Participated physically

✓ Participated via phone/video link

- Did not attend.

Executive Management

The management structure that clearly defines roles, responsibilities, and reporting lines, is available in the annual report of the Bank. Within the management structure there are separate committees responsible to meet on a regular basis to discuss and decide on the various strategic and tactical issues within their respective areas.

Name & Designation	Profession	Experience in years	Qualification
Yaser Abduljalil Alsharifi Chief Executive Officer <i>From 1st October 2022</i>	Business Administration	28	BSc. of Business Administration Accounting Major, University of Massachusetts at Amherst. CPA from New Hampshire Board of Accountancy.
Hassan Amin Jarrar Chief Executive Officer <i>Retired on 30 Sept 2022</i>	Banking & Finance	33	BSc. in Finance from California State University, San Jose
Ameer Abdul Ghani Dairi Chief Financial Officer	Accounting	22	CPA, New Hampshire Board of Accountancy CMA, Chartered Institute of Management Accountants BSc in Accounting from the University of Bahrain
Afnan Ahmed Saleh Chief Human Resources Officer	Business Administration	22	BSc. In Business Administration, University of Bahrain MBA, University of Strathclyde
Jawad Abdulhadi Humaidan Chief Corporate & Institutional Banking	Economics & Finance	17	MSc in Finance from DePaul University, Chicago, USA
Andrew Mario Stefan Corera Chief Application Officer	IT Professional in Banking & Finance	33	Chartered Information Technology Practitioner (MBCS CITP), British Chartered Institute for IT Graduate in Management Information Systems and Design, National Institute of Business Management Sri Lanka PMP in Project Management

CORPORATE GOVERNANCE REVIEW (Continued)

Executive Management (Continued)

Name & Designation	Profession	Experience in years	Qualification
Naeema Taheri Chief Compliance Officer	Banking and Financial Services	30	BSc. in Business Administration, University of Bahrain International Diploma in Compliance, International Compliance Association (ICA), UK Certified Anti-Money Laundering Specialist (CAMS), USA Master Compliance Professional (MCP), USA Certified Compliance Officer (CCO), USA Professional Certificate in Capital Markets, Regulation and Compliance, USA
Hussain Ebrahim Al Banna Head of Treasury	Banking & Finance	18	BSc. in Banking & Finance, University of Bahrain Treasury and Capital Markets Diploma, BIBF
Faisal Hamed Al Abdullah Acting Head of Retail Banking and Head of Priority Banking <i>From 24 Oct 2022</i>	Banking & Finance	18	BSc. in Banking & Finance from Ahlia University in Bahrain Series 7
Ali Yousif Al Aradi Acting Head of Retail Banking, and Head of Branches and Sales <i>Resigned on 13 Oct 2022</i>	Business Administration	19	MBA in Business Administration from Swiss Business School
Khaled Waheeb Al Naser Chief Internal Audit Officer <i>Resigned on 11 Dec 2022</i>	Auditing and Banking	13	Certified Public Accountant (CPA) Certified Internal Auditor (CIA) Certified Islamic Professional Accountant (CIPA) BSC Managerial Accounting, NYIT COSO Internal Control (COSO)
Siddharth Kumar Acting Chief Risk Officer and Head of Corporate & Liquidity Risk <i>From 6 Sep 2022</i>	Finance	18	Post Graduate in IT, Mumbai University Chartered Financial Analyst (CFA), CFA Institute, USA Professional Risk Manager (PRM) Certified Islamic Banker, CIBAFI
Fahim Ahmed Shafiqi Chief Risk Officer <i>Resigned on 18 Aug 2022</i>	Banking & Finance	23	Diploma in Islamic Finance (CDIF) MBA, University of Warwick, UK
Maisa Jawdat Shunnar Group Chief Digital Transformation <i>Resigned on 31 Dec 2022</i>	Strategy Implementation & Transformation	22	BSc. in Business Administration majoring in Computer Information Systems, University of Houston, Texas, USA Masters of Business Communication & Leadership, Jones International University, Colorado, USA
Hamad Farooq Al- Shaikh Head of Shari'a Coordination & Implementation	Shari'a	17	Masters of Shari'a, ALEmam ALAWzaie University, Lebanon Chartered Islamic Finance Professional (CIFP) Advanced Diploma in Islamic Commercial Jurisprudence (ADICJ), BIBF Certified Shari'a Adviser and Auditor (CSAA), AAOIFI Certified Islamic Banker (CIB), CIBAFI Bachelors Degree in law and Shari'a, Qatar University
Eman Mohammed AlBinghadeer Head of Internal Shari'a Audit	Shari'a	17	Professional Diploma in Shari'a Auditing, CIBAFI Certified Specialist in Islamic Accounting (CSIA) Certified Islamic Banker (CIB), CIBAFI Certified Shari'a Adviser and Auditor (CSAA), AAOIFI Diploma in Computing and Business Studies, Bournemouth University and Technology Centre, UK

CORPORATE GOVERNANCE REVIEW (Continued)

Management Committee

Committee(s)	Members	Objectives
Management Committee (MANCO)	Yaser Abduljalil Alsharifi Chairperson Members • Ameer Abdul Ghani Dairi • Afnan Ahmed Saleh • Jawad Abdulhadi Humaidan • Faisal Hamed Al Abdulla • Naeema Hasan Taheri • Andrew Mario Stefan Corera • Salah Yasin Mohamed • Siddharth Kumar • Amal Saif Ahmed	MANCO is the highest management body that reviews the Bank's strategy implementation. In addition, the committee also plays a significant role in establishing the policies, procedures and frameworks covering risk management, compliance, retail and corporate banking. The Committee also monitors the performance of business, support and control functions of the Bank.
Asset & Liability Committee (ALCO)	Yaser Abduljalil Alsharifi Chairperson Members • Ameer Abdul Ghani Dairi • Siddharth Kumar • Hussain Ebrahim Al Banna • Jawad Abdulhadi Humaidan • Faisal Hamed Al Abdulla • Hisham Saeed Al Kurdi • Jaafar Mohamed Naser	The purpose of Asset & Liability Committee is to act as a decision-making body and guiding force responsible for balance sheet planning from risk return perspective, including strategic management of yield and liquidity risks.
Credit & Investment Committee (C&IC)	Yaser Abduljalil Alsharifi Chairperson Members • Ameer Abdul Ghani Dairi • Siddharth Kumar (Dissenting Vote) • Jawad Humaidan • Faisal Hamed Al Abdulla	C&IC determines the Credit & Investment Policy of the Bank, identified possible risks assumed by the Bank for different types of transactions. The C&IC has the authority to make a decision on approval or rejection or proposed transactions within its authority as well as to monitor the performance and quality of the Bank's credit & Investment portfolios.
Qard Al Hassan, Donation & Zakat	Hamad Farooq AlShaikh Chairperson Members • Nada Ishaq Abdul Karim • Hamad Al Bassam • Nayef Alnasser	The main objective of Qard Al Hassan, Donation and Zakah Committee is to discharge the Group's social responsibilities toward its society through distributing zakah, charity funds, donations & good faith Qard for marriage, medical treatments, etc.
Provisioning Committee	Yaser Abduljalil Alsharifi Chairperson Members • Siddharth Kumar • Ameer Abdul Ghani Dairi • Salah Yaseen Mohammed (Observer) • Khalid Waheeb AlNasser (Observer) (Until 11 Dec 2022)	Provisioning Committee reviews the Bank's provisions as well reviewing the progress on recovery for impaired assets and problem exposures.

CORPORATE GOVERNANCE REVIEW (Continued)

Committee(s)	Members	Objectives
Operational Risk Committee	Siddharth Kumar Chairperson Members • Sohail Kabeer • Ameer Abdul Ghani Dairi • Afnan Ahmed Saleh • Naeema Hasan Taheri • Jawad Abdulhadi Humaidan • Faisal Hamed Al Abdulla • Andrew Mario Stefan Corera • Mohammed Isa Hammad • Maisa Jawdat Shunnar • Hamad Farooq AlShaikh • Ebtisam Abdulkarim • Eman AlBinghadeer • Amal Saif Ahmed Khalid Waheeb AlNasser (Observer) (Until 11 Dec 2022)	The purpose of the Operational Risk Committee is to: - Oversee and review the Bank's operational risk framework. - Assist the management in fulfilling its operational risk management responsibilities as defined by applicable laws and regulations
Group Tendering & Asset Disposal Committee	Haytham Seyadi Chairperson • Russell Bennet • Rana Qamber • Abdulla Buali	As a part of the shared operating model, Tendering and Asset Disposal Committee has been centralized to have an oversight over the related activities of both NBB and BisB.
Information Security Committee (ISC)	Siddharth Kumar Chairperson Members • Yaser Abduljalil AlSharifi • Mohammed Isa Hammad • Jawad Abdulhadi Humaidan • Faisal Hamed Al Abdulla • Razi Amin • Naeema Hasan Taheri Ammar Mahdi Abdulla Almuharraqi (Observer) (Replaced Khalid Waheeb Alnaser who resigned on 11 Dec 2022)	The committee is responsible for overseeing the implementation of the information security strategy to protect its information assets, in line with the Bank's strategic direction and risk appetite. This includes providing organizational framework for the corporate governance of information security, ensuring that the information system management requirements are integrated into the organization's processes to achieve its intended outcomes.

Succession Planning

Succession planning in the Bank is driven by our Business strategy and forward-looking approach. The primary objective of the plan is to develop people to meet future demands of the Bank and ensure smooth business continuity. On an annual basis, the Human Resources Department of the Bank reviews and consults the Board's NRGSC to ensure availability of a practical and executable succession plan.

Related Party Transactions and Conflict of Interest

Under the Bahrain Commercial Companies Law and the CBB's regulations, Board members are required to disclose potential conflicts as well as refrain from participating in any conflicted decisions. This includes potential conflicts that may arise when a Director takes up a position with another company or has any material transactions with the Bank. In addition, exposures to major shareholder, directors and senior management are governed by the regulations of the CBB.

Related party transactions are entered into in compliance with Article 189 of the Commercial Companies Law. All material service providers are selected following a satisfactory tendering process which is governed by the vendor management policy of the Bank. Any director or member of the senior management conflicted is excluded throughout the decision-making process. Details of related party transactions, carried out at arm's length, are disclosed in Note 28 of the financial statements.

CORPORATE GOVERNANCE REVIEW (Continued)

Material Transactions Requiring Board Approval

The Board has delegated certain authorities to the Executive Management to ensure smooth and effective day to day management however, all material financing transactions, as provided in the delegation of authority matrix of the Bank, are subject to Board approval. Furthermore, major decisions such as change in strategy, changes in the organization structure, capital expenditures, amending policies and hiring executive management are subject to approval of either Board or relevant Board committees.

Exceptions to CBB's Corporate Governance Regulations

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 to the shareholders and to the CBB. Exceptions to guidance are explained as follows:

Reference	Explanation
HC-1.3.13	HC-1.3.13 states that no one person should hold more than three directorships in public companies in the Kingdom of Bahrain, with the provision that no conflict of interest may exist. Dr. Essam Abdulla Fakhro, the Chairman of the Board, holds more than three directorships in public companies in the Kingdom of Bahrain. The Board is of the opinion that this does not impact the effectiveness and efficiency of the Board of Directors, as he provides adequate attention to his responsibilities and there is no conflict of interest between his other directorships and that of the Bank.
HC-1.4.6	HC-1.4.6 states that the Chairman of the Board of Directors should be an independent director. The Bank's Chairman, Dr. Essam Abdulla Fakhro is appointed by the National Bank of Bahrain (NBB) which is a Controller of the Bank. Accordingly, Dr. Fakhro is reported as a Non-Independent Director. The Board is of the view that given the seniority and experience of Dr. Essam Fakhro in business and leadership in addition to his ability to segregate between the interests of the Bank he is representing and the interests of BisB, he has been appointed in the position of the chairman of the Board. The CBB was notified of such appointment based on the previous CBB approval.
HC-1.8.2	HC-1.8.2 states that the Board should establish a Corporate Governance Committee of at least three independent members and HC-1.8.5 allows combination of committees. The Bank has combined the responsibility of the Corporate Governance Committee with that of the NRGSC. The Board is of the view that this does not compromise the high standards of corporate governance as the NRGSC has sufficient resources and time to discharge its duties and holds sufficient number of meetings to fulfil its responsibilities.
HC-5.3.2	HC-5.3.2 states that the Remuneration Committee should include only independent directors or, alternatively, only non-executive directors of whom a majority are independent directors and the Chairperson is an independent director. The Remuneration Committee of the Bank is combined with the Nomination and Governance Committee as allowed under HC-1.8.5. The Chairperson of the NRGSC, Dr. Essam Abdulla Fakhro, is treated as Non-Independent on the basis that his nomination is through NBB, a Controller of the Bank. The Board is of the view that given the seniority, leadership character and experience of Dr. Essam Fakhro, he has been appointed as a Chairperson of the NRGSC. The CBB was notified of such appointment based on the previous CBB approval.

Employments of Relatives

The Bank has a policy in place on employment of relatives to prevent the potential conflict of interest. As a matter of policy, employment of direct relatives (1st & 2nd Degree) is not allowed however, in case of any exception, the approval of the Board's NRGSC is sought.

Remuneration of the External Auditors

KPMG Fakhro was the Bank's external auditors for the financial year ended 31st December 2022. The details of the audit fee paid to the auditors during the year 2022 as well as the details of non-audit services and fees paid are held at the Bank's premises, which is available to shareholders upon specific request.

CORPORATE GOVERNANCE REVIEW (Continued)

Information on Products and Services, and Availability of Financial Information

New product information, announcements and information related to all stakeholders are made available in a timely manner through various channels of communication which may include publications, website, direct mailers, electronic mail and local media. In addition, the Consolidated Financial Statements of at least past 5 years in addition to all supplementary disclosures required by CBB regulations, are available in the Bank's website.

Customer Complaints

The Compliance Department is responsible for managing customer complaints. BisB customers may use the Bank's website or the contact centre for lodging a complaint. All complaints are logged, monitored, and reported to the CBB. A user-friendly guide is made available to customers by way of a conspicuous notice and Bank's website.

Whistleblowing Policy

The Board has adopted a Whistleblowing Policy (by appointing Mr. Khalid Al Jassim in his capacity as a Board member and Chairperson of the Audit Committee to be responsible for the Whistleblowing Policy) which provides all employees an opportunity to raise any observation regarding unethical and improper practices or any other wrongful conduct of a financial or legal nature in the Bank and to prohibit managerial personnel from taking any adverse action against employees for doing so.

Major Shareholders Ownership (5% and above)

Shareholder	Nationality	Number of Shares	Percentage	Type of Ownership
National Bank of Bahrain	Bahraini	838,630,728	78.81%	Majority Sovereign
General Council of Kuwaiti Awqaf	Kuwaiti	76,366,321	7.18%	Sovereign

Distribution of Ownership of Shares by Nationality

Country	Percentage	Number of Shares
Kingdom of Bahrain	87.48%	930,869,358
Kuwait	8.73%	92,929,537
United Arab Emirates	2.79%	29,708,672
Kingdom of Saudi Arabia	0.77%	8,147,488
Qatar	0.14%	1,487,478
Others	0.09%	916,054
Total	100.00%	1,064,058,587

CORPORATE GOVERNANCE REVIEW (Continued)

Changes in Distribution of Ownership shares of Directors, Shari'a Members, Approved Persons and Related Persons

Name	Shares as of 31 Dec 2021	Sold During 2022	Acquired During 2022	Shares as of 31 Dec 2022
Directors				
Dr. Esam Abdulla Fakhro *	352,500	-	-	352,500
Mr. Khalid Yousif Abdul Rahman **	-	-	-	-
Mr. Jean-Christophe Durand	-	-	-	-
Mr. Khalid Abdulaziz Al Jassim	-	-	-	-
Mr. Saqer Abdulmohsin AlSijari	-	-	-	-
Mr. Marwan Khaled Tabbara	-	-	-	-
Mr. Mohamed Abdulla Nooruddin	-	-	-	-
Ms. Dana Buheji	-	-	-	-
Mr. Isa Hasan Maseeh	-	-	-	-
Mr. Yaser Abduljalil Alsharifi	-	Resigned from BisB Board on 13 Sep 2022		

* Dr. Esam Abdulla Fakhro owns 50% of shares in Kingdom Investment which owns 861,250 number of shares in BisB.

** Khalid Yousif Abdul Rahman owns 30.25% of shares in Yousif Abdulrahman Engineer Holding Co WLL. which owns 536,020 number of shares in BisB.

Shari'a Supervisory Board	Shares as of 31 Dec 2021	Sold During 2022	Acquired During 2022	Shares as of 31 Dec 2022
Shaikh Dr. Abdul Latif Mahmood Al Mahmood	545,159	-	-	545,159
Shaikh Dr. Nedham Mohamed Saleh Yacoubi	13,237	-	-	13,237
Shaikh Mohammed Jaffar Al Juffairi	-	-	-	-
Shaikh Adnan Abdulla Al Qattan	-	-	-	-

Approved Persons	Shares as of 31 Dec 2021	Sold During 2022	Acquired During 2022	Shares as of 31 Dec 2022
1. Yaser Abduljalil Alsharifi Chief Executive Officer	-	-	-	-
2. Ameer Abdul Ghani Dairi Chief Financial Officer	-	-	-	-
3. Siddharth Kumar Acting Chief Risk Officer	-	-	-	-
4. Afnan Ahmed Saleh Chief Human Resources Officer	18,894	-	28,940	47,834
5. Jawad Abdulhadi Humaidan Chief Corporate and Institutional Banking Officer	-	-	-	-
6. Naeema Hasan Taheri Chief Compliance Officer	-	-	-	-

CORPORATE GOVERNANCE REVIEW (Continued)

Approved Persons	Shares as of 31 Dec 2021	Sold During 2022	Acquired During 2022	Shares as of 31 Dec 2022
7. Hussain Ebrahim Al Banna Head of Treasury	-	-	-	-
8. Amal Saif Ahmed Acting Head of Islamic Finance Operations	-	-	-	-
9. Nayef Naser Yusuf Acting Head of Special Assets & Remedial	-	-	-	-
10. Faisal Hamed Al Abdulla Acting Head of Retail Banking	-	-	-	-
11. Mohammed Isa Hammad Chief Information Security Officer	-	-	-	-
12. Hamad Hussain Al Qattan Deputy Money Laundering Reporting Officer	-	-	-	-
13. Mohamed Jamal Aish Acting Head of Anti-Financial Crimes Unit & Money Laundering Reporting Officer	-	-	-	-
14. Ammar Fuad Alsabah Head of Financial Institutions	-	-	-	-
15. Hussain Ali Bahram Head of Wealth Management	-	-	-	-
16. Sohail Kabiruddin Head of Operational Risk	-	-	-	-
17. Saleh Isa Almhri Head of Retail Credit Review	-	-	-	-
18. Hamad Farooq AlShaikh Head of Shari'a Coordination & Imple- mentation	-	-	-	-
19. Eman Mohammed AlBinghadeer Head of Shari'a Internal Audit	-	-	-	-
20. Hassan Amin Jarrar Chief Executive Officer	-	Retired from BisB on 30 Sep 2022		
21. Fahim Ahmed Shafiqi Chief Risk Officer	-	Resigned from BisB on 18 Aug 2022		
22. Khaled Waheeb AlNasser Chief Internal Audit Officer	31,433	Resigned from BisB on 11 Dec 2022		
23. Mohammed Ayada Matar Acting Head of Compliance and AML, and MLRO	-	Resigned from BisB on 31 July 2022		
24. Ali Yousif Al Aradi Acting Head of Retail Banking	-	Resigned from BisB on 13 Oct 2022		

As of 31 Dec 2022, the total number of shares held by Board of Directors, Shari'a Supervisory Board members and the Approved Persons of the Bank are 958,730 which represents 0.09% of the total issued shares of the Bank.

The shares held by the Approved Persons includes shares granted by the Bank under the Share Incentive Scheme.

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REMUNERATION DISCLOSURES

The Bank's total compensation approach, which includes the variable remuneration policy and the Share Incentive Scheme, sets out the Bank's policy on remuneration for Directors and senior management and the key factors that are taken into account in setting the policy.

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 Board of Directors and the policy came into effect as of January 2014 and was reviewed at the end of 2021.

The key features of the remuneration framework are summarised below:

Remuneration strategy

It is the Bank's basic compensation philosophy to provide a competitive level of total compensation to attract and retain qualified and competent employees. The Bank's variable remuneration policy is driven primarily by a performance-based culture that aligns employee interests with those of the shareholders of the Bank.

These elements support the achievement of the Bank's objectives through balancing rewards for both short-term results and long-term sustainable performance. This strategy is designed to share success, and to align employees' incentives with the risk framework and risk outcomes.

The quality and long-term commitment of all BisB's employees is fundamental to success. The Bank therefore aims to attract, retain and motivate the very best people who are committed to maintaining a career with the Bank, and who will perform their role in the long-term interests of shareholders. The Bank's reward package comprises the following key elements:

1. Fixed pay
2. Benefits
3. Annual performance bonus

A robust and effective governance framework ensures that the Bank operates within clear parameters of its compensation strategy and policy. All compensation matters, and overall compliance with regulatory requirements, are overseen by the Board Nomination, Remuneration, Governance & Sustainability Committee (NRGSC).

The Bank's remuneration policy in particular, considers the role of each employee and has set guidance on whether an employee is a Material Risk Taker and / or an Approved Person in a business line, control or support function. An Approved Person is an employee whose appointment requires prior regulatory approval because of the significance of the role within the Bank; and an employee is considered a Material Risk Taker if they are the Head of a significant business line or any individuals within their control who have a material impact on the Bank's risk profile.

In order to ensure alignment between what BisB pays its people and the business strategy, individual performance is assessed against annual and long-term financial and non-financial objectives summarized in the performance management system. This assessment also takes into account adherence to the Bank's values, risks and compliance measures and above all integrity. Altogether, performance is therefore judged not only on what is achieved over the short and long-term, but also importantly on how it is achieved, as the NRGSC believes the latter contributes to the long-term sustainability of the business.

REMUNERATION DISCLOSURES (Continued)

NRGSC role and focus

The NRGSC has oversight of all reward policies for the Bank's employees. The NRGSC is the supervisory and governing body for compensation policy, practices and plans. It is responsible for determining, reviewing and proposing variable remuneration policy for approval by the Board. It is responsible for setting the principles and governance framework for all compensation decisions. The NRGSC ensures that all persons must be remunerated fairly and responsibly. The remuneration policy is reviewed on a periodic basis to reflect changes in market practices, the business plan and risk profile of the Bank.

The responsibilities of the NRGSC with regards to the Bank's variable remuneration policy, as stated in its mandate, include but are not limited to, the following:

- Approve, monitor and review the remuneration system to ensure the system operates as intended.
- Approve the remuneration policy and amounts for each Approved Person and Material Risk-Taker, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits.
- Ensure remuneration is adjusted for all types of risks and that the remuneration system takes into consideration employees that earn the same short-run profit but take different amounts, of risk on behalf of the Bank.
- Ensure that for Material Risk-Takers, variable remuneration forms a substantial part of their total remuneration.
- Review the stress testing and back testing results before approving the total variable remuneration to be distributed including salaries, fees, expenses, bonuses and other employee benefits.
- Carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The NRGSC will question payouts for income that cannot be realised or whose likelihood of realisation remains uncertain at the time of payment.
- Ensure that for Approved Persons in risk management, internal audit, operations, financial control and compliance functions, the mix of fixed and variable remuneration is weighted in favour of fixed remuneration.
- Recommend Board member remuneration based on their attendance and performance and in compliance with Article 188 of the Bahrain Commercial Companies Law.
- Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves not to use personal hedging strategies or remuneration-and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

Scope of application of the remuneration policy

The variable remuneration policy has been adopted on a bank-wide basis.

Board remuneration

The Bank's Board remuneration is determined in line with the provisions of Article 188 of the Bahrain Commercial Companies Law. The Board of Directors' remuneration will be capped so that total remuneration (excluding sitting fees) does not exceed 10% of the Bank's net profit after all required deductions as outlined in Article 188 of the Bahrain Commercial Companies Law, in any financial year. Board remuneration is subject to approval of the shareholders in the Annual General Meeting as well as Ministry of Commerce, Industry and Tourism. Remuneration of non-executive Directors does not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits.

Variable remuneration for staff

Variable remuneration is performance related and consists primarily of the annual performance bonus award. As a part of staff's variable remuneration, the annual bonus rewards delivery of operational and financial targets set each year, the individual performance of the employees in achieving those targets, and their contribution to delivering the Bank's strategic objectives.

The Bank has adopted a Board approved framework to develop a transparent link between variable remuneration and performance. The framework is designed on the basis of meeting both satisfactory financial performance and the achievement of other non-financial factors, that will, all other things being equal, deliver a target bonus pool for employees, prior to consideration of any allocation to business lines and employees individually. In the framework adopted for determining the variable remuneration pool, the NRGSC aims to balance the distribution of the Bank's profits between shareholders and employees.

Key performance metrics at the Bank level include a combination of short term and long term measures and include profitability, solvency, liquidity and growth indicators. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

In determining the amount of variable remuneration, the Bank starts from setting specific targets and other qualitative performance measures that result in a target bonus pool. The bonus pool is then adjusted to take account of risk via the use of risk-adjusted measures (including forward- looking considerations).

REMUNERATION DISCLOSURES (Continued)

Variable remuneration for staff (Continued)

The NRGSC carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. NRGSC demonstrates that its decisions are consistent with an assessment of the Bank's financial condition and future prospects.

The Bank uses a formalised and transparent process to adjust the bonus pool for quality of earnings. It is the Bank's objective to pay out bonuses out of realised and sustainable profits. If the quality of earnings is not strong, the profit base could be adjusted based on the discretion of the NRGSC.

For the overall Bank to have any funding for distribution of a bonus pool, threshold financial targets have to be achieved. The performance measures ensure that total variable remuneration is generally, considerably contracted where subdued or negative financial performance of the Bank occurs. Furthermore, the target bonus pool as determined above is subject to risk adjustments in line with the risk assessment and linkage framework.

Remuneration of control functions

The remuneration level of staff in the control and support functions allows the Bank to employ qualified and experienced personnel in these functions. The Bank ensures that the mix of fixed and variable remuneration for control and support function personnel should be weighted in favour of fixed remuneration. The variable remuneration of control functions is to be based on function-specific objectives and is not be determined by the financial performance of the business as they monitor.

The Bank's performance management system plays a major role in deciding the performance of the support and control units on the basis of the objectives set for them. Such objectives are more focused on non-financial targets that include risk, control, compliance and ethical considerations, as well as the market and regulatory environment apart from value adding tasks which are specific to each unit.

Variable compensation for business units

The variable remuneration of the business units is primarily determined by key performance objectives set through the performance management system of the Bank. Such objectives contain financial and non-financial targets, including risk control, compliance and ethical considerations as well as market and regulatory requirements. The consideration of risk assessments in the performance evaluation of individuals ensures that any two employees who generate the same short-run profits but take different amounts of risk on behalf of the Bank are treated differently by the remuneration system.

Risk assessment framework

The purpose of risk linkages is to align variable remuneration to the risk profile of the Bank. In its endeavour to do so, the Bank considers both quantitative measures and qualitative measures in the risk assessment process. Both quantitative measures and human judgement play a role in determining any risk adjustments. The risk assessment process encompasses the need to ensure that the remuneration policy as designed reduces employees' incentives to take excessive and undue risks, is symmetrical with risk outcomes, and delivers an appropriate mix of remuneration that is risk aligned.

The NRGSC considers whether the variable remuneration policy is in line with the Bank's risk profile, and ensures that through the Bank's ex-ante and ex-post risk assessment framework and processes, remuneration practices where potential future revenues whose timing and likelihood remain uncertain are carefully evaluated.

Risk adjustments take into account all types of risk, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The Bank undertakes risk assessments to review financial and operational performance against business strategy and risk performance prior to distribution of the annual bonus. The Bank ensures that total variable remuneration does not limit its ability to strengthen its capital base. The extent to which capital needs to be built up is a function of the bank's current capital position and its ICAAP.

The bonus pool takes into account the performance of the Bank which is considered within the context of the Bank's risk management framework. This ensures that the variable pay pool is shaped by risk considerations and Bank-wide notable events.

The size of the variable remuneration pool and its allocation within the Bank takes into account the full range of current and potential risks, including:

- The cost and quantity of capital required to support the risks taken.
- The cost and quantity of the liquidity risk assumed in the conduct of business.
- Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

The NRGSC keeps itself abreast of the Bank's performance against the risk management framework. The NRGSC will use this information when considering remuneration to ensure returns, risks and remuneration are aligned.

REMUNERATION DISCLOSURES (Continued)

Risk adjustments

The Bank has an ex-post risk assessment framework which is a qualitative assessment to back-test actual performance against prior risk assumptions.

In years where the Bank suffers material losses in its financial performance, the risk adjustment framework will work as follows:

- There will be considerable contraction of the Bank's total variable remuneration.
- At an individual level, poor performance by the Bank will mean individual KPIs are not met and hence employee performance ratings will be lower.
- Reduction in the value of deferred shares or awards.
- Possible changes in vesting periods and additional deferral applied to unvested rewards.
- Lastly, if the qualitative and quantitative impact of a loss incident is considered significant, a malus or clawback of previous variable awards may be considered.

The NRGSC, with the Board's approval, can rationalise and make the following discretionary decisions:

- Increase / reduce the ex-post adjustment.
- Consider additional deferrals or increase in the quantum of non-cash awards.
- Recovery through malus and clawback arrangements.

Malus and Clawback framework

The Bank's malus and clawback provisions allow the Board of Directors to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited / adjusted or the delivered variable remuneration recovered in certain situations.

The intention is to allow the Bank to respond appropriately if the performance factors on which reward decisions were based turn out not to reflect the corresponding performance in the longer term. All deferred compensation awards contain provisions that enable the Bank to reduce or cancel the awards of employees whose individual behaviour has had a materially detrimental impact on the Bank during the concerned performance year.

Any decision to take back an individual's award can only be made by the Bank's Board of Directors.

The Bank's malus and clawback provisions allow the Board to determine that, if appropriate, vested / unvested elements under the deferred bonus plan can be adjusted / cancelled in certain situations. These events include the following:

- Reasonable evidence of willful misbehaviour, material error, negligence or incompetence of the employee causing the Bank/ the employee's business unit to suffer material loss in its financial performance, material misstatement of the Bank's financial statements, material risk management failure or reputational loss or risk due to such employee's actions, negligence, misbehavior or incompetence during the concerned performance year.
- The employee deliberately misleads the market and/or shareholders in relation to the financial performance of the Bank during the concerned performance year.
- Clawback can be used if the malus adjustment on the unvested portion is insufficient given the nature and magnitude of the issue.

Components of Variable remuneration

Variable remuneration has the following main components:

Upfront cash:

The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.

Deferred cash:

The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a period of 3 years.

Upfront shares:

The portion of variable compensation that is awarded and issued in the form of shares on conclusion of the performance evaluation process for each year.

Deferred shares:

The portion of variable compensation that is awarded and paid in the form of shares on a pro-rata basis over a period of 3 years.

All deferred awards are subject to malus provisions. All share awards are released to the benefit of the employee after a six-month retention period from the date of vesting. The number of equity share awards is linked to the Bank's share price as per the rules of the Bank's Share Incentive Scheme. Any dividend on these shares is released to the employee along with the shares (i.e. after the retention period).

REMUNERATION DISCLOSURES (Continued)

Deferred Compensation

The CEO, his deputies and 5 most highly paid business line employees are subject to the following deferral rules:

Elements of variable remuneration	Payout percentages	Vesting period	Retention	Malus	Clawback
Upfront cash	40%	Immediate	-	-	Yes
Deferred cash	10%	3 years	-	Yes	Yes
Deferred share awards	50%	3 years	6 months	Yes	Yes

All other covered staff, i.e. Assistant General Manager level and above are subject to the following deferral rules:

Elements of variable remuneration	Payout percentages	Vesting period	Retention	Malus	Clawback
Upfront cash	50%	Immediate	-	-	Yes
Upfront share awards	10%	Immediate	6 months	Yes	Yes
Deferred share awards	40%	3 years	6 months	Yes	Yes

The NRGSC, based on its assessment of the role profile and risk taken by an employee could increase the coverage of employees that will be subject to deferral arrangements.

Details of remuneration paid

(a) Board of Directors & committees

BD 000's	2022	2021
Sitting fees	178*	166*
Remuneration	274**	282**

*Includes NRGSC sitting fees as of 31 December 2022 amounted to BD 24 thousand (2021: BD 20 thousand).

**Subject to AGM and regulatory approval.

(b) Shari'a's Supervisory Board

BD 000's	2022	2021
Remuneration, Fees and Expenses	71	64

(c) Employee Remuneration

2022

BD 000's	Number of staff	Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable remuneration					Total
		Cash	Others	(Cash / Shares)	(Cash / Shares)	Upfront		Deferred			
						Cash	Shares	Cash	Shares	Others	
Approved persons											
- Business lines	9	1,354	-	-	-	82	-	9	46	2	1,493
- Control & Support	15	1,386	-	-	-	116	11	-	45	6	1,564
Other material risk takers	-	-	-	-	-	-	-	-	-	-	-
Other staff	300	7,955	-	-	-	1,160	5	-	18	-	9,138
Total	324	10,695*	-	-	-	1,358	16	9	109	8	12,195

* Includes end of service compensations, ex-gratia & staff costs of employees who have left the Bank during the year.

REMUNERATION DISCLOSURES (Continued)

Details of remuneration paid (Continued)

2021

BD 000's	Number of staff	Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable remuneration					Total
		Cash	Others	(Cash / Shares)	(Cash / Shares)	Upfront		Deferred			
						Cash	Shares	Cash	Shares	Others	
Approved persons											
- Business lines	12	1,389	-	-	-	67	-	10	51	2	1,519
- Control & Support	16	1,370	-	-	-	65	5	-	20	5	1,465
Other material risk takers	-	-	-	-	-	-	-	-	-	-	-
Other staff	303	7,497	-	-	-	683	-	-	-	-	8,180
Total	331	10,256*	-	-	-	815	5	10	71	7	11,164

* Includes end of service compensations & staff costs of employees who have left the Bank during the year.

Deferred awards disclosures 2022

BD 000's	Cash	Shares		Total
		Number	BD 000's	
Opening balance	48	3,577,487	414	462
Adjustment based on final award price of 2021	-	-	-	-
Awarded for the year	9	1,616,649	124	133
Paid out / released during the year	(23)	(1,624,327)*	(185)	(208)
Corporate action adjustment	-	-	-	-
Closing balance	34	3,569,809	353	387

* As approved by the Central Bank of Bahrain, during the year, 1,070,604 shares were bought back at market price by the Bank as treasury shares, upon completion of vesting period.

2021

BD 000's	Cash	Shares		Total
		Number	BD 000's	
Opening balance	69	4,402,920	559	628
Adjustment based on final award price of 2020	-	31,961	-	-
Awarded for the year	10	946,332	76	86
Paid out / released during the year	(30)	(1,695,006)*	(212)	(242)
Service, performance and risk adjustments	(1)	(108,720)	(9)	(10)
Corporate action adjustment	-	-	-	-
Closing balance	48	3,577,487	414	462

* As approved by the Central Bank of Bahrain, during the year, 1,311,310 shares were bought back at market price by the Bank as treasury shares, upon completion of vesting period.

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CONSOLIDATED FINANCIAL STATEMENTS



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Bahrain Islamic Bank B.S.C.

Manama, Kingdom of Bahrain

Opinion

We have audited the consolidated financial statements of Bahrain Islamic Bank B.S.C. (the "Bank"), and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statements of income, changes in equity, cash flows, sources and uses of good faith qard fund and sources and uses of zakah and charity fund for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and consolidated results of its operations, changes in owners' equity, its cash flows, sources and uses of good faith qard fund and its sources and uses of zakah and charity fund for the year then ended in accordance with Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI").

In our opinion, the Group has also complied with the Islamic Shari'a Principles and Rules as determined by the Group's Shari'a Supervisory Board during the year ended 31 December 2022

Basis for Opinion

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions ("ASIFIs") issued by AAOIFI. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions, together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment allowance on financing assets and Ijarah muntahia bittamleek

Refer to accounting policy in note 2 z, use of estimates and judgments in note 2 bb (i) and management of credit risk in note 29 e to the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
We focused on this area because: - of the significance of financing assets and Ijarah muntahia bittamleek representing 67% of total assets; - impairment of financing assets and Ijarah muntahia bittamleek involves: - complex estimates and judgement over both timing and recognition of impairment including susceptibility to management bias; - use of statistical models and methodologies for determination of expected credit losses. The Group exercises significant judgments and makes a number of assumptions in developing its ECL models which is determined as a function of the assessment of the probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD") associated with the underlying financial assets; and - complex disclosure requirements regarding credit quality of the portfolio including explanation of key judgments and material inputs used in determination of expected credit losses.	Our audit procedures, amongst others, to address significant risks associated with impairment included: - Evaluating the appropriateness of the accounting policies adopted based on the requirements of FAS 30, our business understanding, and industry practice. - Confirming our understanding of management's processes, systems and controls implemented, including controls over expected credit loss ("ECL") model development. Controls testing We performed process walkthroughs to identify the key systems, applications and controls used in the ECL processes. We tested the relevant General IT and application controls over key systems used in the ECL process incorporating consideration of the economic disruption. Key aspects of our control testing involved the following: - Performing detailed credit risk assessment for a sample of performing and non-performing financing assets to test controls over credit rating and its monitoring process; - Testing the design and operating effectiveness of the key controls over the completeness and accuracy of the key inputs and assumptions elements into the FAS 30 ECL models;

INDEPENDENT AUDITORS' REPORT (Continued)

To the Shareholders of Bahrain Islamic Bank B.S.C.

Manama, Kingdom of Bahrain

The key audit matter	How the matter was addressed in our audit
• The need to measure ECLs on an unbiased forward-looking basis incorporating a range of economic conditions. Significant management judgment is applied in determining the economic scenarios used and the probability weightings applied to them; and • Adjustments to the ECL model results are made by management to address known impairment model limitations or emerging trends or risks. Such adjustments are inherently uncertain and significant management judgment is involved in estimating these amounts.	• Testing controls over the transfer of data between underlying source systems and the ECL models that the Group operates; • Testing controls over the modelling process, including governance over model monitoring, validation and approval; • Testing key controls relating to selection and implementation of material economic variables; and • Testing controls over the governance and assessment of model outputs and authorisation and review of post model adjustments and management overlays including selection of economic scenarios and the probability weights applied to them. Test of details Key aspects of our testing involved: • Sample testing over key inputs and assumptions impacting ECL calculations including economic forecasts and weights to confirm the accuracy of information used; • Re-performing key aspects of the Group's significant increase in credit risk ("SICR") determinations and selecting samples of financial instruments to determine whether a SICR was appropriately identified; • Re-performing key elements of the Group's model calculations and assessing performance results for accuracy; and • Selecting a sample of post model adjustments and management overlays in order to assess the reasonableness of the adjustments by challenging key assumptions, testing the underlying calculation and tracing a sample back to source data. Use of specialists For the relevant portfolios examined, we have involved KPMG specialists to assist us in assessing IT system controls and challenging key management assumptions used in determining expected credit losses. Key aspects of their involvement include: • We involved our information technology specialists to test controls over the IT systems, recording of data in source systems and transfer of data between source systems and the impairment models; • We involved our credit risk specialists in: ◦ evaluating the appropriateness of the Groups' ECL methodologies (including the staging criteria used); ◦ on a test check basis, re-performing the calculation of certain components of the ECL model (including the staging criteria); ◦ evaluating the appropriateness of the Group's methodology for determining the economic scenarios used and the probability weighing applied to them; and ◦ evaluating the overall reasonableness of the management economic forecast by comparing it to external market data and reflective of underlying credit quality and macroeconomic trends. Disclosures We assessed the adequacy of the Group's disclosure in relation to use of significant estimates and judgement and credit quality of financing assets and Ijarah muntahia bittamleek by reference to the requirements of the relevant accounting standards.

INDEPENDENT AUDITORS' REPORT (Continued)

To the Shareholders of Bahrain Islamic Bank B.S.C.

Manama, Kingdom of Bahrain

Other Information

The board of directors is responsible for the other information. The other information comprises the annual report but does not include the consolidated financial statements and our auditors' report thereon. 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 and will not express any form of assurance conclusion thereon.

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

Responsibilities of Board of Directors for the Consolidated Financial Statements

The board of directors is responsible for the Group's undertaking to operate in accordance with Islamic Shari'a Rules and Principles as determined by the Group's Shari'a Supervisory Board.

The board of directors is also responsible for the preparation and fair presentation of the consolidated financial statements in accordance with FAS, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with ASIFIs, we exercise professional 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 auditors' 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITORS' REPORT (Continued)

To the Shareholders of Bahrain Islamic Bank B.S.C.

Manama, Kingdom of Bahrain

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

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.

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Regulatory Requirements

As required by the Commercial Companies Law and Volume 2 of the Rule Book issued by the Central Bank of Bahrain (CBB), 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 board of directors' report is consistent with the consolidated financial statements;
- c) we are not aware of any violations during the year of the Commercial Companies Law, the CBB and Financial Institutions Law No. 64 of 2006 (as amended), the CBB Rule Book Volume 2, applicable provisions of Volume 6 and CBB directives, the CBB Capital Markets Regulations and associated resolutions, the Bahrain Bourse rules and procedures or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and
- d) satisfactory explanations and information have been provided to us by management in response to all our requests

The engagement partner on the audit resulting in this independent auditors' report is Salman Manjlai.



KPMG Fakhro

Partner Registration Number 213

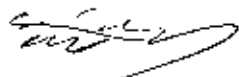
20 February 2023

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Note	2022 BD'000	2021 BD'000
ASSETS			
Cash and balances with banks and Central Bank	3	70,037	45,591
Placements with financial institutions	4	69,755	86,894
Financing assets	5	620,023	609,468
Investment securities	6	259,029	274,624
Ijarah Muntahia Bittamleek	8	289,986	257,382
Investment in associates	7	8,832	9,314
Investment in real estate	10	13,661	14,680
Property and equipment	9	14,019	13,491
Other assets	11	16,475	13,092
TOTAL ASSETS		1,361,817	1,324,536
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
Liabilities			
Placements from financial institutions		152,404	133,346
Placements from non-financial institutions and individuals		245,442	212,418
Financing from financial institutions	12	110,113	56,919
Customers' current accounts		231,078	249,749
Other liabilities	13	36,621	30,114
Total Liabilities		775,658	682,546
Equity of Investment Accountholders			
Financial institutions		29,953	42,239
Non-financial institutions and individuals		420,455	473,991
Total Equity of Investment Accountholders	14	450,408	516,230
Owners' Equity			
Share capital	15	106,406	106,406
Treasury shares	15	(892)	(892)
Shares under employee share incentive scheme		(293)	(289)
Share premium		206	206
Reserves		5,324	(4,671)
Equity Attributable to Parent's Shareholders		110,751	100,760
Subordinated Mudaraba (AT1)	15	25,000	25,000
Total Owners' Equity		135,751	125,760
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		1,361,817	1,324,536

The consolidated financial statements were approved by the Board of Directors on 20 February 2023 and signed on its behalf by:



Dr. Esam Abdulla Fakhro
Chairman



Khalid Yousif Abdul Rahman
Vice Chairman



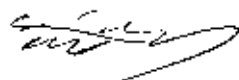
Yaser Abduljalil Alsharifi
Chief Executive Officer

The attached notes 1 to 35 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2022

	Note	2022 BD'000	2021 BD'000
INCOME			
Income from financing	18	49,408	42,439
Income from investment in Sukuk	19	12,641	13,395
Total income from jointly financed assets		62,049	55,834
Return on equity of investment accountholders		(23,362)	(23,979)
Group's share as Mudarib		19,306	20,388
Net return on equity of investment accountholders	14.5	(4,056)	(3,591)
Group's share of income from jointly financed assets (both as mudarib and investor)		57,993	52,243
Expense on placements from financial institutions		(5,561)	(2,766)
Expense on placements from non-financial institutions and individuals		(7,630)	(7,110)
Expense on financing from financial institutions		(1,637)	(212)
Fee and commission income, net		5,751	5,335
Income from investment securities	20	30	72
Income from investment in real estate, net	21	(617)	(793)
Share of results of associates, net	7	13	(272)
Other income, net	22	1,984	1,402
Total income		50,326	47,899
EXPENSES			
Staff costs		13,092	11,297
Depreciation and amortization	9, 11.1	1,707	1,576
Other expenses	23	11,514	9,686
Total expenses		26,313	22,559
Profit before impairment allowances and other provisions		24,013	25,340
Impairment allowance and other provisions, net	24	(11,445)	(19,209)
PROFIT FOR THE YEAR		12,568	6,131
BASIC AND DILUTED EARNINGS PER SHARE (fils)	27	10.13	5.82



Dr. Esam Abdulla Fakhro
Chairman



Khalid Yousif Abdul Rahman
Vice Chairman



Yaser Abduljalil Alsharifi
Chief Executive Officer

The attached notes 1 to 35 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Note	2022 BD'000	2021 BD'000
OPERATING ACTIVITIES			
Profit for the year		12,568	6,131
Adjustments for non-cash items:			
Depreciation	9	1,383	1,251
Impairment allowance and other provisions, net	24	11,445	19,209
Amortization of right-of-use asset	11.1	324	325
Fair value movement in investment in real estate	21	794	913
Gain on sale of investment in real estate	21	(19)	(19)
Gain on sale of investment in associates	20	-	(49)
Gain on sale of Sukuk	19	(710)	(1,009)
Share of results of associates, net	7	(13)	272
Operating profit before changes in operating assets and liabilities		25,772	27,024
Working capital adjustments:			
Mandatory reserve with Central Bank of Bahrain		(15,060)	732
Financing assets		(20,136)	(49,539)
Ijarah Muntahia Bittamleek		(33,475)	(45,346)
Other assets		(1,843)	(6,100)
Customers' current accounts		(18,671)	61,007
Other liabilities		6,470	6,555
Placements from financial institutions		21,207	(18,550)
Placements from non-financial institutions and individuals		33,024	(48,584)
Equity of investment accountholders		(65,822)	21,970
Net cash used in operating activities		(68,534)	(50,831)
INVESTING ACTIVITIES			
Redemption of investment in associates		-	9,287
Purchase of investment securities		(19,124)	(66,087)
Purchase of property and equipment		(1,911)	(695)
Proceeds from disposal of investment securities		33,107	65,431
Net cash from investing activities		12,072	7,936
FINANCING ACTIVITIES			
Purchase of treasury shares		(80)	(114)
Proceeds from AT1 Capital		-	24,542
Profit distribution on AT1 Capital		(1,901)	-
Proceeds from financing from financial institutions		53,194	56,919
Lease liability paid		(356)	(354)
Net cash from financing activities		50,857	80,993
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(5,605)	38,098
Cash and cash equivalents at 1 January		106,678	68,580
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		101,073	106,678
Cash and cash equivalents comprise of:			
Cash on hand	3	16,577	12,214
Balances with CBB, excluding mandatory reserve deposits	3	2,569	366
Balances with banks and other financial institutions excluding restricted balances	3	12,172	7,204
Placements with financial institutions with original maturities less than 90 days	4	69,755	86,894
		101,073	106,678

The attached notes 1 to 35 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2022

2022	Share capital BD'000	Sub-ordinated mudaraba (AT1) BD'000	Treasury shares BD'000	Shares under employee share incentive scheme BD'000	Share premium BD'000	Reserves					Total owners' equity BD'000
						Statutory reserve BD'000	Real estate fair value reserve BD'000	Investment securities fair value reserve BD'000	Accumulated losses BD'000	Total reserves BD'000	
Balance at 1 January 2022	106,406	25,000	(892)	(289)	206	5,349	1,545	1,778	(13,343)	(4,671)	125,760
Profit for the year	-	-	-	-	-	-	-	-	12,568	12,568	12,568
Zakah approved	-	-	-	-	-	-	-	-	(138)	(138)	(138)
Donations approved	-	-	-	-	-	-	-	-	(350)	(350)	(350)
Profit distribution on AT1 Capital	-	-	-	-	-	-	-	-	(1,901)	(1,901)	(1,901)
Share of reserve of investment in associate	-	-	-	-	-	-	-	(204)	204	-	-
Shares allocated to staff during the year	-	-	-	76	-	-	-	-	-	-	76
Purchase of treasury shares	-	-	(80)	-	-	-	-	-	-	-	(80)
Transfer to shares under employee share incentive scheme	-	-	80	(80)	-	-	-	-	-	-	-
Net movement in investment securities fair value reserve	-	-	-	-	-	-	-	41	-	41	41
Net movement in real estate fair value reserve	-	-	-	-	-	-	(225)	-	-	(225)	(225)
Transfer to statutory reserve	-	-	-	-	-	1,257	-	-	(1,257)	-	-
Balance at 31 December 2022	106,406	25,000	(892)	(293)	206	6,606	1,320	1,615	(4,217)	5,324	135,751
2021											
Balance at 1 January 2021	106,406	-	(892)	(257)	206	4,736	2,178	1,696	(18,031)	(9,421)	96,042
Profit for the year	-	-	-	-	-	-	-	-	6,131	6,131	6,131
Zakah approved	-	-	-	-	-	-	-	-	(122)	(122)	(122)
Donations approved	-	-	-	-	-	-	-	-	(250)	(250)	(250)
Issuance of AT1	-	25,000	-	-	-	-	-	-	-	-	25,000
Issuance costs of AT1	-	-	-	-	-	-	-	-	(458)	(458)	(458)
Shares allocated to staff during the year	-	-	-	82	-	-	-	-	-	-	82
Purchase of treasury shares	-	-	(114)	-	-	-	-	-	-	-	(114)
Transfer to shares under employee share incentive scheme	-	-	114	(114)	-	-	-	-	-	-	-
Net movement in investment securities fair value reserve	-	-	-	-	-	-	-	82	-	82	82
Net movement in real estate fair value reserve	-	-	-	-	-	-	(633)	-	-	(633)	(633)
Transfer to statutory reserve	-	-	-	-	-	613	-	-	(613)	-	-
Balance at 31 December 2021	106,406	25,000	(892)	(289)	206	5,349	1,545	1,778	(13,343)	(4,671)	125,760

The attached notes 1 to 35 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF GOOD FAITH QARD FUND

For the year ended 31 December 2022

	Qard Hasan receivables BD'000	Funds available for Qard Hasan BD'000	Total BD'000
Balance at 1 January 2022	94	123	217
Sources of Qard Fund			
Repayments	(45)	45	-
Total sources during the year	(45)	45	-
Uses of Qard fund			
Marriage	-	-	-
Others (Waqf)	58	(58)	-
Total uses during the year	58	(58)	-
Balance at 31 December 2022	107	110	217
Balance at 1 January 2021	79	138	217
Sources of Qard Fund			
Repayments	(27)	27	-
Total sources during the year	(27)	27	-
Uses of Qard fund			
Marriage	14	(14)	-
Others (Waqf)	28	(28)	-
Total uses during the year	42	(42)	-
Balance at 31 December 2021	94	123	217
	2022	2021	
	BD'000	BD'000	
Sources of Qard fund			
Contribution by the Bank	125	125	
Donation	3	3	
Non-Islamic income	89	89	
	217	217	

The attached notes 1 to 35 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND

For the year ended 31 December 2022

	2022 BD'000	2021 BD'000
Sources of zakah and charity funds		
Undistributed zakah and charity funds at the beginning of the year	353	243
Non-Islamic income / late payment fee	109	104
Contributions by the Bank for zakah	138	122
Contributions by the Bank for donations	350	250
Others	4	43
Total sources of zakah and charity funds during the year	954	762
Uses of zakah and charity funds		
Philanthropic societies	16	79
Aid to needy families	221	264
Others	41	66
Total uses of funds during the year	278	409
Undistributed zakah and charity funds at the end of the year	676	353

The attached notes 1 to 35 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

1. REPORTING ENTITY

Bahrain Islamic Bank B.S.C. (the "Bank") was incorporated in the Kingdom of Bahrain in 1979 by Amiri Decree No.2 of 1979 and registered with the Ministry of Industry and Commerce ("MOIC") under Commercial Registration (CR) number 9900, to carry out banking and other financial trading activities in accordance with the teachings of Islam (Shari'a). The Bank operates under an Islamic retail banking license issued by the Central Bank of Bahrain ("CBB"). The Bank's Shari'a Supervisory Board is entrusted to ensure the Bank's adherence to Shari'a rules and principles in its transactions and activities. The Bank is listed on the Bahrain Bourse.

The Bank's registered office is at Building 722, Road 1708, Block 317, Manama, Kingdom of Bahrain.

The Bank has nine branches (2021: nine), all operating in the Kingdom of Bahrain.

The consolidated financial statements include the results of the Bank and its wholly owned subsidiaries (together the "Group"). The Bank holds 100% (2021: 100%) of the share capital of Abaad Real Estate W.L.L.

Abaad Real Estate W.L.L ("Abaad")

Abaad was incorporated in the Kingdom of Bahrain on 8 April 2003 with an authorised and fully paid-up share capital of BD 25 million. Abaad started operations in 2007. The main activity of Abaad is investment in real estate (in accordance with the Islamic Shari'a rules and principles).

National Bank of Bahrain (NBB) owns 78.81% (2021: 78.81%) of shares. Hence, NBB is considered as Parent of the Bank for financial reporting purposes.

a. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for the "derivatives", "investments in real estate" and "equity type instruments carried at fair value through equity" that have been measured at fair value and repossessed assets that have been measured at lower of carrying value or fair value less cost to sell.

In addition, financial assets that are hedged in a fair value hedge relationship are adjusted to record changes in fair value attributable to the risk that is being hedged.

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Management believes that the underlying assumptions are appropriate and the Group's consolidated financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note (3 (bb)).

The consolidated financial statements have been presented in Bahraini Dinars ("BD"), which is also the functional currency of the Group's operations. All the values are rounded to the nearest BD thousand except when otherwise indicated.

b. Statement of Compliance

The consolidated financial statements of the Group have been prepared in accordance with Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI) and applicable rules and regulations issued by the Central Bank of Bahrain ("CBB").

The accounting policies used in the preparation of annual audited consolidated financial information of the Group for the year ended 31 December 2020 and 31 December 2021 were in accordance with FAS as modified by CBB (refer to the Group's audited financial statements for the year ended 31 December 2021 for the details of the COVID-19 related modifications applied). Since the CBB modification were specific to the financial year 2020 and no longer apply to both the current and comparative periods presented, the Group's financial statements for the year ended 31 December 2022 has been prepared in accordance with FAS issued by AAOIFI (without any modifications).

In line with the requirements of AAOIFI and the CBB rule book, for matters not covered by AAOIFI standards, the group takes guidance from the relevant International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been consistently applied by the Group and are consistent with those used in the previous year except those arising from the adoption of the following standards and amendments to Standards early adopted by the Group.

a. New standards, amendments, and interpretations

i) *New standards, amendments, and interpretations issued and effective for annual periods beginning on or after 1 January 2022*

(i) FAS 38 Wa'ad, Khiyar and Tahawwut

AAOIFI has issued FAS 38 Wa'ad, Khiyar and Tahawwut in 2020. The objective of this standard is to prescribe the accounting and reporting principles for recognition, measurement and disclosures in relation to Shari'a compliant Wa'ad (promise), Khiyar (option) and Tahawwut (hedging) arrangements for Islamic financial institutions. This standard is effective for the financial reporting periods beginning on or after 1 January 2022 with an option to early adopt.

This standard classifies Wa'ad and Khiyar arrangements into two categories as follows:

- a) "ancillary Wa'ad or Khiyar" which is related to a structure of transaction carried out using other products i.e. Murabaha, Ijarah Muntahia Bittamleek, etc.; and
- b) "product Wa'ad and Khiyar" which is used as a stand-alone Shari'a compliant arrangement.

The Group has applied FAS 38 "Wa'ad, Khiyar and Tahawwut". The impact of the adoption of this standard is disclosed in (b) below:

(a) Change in accounting policy

Derivative financial instruments

The Group enters into a variety of derivative financial instruments held to manage its exposure to profit rate risk and foreign exchange rate risk. Derivatives held include foreign exchange swaps and profit rate swaps.

All derivative financial instruments are initially recognised at cost, being the fair value at contract date, and are subsequently re-measured at their fair values. Fair values are obtained from quoted market prices in active markets including recent market transactions, and valuation techniques including discounted cash flow models and option pricing models as appropriate.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in same statement of income line as the hedged item. In the case of fair value hedges that meet the criteria for hedge accounting, any gain or loss arising from remeasuring the hedging instruments to fair value as well as the related changes in fair value of the item being hedged are recognised in the statement of income under other income.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as an other asset or other liability.

Hedge accounting (Tahawwut)

The Group designates certain derivatives as hedging instruments in respect of profit rate risk in fair value hedges. The Group does not apply fair value hedge accounting of portfolio hedges of profit rate risk.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- There is an economic relationship between the hedged item and the hedging instrument;
- The effect of credit risk does not dominate the value changes that result from that economic relationship; and
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

The Group rebalances a hedging relationship in order to comply with the hedge ratio requirements when necessary. In such cases, discontinuation may apply to only part of the hedging relationship. For example, the hedge ratio might be adjusted in such a way that some of the volume of the hedged item is no longer part of a hedging relationship, hence hedge accounting is discontinued only for the volume of the hedged item that is no longer part of the hedging relationship.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a. New standards, amendments, and interpretations (Continued)

i) New standards, amendments, and interpretations issued and effective for annual periods beginning on or after 1 January 2022 (Continued)

(a) Change in accounting policy (Continued)

Fair value hedges

The fair value change on qualifying hedging instruments is recognised in the consolidated statement of income except when the hedging instrument hedges an equity instrument designated at FVTE in which case it is recognised in equity. The Group has not designated fair value hedge relationships where the hedging instrument hedges an equity instrument designated at FVTE.

The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in the consolidated statement of income. For debt instruments measured at FVTE, the carrying amount is not adjusted as it is already at fair value, but the part of the fair value gain or loss on the hedged item associated with the hedged risk is recognised in the consolidated statement of income instead of equity. When the hedged item is an equity instrument designated at FVTE, the hedging gain/loss remains in equity to match that of the hedging instrument.

Where hedging gains/losses are recognised in the consolidated statement of income, they are recognised in the same line as the hedged item.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. The fair value adjustment to the carrying amount of hedged items for which the Effective Profit Rate (EPR) method is used (i.e. debt instruments measured at amortised cost or at FVTE) arising from the hedged risk is amortised to profit or loss commencing no later than the date when hedge accounting is discontinued.

As a result of these uncertainties, significant accounting judgement is involved in determining whether certain hedge accounting relationships that hedge the variability Profit rate risk.

(b) Impact on adoption of FAS 38

Fair value hedges: The Group uses Profit rate swaps to hedge its exposure to changes in fair value, of certain investments in fixed rate Sukuk, attributable to changes in market profit rates. Fair values of the Profit rate swap agreements are estimated based on the prevailing market rates of profit. During the period, the group has entered into a profit rate swaps with its Parent.

Other derivatives held for risk management: The Group uses derivatives, not designated in qualifying accounting hedge relationship, to manage its exposure to market risks. The Group enters into foreign exchange swap contracts (Waad) to manage against foreign exchange fluctuations. Fair values of the forward currency contracts are estimated based on the prevailing market rates of profit and forward rates of the related foreign currencies, respectively.

The derivatives are valued based on observable inputs. The fair values of derivative financial instruments held by the Group as at 31 December are provided below:

	2022		2021	
	Assets BD'000	Liabilities BD'000	Assets BD'000	Liabilities BD'000
Profit rate swaps (Fair value hedges)	1,886	-	-	-
Foreign exchange contracts (Waad) (Other derivatives held for risk management)	185	-	-	118
At 31 December	2,071	-	-	118

The notional amount of derivative financial instruments held by the Group as at 31 December are provided below:

	2022		2021	
	Assets BD'000	Liabilities BD'000	Assets BD'000	Liabilities BD'000
Profit rate swaps (Fair value hedges)	97,134	-	-	-
Foreign exchange contracts (Waad) (Other derivatives held for risk management)	-	63,608	-	44,164
At 31 December	97,134	63,608	-	44,164

The net hedge ineffectiveness gain/losses recognized in the consolidated income statement are as follows:

	2022	2021
	BD'000	BD'000
Losses on the hedged items attributable to risk hedged	(1,886)	-
Gains on the hedging instruments	1,886	-
Net hedge ineffectiveness (loss)/gain	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a. New standards, amendments, and interpretations (Continued)

ii) New standards, amendments, and interpretations issued but not yet effective

(i) FAS 39 Financial Reporting for Zakah

AAOIFI has issued FAS 39 Financial Reporting for Zakah in 2021. The objective of this standard is to establish principles of financial reporting related to Zakah attributable to different stakeholders of an Islamic financial Institution. This standard supersedes FAS 9 Zakah and is effective for the financial reporting periods beginning on or after 1 January 2023 with an option to early adopt.

This standard shall apply to institution with regard to the recognition, presentation and disclosure of Zakah attributable to relevant stakeholders. While computation of Zakah shall be applicable individually to each institution within the Group, this standard shall be applicable on all consolidated and separate / standalone financial statements of an institution.

This standard does not prescribe the method for determining the Zakah base and measuring Zakah due for a period. An institution shall refer to relevant authoritative guidance for determination of Zakah base and to measure Zakah due for the period.

The Group is assessing the impact of adoption of this standard.

(ii) FAS 1 General Presentation and Disclosures in the Financial Statements

AAOIFI has issued the revised FAS 1 General Presentation and Disclosures in the Financial Statements in 2021. This standard describes and improves the overall presentation and disclosure requirements prescribed in line with the global best practices and supersedes the earlier FAS 1. It is applicable to all the Islamic Financial Institutions and other institutions following AAOIFI FAS's. This standard is effective for the financial reporting periods beginning on or after 1 January 2024 with an option to early adopt.

The revision of FAS 1 is in line with the modifications made to the AAOIFI conceptual framework for financial reporting.

Some of the significant revisions to the standard are as follows:

- a) Revised conceptual framework is now integral part of the AAOIFI FAS's;
- b) Definition of Quasi equity is introduced;
- c) Definitions have been modified and improved;
- d) Concept of comprehensive income has been introduced;
- e) Institutions other than Banking institutions are allowed to classify assets and liabilities as current and non-current;
- f) Disclosure of Zakah and Charity have been relocated to the notes;
- g) True and fair override has been introduced;
- h) Treatment for change in accounting policies, change in estimates and correction of errors has been introduced;
- i) Disclosures of related parties, subsequent events and going concern have been improved;
- j) Improvement in reporting for foreign currency, segment reporting;
- k) Presentation and disclosure requirements have been divided into three parts. First part is applicable to all institutions, second part is applicable only to banks and similar IFI's and third part prescribes the authoritative status, effective date and amendments to other AAOIFI FAS's; and
- l) The illustrative financial statements are not part of this standard and will be issued separately.

The Group is assessing the impact of adoption of this standard and expects changes in certain presentation and disclosures in its consolidated financial statements.

(iii) FAS 41 Interim Financial Reporting

This standard prescribes the principles for the preparation of condensed interim financial information and the relevant presentation and disclosure requirements, emphasizing the minimum disclosures specific to Islamic financial institutions in line with various financial accounting standards issued by AAOIFI. This standard also provides an option for the institution to prepare a complete set of financial statements at interim reporting dates in line with the respective FAS's.

This standard will be effective for financial statements for the period beginning on or after 1 January 2023 and is not expected to have any significant impact on the Group's interim financial information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Basis of consolidation

Subsidiaries are all entities (including special purpose entities) controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group to the date that control ceases.

The financial statements of the subsidiaries are prepared for the same reporting year as the Group, using consistent accounting policies.

All intra-group balances, income, expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

c. Cash and cash equivalents

For the purpose of the consolidated cash flows statement, "cash and cash equivalents" consist of cash on hand, balances with the Central Bank of Bahrain excluding mandatory reserve deposits, balances with banks and other financial institutions excluding restricted balances and placements with financial institutions with original maturities less than 90 days when acquired.

d. Placements with and financing from financial institutions

i) Placements with financial institutions

Placements with financial institutions comprise of commodity Murabaha receivables and Wakala receivables. Commodity Murabaha receivables are stated at amortised cost net of deferred profits and provision for impairment, if any. Wakala receivables are stated at amortised cost less provision for impairment, if any.

ii) Financing from financial institutions

Financing from financial institutions comprise of financing obtained through a murabaha contract recognized on the origination date and carried at amortized cost.

e. Financing assets

Financing assets comprise of Shari'a compliant financing contracts with fixed or determinable payments. These include financing provided through Murabaha and Musharaka contracts. Financing assets are recognised on the date at which they are originated and carried at their amortised cost less impairment allowance, if any.

f. Murabaha financing

Murabaha financing consist mainly of deferred sales transactions which are stated net of deferred profits and provisions for impairment, if any.

Murabaha financing is a sale on deferred terms. The Group arranges a Murabaha transaction by buying a commodity (which represents the object of the Murabaha) and then resells this commodity to a Murabeh (beneficiary) after computing a margin of profit over cost. The sale price (cost plus profit margin) is repaid in instalments by the Murabeh over the agreed period.

g. Musharaka financing

Musharaka financing are stated at the fair value of consideration given less impairment, if any.

Musharaka financing are a form of capital partnership. Musharaka financing capital provided by the Group at inception in kind (if other than cash) is measured at the fair value of the assets. If the valuation of the assets results in a difference between fair value and book value, such difference is recognised as profit or loss to the Group.

h. Investment securities

Investment securities comprise investments in equity securities and investments in debt-type securities, sukuk.

(i) Classification

The Group segregates its investment into following categories:

i) Equity-type instruments:

Instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities and quasi-equity balances, including ordinary equity instruments and such other structured investment instruments that classify as equity instrument in line with the requirements of FAS 29 "Sukuk in the books of the originator".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h. Investment securities (Continued)

(i) Classification (Continued)

ii) Debt-type instruments:

Monetary debt-type instruments - instruments whereby the transaction structure results in creation of a financial liability / debt such as Murabaha payable.

Non-monetary debt-type instruments - instruments whereby the transaction structure results in creation of a non-financial liability, such as goods (Salam or Istisna'a) or usufruct (Ijarah Mawsufah fi al-Dhimmah) or services (service Ijarah) to be delivered in future.

iii) Other investment instruments:

The Group classifies its investments on initial recognition as measured at: (a) amortised cost, (b) fair value through equity ("FVTE") or (c) fair value through income statement ("FVIS").

Amortised cost

An investment shall be measured at amortised cost if both of the following conditions are met:

- a) The investment is held within a business model whose objective is to hold such investment in order to collect expected cash flows till maturity of the instrument; and
- b) The investment represents either a debt-type instrument or other investment instrument having reasonably determinable effective yield.

Fair value through equity

An investment shall be measured at fair value through equity if both of the following conditions are met:

- a) The investment is held within a business model whose objective is achieved by both collecting expected cash flows and selling the investment; and
- b) The investment represents a non-monetary debt-type instrument or other investment instrument having reasonably determinable effective yield.

Irrevocable classification at initial recognition

On initial recognition, an institution may make an irrevocable election to designate a particular investment, at initial recognition, being:

- a) An equity-type instrument that would otherwise be measured at fair value through income statement - to present subsequent changes in fair value in equity.
- b) A non-monetary debt-type instrument or other investment instrument - as measured at fair value through income statement if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or correlated liabilities or quasi-equity or recognizing the gains and losses on them on different bases. This shall, however, be subject to the Shari'a requirements with regard to the attribution of, and distribution of such gains to the respective stakeholders.

Fair value through income statement

All other investments are measured at FVTIS.

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 profit, maintaining practical profit rate profile and realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Group's management;
- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h. Investment securities (Continued)

Business model assessment (Continued)

Investments that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTIS.

Investment securities are measured initially at fair value, which is the value of the consideration given. For FVTIS investments, transaction costs are expensed in the income statement. For other investment securities, transaction costs are included as a part of the initial recognition.

Subsequent to initial recognition, investments carried at FVTIS and FVTE are re-measured to fair value. Gains and losses arising from a change in the fair value of investments carried at FVTIS are recognised in the income statement in the period in which they arise. Gains and losses arising from a change in the fair value of investments carried at FVTE are recognised in the consolidated statement of changes in equity and presented in a separate fair value reserve within equity. The fair value gains/losses are recognised taking into consideration the split between portions related to owners' equity and equity of investment account holders. When the investments carried at FVTE are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in equity is transferred to the income statement.

Subsequent to initial recognition, debt-type securities, other than those carried at FVTIS, are measured at amortised cost using the effective profit method less any impairment allowances.

i. Measurement principles

i) Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received.

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If a market for a financial instrument is not active or there is no market, the Group establishes fair value using well-recognised valuation techniques that may include recent arm's length transactions between knowledgeable, willing parties (if available), discounted cash flows or market multiples for similar instruments.

Some or all of the inputs into these models may not be market observable, but are estimated based on assumptions. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

Fair value estimates involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events (such as continued operating profits and financial strengths). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments.

In determining fair valuation, the Group in many instances relies on the financial data of investees and on estimates by the management of the investee companies as to the effect of future developments.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

ii) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus capital repayments, plus or minus the cumulative amortisation using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction (directly or through use of an allowance account) for impairment or uncollectability. The calculation of the effective profit rate includes all fees and points paid or received that are an integral part of the effective profit rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j. Investment in associates

Associates are all entities in which the Group holds, between 20% and 50% of the voting rights and exercises significant influence, but not control or joint control, over the financial and operating policies of the entities. Investment in associates are accounted for using the equity method of accounting.

Investments in associates are initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from the changes in the investee's equity. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued, except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investments in associates are impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the recoverable amount of the associates and the carrying value and recognises this amount in the consolidated statement of income.

Accounting policies of the associates are consistent with the policies adopted by the Group.

k. Ijarah Muntahia Bittamleek

Ijarah Muntahia Bittamleek are stated at cost less accumulated depreciation and any impairment in value. Under the terms of the lease, the legal title of the asset passes to the lessee at the end of the lease term, provided that all lease installments are settled. Depreciation is calculated using rates that systematically reduce the cost of the leased assets over the period of the lease in a pattern which is reflective of the expected pattern of economic benefits arising from these assets. The Group assesses at each reporting date whether there is objective evidence that the assets acquired for leasing are impaired. Impairment losses are measured as the difference between the carrying amount of the asset and the estimated recoverable amount. The estimates of future cash flows, when dependent on a single customer, takes into consideration the credit evaluation of the customers in addition to other factors. Impairment losses, if any, are recognised in the consolidated statement of income.

l. Investment in real estate

Properties held for rental, or for capital appreciation purposes, or both, are classified as investment in real estate. Investments in real estate are initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, investments in real estate are re-measured to fair value and changes in fair value (only gains) are recognised in a property fair value reserve in the consolidated statement of changes in owners' equity.

Losses arising from changes in the fair values of investment in real estate are firstly adjusted against the property fair value reserve to the extent of the available balance and then the remaining losses are recognised in the consolidated statement of income. If there are unrealised losses that have been recognised in the consolidated statement of income in previous financial periods, the current period unrealised gain shall be recognised in the consolidated statement of income to the extent of crediting back such previous losses in the consolidated statement of income. When the property is disposed of, the cumulative gain previously transferred to the property fair value reserve, is transferred to the consolidated statement of income.

m. Property and equipment

Property and equipment are recognised at cost. The cost of additions and major improvements are capitalised; maintenance and repairs are charged to the consolidated statement of income as incurred. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets as follows;

Buildings	25 to 35 years
Fixtures and fittings	5 years
Equipment	5 years
Furniture	5 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n. Equity of investment accountholders

Equity of investment accountholders are funds held by the Group in unrestricted investment accounts, which it can invest at its own discretion. The investment account holder authorises the Group to invest the account holders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. The Group charges management fee (Mudarib fees) to the investment account holders. Of the total income from investment accounts, the income attributable to customers is allocated to investment accounts after setting aside provisions, reserves (profit equalisation reserve and investment risk reserve) and deducting the Group's share of income as a Mudarib. The allocation of income is determined by the management of the Group within the allowed profit sharing limits as per the terms and conditions of the investment accounts. Administrative expenses incurred in connection with the management of the funds are borne directly by the Group and are not charged separately to investment accounts. Only profits earned from the pool of assets funded by the equity of investment accountholders are allocated between the owners' equity and equity of investment accountholders.

Investment accounts are carried at their book values and include amounts retained towards profit equalisation and investment risk reserves, if any. Creation of any of these reserves results in an increase in the liability towards the pool of unrestricted investment accounts.

o. Investment risk reserve

Investment risk reserves are amounts appropriated out of the income of equity of investment accountholders, after allocating the Mudarib share, in order to cater for future losses for equity of investment accountholders.

p. Profit equalisation reserve

The Group appropriates a certain amount in excess of the profit to be distributed to equity of investment accountholders before allocating the Mudarib share of income. This is used to maintain a certain level of return on investment for equity of investment accountholders.

q. Zakah

Zakah is calculated on the Zakah base of the Group in accordance with FAS 9 issued by AAOIFI using the net invested funds method. Zakah is paid by the Group based on the consolidated figures of statutory reserve, general reserve and retained earning balances at the beginning of the year. The remaining Zakah is payable by individual shareholders. Payment of Zakah on equity of investment accountholders and other accounts is the responsibility of investment accountholders.

r. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

s. Dividends

Dividends are recognised as liabilities in the year in which they are declared / approved by the shareholders.

t. Derecognition of financial assets and liabilities

i) Financial assets

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

ii) Financial liabilities

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled, or expired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

u. Treasury shares

These are own equity instruments of the Group which are reacquired through its own broker. Treasury shares are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase or sale of the Group's own equity instruments is recognised directly in equity. No gain or loss is recognised in consolidated statement of income on the purchase, sale, issue, or cancellation of own equity instruments.

v. Earnings prohibited by Shari'a

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity fund where the Group uses these funds for social welfare activities.

w. Offsetting

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

x. Income recognition

i) Murabaha and Wakala

Income from Murabaha and Wakala contracts is recognised on a time-apportioned basis over the period of the contract using effective profit rate method.

ii) Musharaka

Profit or losses in respect of the Group's share in a Musharaka financing transaction that commence and end during a single financial period is recognised in the consolidated statement of income at the time of liquidation (closure of the contract). Where the Musharaka financing continues for more than one financial period, profit is recognised to the extent that such profits are being distributed during that period in accordance with the profit sharing ratio stipulated in the Musharaka agreement.

iii) Mudarabah financing

Income on mudarabah financing is recognised when the right to receive payment is established or on distribution by the mudarib, where as losses are charged to income on declaration by the mudarib.

iv) Sukuk

Income from Sukuk is recognised using effective profit rate over the term of the instrument.

v) Placements with financial institutions

Income on placements with financial institutions is recognised proportionately over the period of the contract based on the principal amounts outstanding and the profit agreed with clients.

vi) Ijarah Muntahia Bittamleek

Income from Ijarah Muntahia Bittamleek is recognised proportionately over the lease term.

vii) Dividend income

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

viii) Fees and commission income

Fees and commission income that is integral to the effective profit rate on a financial asset carried at amortised cost are included in the measurement of the effective profit rate of the financial asset. Other fees and commission income, including account servicing fees, sales commission, management fees, placement and arrangement fees and syndication fees, are recognised as the related services are performed.

y. Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into Bahraini Dinars at the rate of exchange ruling at the consolidated statement of financial position date. All differences are taken to the consolidated statement of income.

Translation gains or losses on non-monetary items carried at fair value are included in owners' equity as part of the fair value adjustment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

z. Impairment of exposures subject to credit risk

The Group recognizes expected credit losses (ECLs) on the following:

- Bank balances and placements with banks;
- Financing assets;
- Ijarah Muntahia Bittamleek;
- Investment in Sukuk - debt type securities at amortised cost;
- Financial guarantee contracts issued; and
- Commitments to finance.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, which are measured at 12-month ECL:

- Debt-type securities that are determined to have low credit risk at the reporting date; and
- Other debt-type securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

When determining whether the credit risk of an exposure subject to credit risk has increased significantly since initial recognition when estimating ECLs, 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 informed credit assessment including forward-looking information.

The Group assumes that the credit risk on an exposure subject to credit risk has increased significantly if it is more than 30 days past due.

The Group considers an exposure subject to credit risk to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security, if any is held; or
- the financial asset is more than 90 days past due

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group considers this to be BBB- or higher per S&P.

The Group applies a three-stage approach to measuring ECL on exposures subject to credit risk. Exposures migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12-months ECL

Stage 1 includes exposures subject to credit risk on initial recognition and that do not have a significant increase in credit risk since initial recognition or that have low credit risk. 12-month ECL is the expected credit losses that arise from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12-months.

Stage 2: Lifetime ECL - not credit impaired

Stage 2 includes exposures subject to credit risk that have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment. For these assets, lifetime ECL is recognised. Lifetime ECL is the expected credit losses that result from all possible default events over the expected life of the financial instrument. Expected credit losses are the weighted average credit losses with the life-time probability of default ('PD').

Stage 3: Lifetime ECL - credit impaired

Stage 3 includes exposures subject to credit risk that have objective evidence of impairment at the reporting date in accordance with the indicators specified in the CBB's rule book. For these assets, lifetime ECL is recognised.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

z. Impairment of exposures subject to credit risk (Continued)

i) Measurement of ECL

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

- Exposures subject to credit risk 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 Group expects to receive);
- Exposures subject to credit risk 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;
- Undrawn commitments to finance: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

ii) Restructured exposures

If the terms of an exposures subject to credit risk are renegotiated or modified or an existing exposures subject to credit risk is replaced with a new one due to financial difficulties of the borrower, the exposures subject to credit risk should be derecognized and ECL is calculated using the cash shortfalls from the existing exposures subject to credit risk that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing exposures subject to credit risk.

iii) Credit-impaired exposures

At each reporting date, the Group assesses whether exposures subject to credit risk are credit-impaired. An exposure subject to credit risk is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the exposures have occurred.

Evidence that an exposure subject to credit risk is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default;
- the restructuring of a financing facility by the Group on terms that the Group would not consider otherwise; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

iv) Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as a deduction from gross carrying amount of exposures subject to credit risk.

v) Write-off

Exposures subject to credit risk are written off either partially or in their entirety. 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.

Financing asset exposures are either fully or partially written off when there is no expectation for further recovery. Indicators that there is no reasonable expectation of recovery include (i) borrower is insolvent or (ii) all possible recovery options have been exhausted.

aa. Equity investments classified at Fair Value Through Equity (FVTE)

For equity-type investments classified as fair value through equity and measured at fair value, a significant or prolonged decline in the fair value of an investment below its cost is considered in determining whether the investments are impaired. If such evidence exists for equity-type investments classified as fair value through equity, the cumulative loss previously recognized in the consolidated statement of changes in equity is removed from equity and recognized in the consolidated statement of income. Impairment losses recognized in the consolidated statement of income on equity-type investments are subsequently reversed through equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

bb. Use of estimates and judgements in preparation of the consolidated financial statements

In the process of applying the Group's accounting policies, management has made estimates and judgements in determining the amounts recognised in the consolidated financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. The most significant use of judgements and estimates are as follows:

i) Impairment of exposures subject to credit risk

- Establishing the criteria for determining whether credit risk on exposures subject to credit risk has increased significantly since initial recognition, determining methodology for incorporating forward looking information into measurement of ECL, and selection and approval of models used to measure ECL is set out in note (2 (z)) and note (29).
- Impairment on ijarah: key assumptions used in estimating recoverable cash flows is set out in note (2 (z)).
- Determining inputs into ECL measurement model including incorporation of forward looking information is set out in note (2 (z)) and note (29).

ii) 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 financial statements continue to be prepared on the going concern basis.

iii) Impairment of equity investments

The Group determines that equity investments carried at fair value through equity are impaired when there is a significant or prolonged decline in the fair value of the investment below its cost. This determination of what is significant or prolonged requires judgment.

In case of equity investments, the Group considers a decline of more than 30% in the fair value below cost to be significant and considers a decline below cost which persists for more than 9 months as prolonged.

iv) Russia-Ukraine conflict

On 24 February 2022, Russia started an invasion on Ukraine (the "conflict"). Owing to this various countries and international bodies have imposed trade and financial sanctions on Russia and Belarus. Further, various organisations have discontinued their operations in Russia. This conflict has resulted in an economic downturn and increased volatility in commodity prices due to disruption of supply chain.

The management has carried out an assessment of its portfolio and has concluded that it does not have any direct or indirect exposures to / from the impacted countries. At this stage it is difficult to quantify the full impact of this conflict since it depends largely on the nature and duration of uncertain and unpredictable events, such as further military action, additional sanctions, and reactions to ongoing developments by global financial markets. The management will continue to closely monitor impact of this evolving situation on its portfolio to assess indirect impact, if any. As at 31 December 2022 the Group does not have a material impact of this conflict.

cc. Trade date accounting

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.

dd. Customers' current accounts

Balances in current (non-investment) accounts are recognised when received by the Group. The transactions are measured at the cash equivalent amount received by the Group. At the end of the accounting period, the accounts are measured at their book value.

ee. Employees' benefits

i) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus as profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ee. Employees' benefits (Continued)

ii) Post-employment benefits

Pension and other benefits for Bahraini employees are covered by the Social Insurance Organisation Scheme, which is a "defined contribution scheme" in nature, and to which employees and employers contribute monthly on a fixed percentage of salaries basis. Contributions by the Group are recognised as an expense in the consolidated statement of income when they are due.

Expatriate employees on fixed contracts are entitled to leaving indemnities payable under Bahraini labour law, based on the length of service and final remuneration. Provision for this unfunded commitment has been made by calculating the notional liability had all employees left at the reporting date.

These benefits are in the nature of "defined benefits scheme" and any increase or decrease in the benefit obligation is recognised in the consolidated statement of income.

The Group also operates a voluntary employee saving scheme under which the Group and the employee contribute monthly on a fixed percentage of salaries basis. The scheme is managed and administered by the bank. The scheme is in the nature of defined contribution scheme and contributions by the Group are recognised as an expense in the consolidated statement of income when they are due.

iii) Share based employee incentive scheme

The grant-date fair value of equity settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share based awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

ff. Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised from the date of its issue. The liability arising from a financial guarantee contract is recognised at the present value of any expected payment, when a payment under the guarantee has become probable.

gg. Repossessed assets

In certain circumstances, property is repossessed following the foreclosure of financing facilities that are in default. Repossessed properties are measured at the lower of carrying amount or fair value less costs to sell and reported within 'other assets'.

hh. Statutory reserve

The Commercial Companies Law requires that 10 per cent of the annual net profit be appropriated to a statutory reserve which is normally distributable only on dissolution. Appropriations may cease when the reserve reaches 50 percent of the paid up share capital.

ii. URIA protection scheme

Investment accounts held within the Group's Bahrain operations are covered by the regulation protecting URIA issued by the Central Bank of Bahrain in accordance with Resolution No (34) of 2010. The scheme applies to all eligible accounts held with Bahrain offices of the Bank subject to specific exclusions, maximum total amount entitled and other regulations governing the establishment of a URIA Protection Scheme and a URIA Protection Board.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. CASH AND BALANCES WITH BANKS AND CENTRAL BANK

	2022 BD'000	2021 BD'000
Cash on hand	16,577	12,214
Balances with CBB, excluding mandatory reserve deposits	2,569	366
Balances with banks and other financial institutions**	12,851	10,031
	31,997	22,611
Mandatory reserve with CBB*	38,040	22,980
	70,037	45,591

* The mandatory reserve with CBB is not available for use in the day-to-day operations.

** Balances with banks and other financial institutions include an amount of BD 679 thousand (2021: BD 2,827 thousand) which is not available for use in the day-to-day operations..

4. PLACEMENTS WITH FINANCIAL INSTITUTIONS

	2022 BD'000	2021 BD'000
Commodity Murabaha	53,191	84,853
Deferred profits	(8)	(3)
	53,183	84,850
Wakala	20,263	5,734
	73,446	90,584
Impairment allowance	(3,691)	(3,690)
	69,755	86,894

5. FINANCING ASSETS

	2022 BD'000	2021 BD'000
Murabaha (note 6.1)	533,900	519,943
Musharaka (note 6.2)	86,123	85,973
Mudaraba (note 6.3)	-	3,552
	620,023	609,468

5.1 Murabaha

	2022 BD'000	2021 BD'000
Tasheel	347,562	356,594
Tawarooq	194,612	162,324
Altamweel Almaren	76,987	75,902
Letters of credit refinance	7,898	9,053
Motor vehicles Murabaha	2,332	2,723
Credit cards	20,968	18,672
Others	8	19
	650,367	625,287
Qard fund	107	94
Gross receivables	650,474	625,381
Deferred profits	(81,805)	(79,100)
Impairment allowance	(34,769)	(26,338)
	533,900	519,943

Non-performing Murabaha financing outstanding as of 31 December 2022 amounted to BD 55,845 thousand (2021: BD 44,401 thousand).

The Group considers the promise made in the Murabaha to the purchase orderer as obligatory.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

5. FINANCING ASSETS (CONTINUED)

5.1 Murabaha (Continued)

The composition of the Murabaha financing portfolio net of deferred profit and before provision for impairment by sector is as follows:

	2022 BD'000	2021 BD'000
Commercial	99,572	96,600
Financial institutions	15,308	12,649
Others including retail	453,789	437,032
	568,669	546,281

The Group exposures of Murabaha financing portfolio is concentrated in the Middle East.

5.2 Musharaka

	2022 BD'000	2021 BD'000
Musharaka in real estate	90,563	90,238
Impairment allowance	(4,440)	(4,265)
	86,123	85,973

Non-performing Musharaka financing outstanding as of 31 December 2022 amounted to BD 7,840 thousand (2021: BD 8,521 thousand).

5.3 Mudaraba

	2022 BD'000	2021 BD'000
Mudaraba	-	3,565
Impairment allowance	-	(13)
	-	3,552

5.4 The movement on impairment allowances is as follows:

2022	Stage 1 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000
At 1 January 2022	3,136	9,209	18,271	30,616
Net movement between stages	295	(155)	(140)	-
Net charge for the year	(394)	2,161	7,644	9,411
Write-off	-	-	(818)	(818)
At 31 December 2022	3,037	11,215	24,957	39,209

2021	Stage 1 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000
At 1 January 2021	2,627	5,052	18,360	26,039
Net movement between stages	(58)	(34)	92	-
Net charge for the year	567	4,191	463	5,221
Write-off	-	-	(644)	(644)
At 31 December 2021	3,136	9,209	18,271	30,616

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

6. INVESTMENT SECURITIES

	2022 BD'000	2021 BD'000
a. Debt type instruments*		
<i>Quoted Sukuk - carried at amortised cost</i>		
Gross balance at beginning of the year	230,928	229,189
Acquisitions	19,124	43,214
Disposals and redemptions	(27,936)	(41,475)
Gross balance at the end of the year	222,116	230,928
Impairment allowance	(129)	(130)
Fair value losses on hedged items attributable to profit rate risk hedged**	(1,886)	-
Net balance at the end of the year	220,101	230,798
<i>Unquoted Sukuk - carried at amortised cost</i>		
Gross balance at beginning of the year	35,442	35,495
Acquisitions	-	22,873
Disposals and redemptions	(4,461)	(22,947)
Foreign currency translation changes	(43)	21
Gross balance at the end of the year	30,938	35,442
Impairment allowance	(12,527)	(12,601)
Net balance at the end of the year	18,411	22,841
b. Equity type instruments		
<i>Unquoted shares - at fair value through equity</i>		
Balance at beginning of the year	20,549	24,288
Fair value movement - net***	(468)	(3,739)
Balance at the end of the year	20,081	20,549
Unquoted managed funds	436	436
Total net investment securities	259,029	274,624

* As of 31 December 2022, debt type instruments includes Sukuk of BD 128,406 thousand (2021: BD 64,533 thousand) pledged against financing from financial institutions of BD 110,113 thousand (2021: BD 56,919 thousand) (note 12).

** As of 31 December 2022, sukuk of BD 97,134 thousand (2021: BD Nil) carried at amortised cost were hedged through profit rate swaps and the resultant fair value losses on the hedged items related to profit rate risk of BD 1,886 thousand (2021: BD Nil) were adjusted to the carrying value.

*** Includes BD 41 thousand (2021: BD 82 thousand) transferred to investment securities fair value reserve.

The movement of impairment allowances on debt type instruments (Sukuk) is as follows:

2022	Stage 1 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000
At 1 January 2022	161	-	12,570	12,731
Net charge for the year	(32)	-	-	(32)
Foreign exchange movement	-	-	(43)	(43)
At 31 December 2022	129	-	12,527	12,656

2021	Stage 1 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000
At 1 January 2021	251	-	12,549	12,800
Net charge for the year	(90)	-	-	(90)
Foreign exchange movement	-	-	21	21
At 31 December 2021	161	-	12,570	12,731

During the year impairment of BD 509 thousand (2021: BD 3,821 thousand) was provided on equity type instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

7. INVESTMENT IN ASSOCIATES

	2022 BD'000	2021 BD'000
At 1 January	9,314	19,024
Share of results of associates, net	13	(272)
Redemption / disposal of investment in associates	-	(9,238)
Impairment allowance	(495)	(200)
At 31 December	8,832	9,314

Summarised financial information of associates that have been equity accounted for in these consolidated financial statements, not adjusted for percentage of ownership held by the Group:

	2022 BD'000	2021 BD'000
Total assets	32,592	17,196
Total liabilities	548	556
Total revenues	2,466	1,096
Total net profit / (loss)	(1,832)	684

Investment in associates comprise of:

Name of associate	Ownership %	Country of incorporation	Nature of business
Liquidity Management Centre B.S.C. (c)	25.00%	Bahrain	Liquidity Management Centre B.S.C. (c) was incorporated in 2002 as a bank, licensed and regulated by the Central Bank of Bahrain to facilitate the creation of an Islamic inter-bank market that allow Islamic financial services institutions to effectively manage their assets and liabilities.
LS Real Estate Company W.L.L.	36.75%	Bahrain	LS Real Estate Company W.L.L. was incorporated in the Kingdom of Bahrain in 2019. The Company focuses on real estate activities including the development and overall management of owned or leased properties.
Al Dur Energy Investment Company	Disposed in 2021 (29.41% before disposal)	Bahrain	Al Dur Energy Investment Company is an exempt company with limited liability incorporated in the Cayman Islands on 10 June 2009 and operates under registration number 227032. The company operates in the Kingdom of Bahrain with the sole purpose of holding a 15% indirect interest in a power and water plant project company, Al Dur Power and Water Company B.S.C.(c), in the Kingdom of Bahrain. The Group has disposed off its shares in this associate for a gain of BD 49 thousand during the year ended 31 December 2021.

8. IJARAH MUNTAHIA BITTAMLEEK

	2022			2021		
	Properties BD'000	Aviation related assets BD'000	Total BD'000	Properties BD'000	Aviation related assets BD'000	Total BD'000
Cost:						
At 1 January	311,778	6,029	317,807	255,958	9,023	264,981
Additions	83,087	956	84,043	72,359	5,608	77,967
Settlements / adjustments	(39,409)	-	(39,409)	(16,539)	(8,602)	(25,141)
At 31 December	355,456	6,985	362,441	311,778	6,029	317,807
Accumulated depreciation:						
At 1 January	57,421	655	58,076	47,031	3,565	50,596
Charge for the year	19,457	862	20,319	17,769	657	18,426
Settlements / adjustments	(9,160)	-	(9,160)	(7,379)	(3,567)	(10,946)
At 31 December	67,718	1,517	69,235	57,421	655	58,076
Impairment allowance	(3,108)	(112)	(3,220)	(2,310)	(39)	(2,349)
Net Book Value	284,630	5,356	289,986	252,047	5,335	257,382

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For the year ended 31 December 2022

8. IJARAH MUNTAKIA BITTAMLEEK (CONTINUED)

8.1 The movement on impairment allowances is as follows:

2022	Stage 1 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000
At 1 January 2022	730	414	1,205	2,349
Net movement between stages	27	4	(31)	-
Net charge for the year	923	(91)	39	871
At 31 December 2022	1,680	327	1,213	3,220

2021	Stage 1 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000
At 1 January 2021	467	601	1,275	2,343
Net movement between stages	119	(52)	(67)	-
Net charge for the year	144	(135)	(3)	6
At 31 December 2021	730	414	1,205	2,349

9. PROPERTY AND EQUIPMENT

	2022						
	Lands BD'000	Buildings BD'000	Fixture and fitting BD'000	Equipment BD'000	Furniture BD'000	Work in progress BD'000	Total BD'000
Cost:							
At 1 January	5,521	7,651	4,480	14,156	957	1,060	33,825
Additions / Transfers	-	-	117	1,737	7	50	1,911
Disposals	-	-	-	58	-	-	58
At 31 December	5,521	7,651	4,597	15,951	964	1,110	35,794
Depreciation:							
At 1 January	-	3,245	4,041	12,153	895	-	20,334
Charge for the year	-	254	161	952	16	-	1,383
Relating to disposed assets	-	-	-	58	-	-	58
At 31 December	-	3,499	4,202	13,163	911	-	21,775
Net Book Value	5,521	4,152	395	2,788	53	1,110	14,019

	2021						
	Lands BD'000	Buildings BD'000	Fixture and fitting BD'000	Equipment BD'000	Furniture BD'000	Work in progress BD'000	Total BD'000
Cost:							
At 1 January	5,521	7,651	4,201	13,746	900	1,111	33,130
Additions / Transfers	-	-	279	410	57	(51)	695
Disposals	-	-	-	-	-	-	-
At 31 December	5,521	7,651	4,480	14,156	957	1,060	33,825
Depreciation:							
At 1 January	-	2,991	3,919	11,286	887	-	19,083
Charge for the year	-	254	122	867	8	-	1,251
Relating to disposed assets	-	-	-	-	-	-	-
At 31 December	-	3,245	4,041	12,153	895	-	20,334
Net Book Value	5,521	4,406	439	2,003	62	1,060	13,491

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

10. INVESTMENT IN REAL ESTATE

	2022 BD'000	2021 BD'000
Land	13,661	14,680
	13,661	14,680
	2022 BD'000	2021 BD'000
Movement in investment in real estate:		
At 1 January	14,680	16,226
Fair value changes	(1,019)	(1,546)
At 31 December	13,661	14,680

Investment in real estate comprises of properties located in the Kingdom of Bahrain and the United Arab Emirates.

Investment in real estate is stated at fair value, which has been determined based on valuations performed by independent third party property valuers who have the qualification and experience of valuing similar properties in the same location. Fair value of investments in real estate is classified as category 2 of fair value hierarchy.

11. OTHER ASSETS

	2022 BD'000	2021 BD'000
Reposessed assets*	2,515	2,515
Receivables**	8,273	8,013
Staff advances	1,537	1,536
Prepaid expenses	327	367
Right-of-use asset (11.1)	230	361
Other	3,593	300
	16,475	13,092

* Reposessed assets comprise lands located in Kingdom of Bahrain and are net of impairment allowance of BD 1,143 thousand (2021: BD 1,143 thousand).

** Receivables includes cash collateral deposited with an insurance company for issuance of surety bond of BD 7,641 thousand (2021: BD 7,641 thousand) relating to a legal case.

11.1 Right-of-use Asset

	2022 BD'000	2021 BD'000
At 1 January	361	503
Additions for the year	193	183
Amortization charge for the year	(324)	(325)
	230	361

12. FINANCING FROM FINANCIAL INSTITUTIONS

Represents term murabaha facilities of BD 110,113 thousand (2021: BD 56,919 thousand) secured by pledge over Sukuk of BD 128,406 thousand (2021: BD 64,533 thousand). The average rate of financing is 3.94% (2021: 1.05%) (note 6).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

13. OTHER LIABILITIES

	2022 BD'000	2021 BD'000
Managers' cheques	3,984	5,754
Payable to vendors	3,708	3,911
Accrued expenses	7,288	4,879
Zakah and charity fund	676	353
Net Ijarah liability (13.1)	191	344
Other*	20,774	14,873
	36,621	30,114

* Other includes impairment allowance for commitments and contingent liabilities of BD 1,582 thousand (2021: BD 3,296 thousand) (refer note 16) and provision for litigation claims of BD 5,087 thousand (2021: BD 3,202 thousand) (refer note 25).

13.1 Net Ijarah Liability

	2022 BD'000	2021 BD'000
Maturity analysis – Gross Ijarah liability		
Less than one year	147	214
One to five years	91	140
Total gross Ijarah liability	238	354
Maturity analysis – net Ijarah liability		
Less than one year	110	203
One to five years	81	141
Total net Ijarah liability	191	344

14. EQUITY OF INVESTMENT ACCOUNTHOLDERS

The Group comingles the Investment Account Holders' (IAH) funds with the owners' equity. In line with its policy, the Group utilizes the funds from IAH to finance assets.

14.1 Equity of investment accountholders balances

	2022 BD'000	2021 BD'000
Type of Equity of Investment Accountholders		
Placements and financing from financial institutions – Wakala	29,953	42,239
Placements from non-financial institutions and individuals – Wakala	15,050	47,197
Mudharaba	405,405	426,794
	450,408	516,230
Mudharaba-based customer investment accounts		
Balances on demand	331,513	344,723
Contractual basis	73,892	82,071
	405,405	426,794

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For the year ended 31 December 2022

14. EQUITY OF INVESTMENT ACCOUNTHOLDERS (CONTINUED)

14.2 Assets in which IAH funds were invested

Assets in which IAH funds were invested as at 31 December are as follows:

	2022 BD'000	2021 BD'000
Assets		
Cash and balances with banks and Central Bank	18,543	23,346
Placements with financial institutions	-	11,400
Financing assets, net	233,140	261,894
Ijarah Muntahia Bittamleek	109,040	110,599
Investment securities, net	89,685	108,991
	450,408	516,230

The Bank proportionately allocates non-performing assets (past due greater than 90 days) to the IAH pool of assets. The ECL charge is also allocated to the IAH pool, in proportion of the non-performing assets financed by IAH to the total non-performing assets. Amounts recovered from these non-performing assets shall be subject to allocation between IAH and owners' equity. During the year, the Bank allocated BD 20,712 thousand of ECL (2021: ECL of BD 19,636 thousand) to the IAH.

During the year, the Bank did not charge any administration expenses to investment accounts.

14.3 Profit distribution by account type

The following is the average percentage of profit allocation between the owner's accounts applied during the year for each type of IAH account as agreed contractually with the customers:

Account type	2022			2021		
	Utilization	Mudarib Share	Profit to IAH	Utilization	Mudarib Share	Profit to IAH
Tejoori	90%	97.98%	2.02%	90%	98.00%	2.00%
Savings	90%	97.95%	2.05%	90%	97.99%	2.01%
Vevo	90%	97.76%	2.24%	90%	97.93%	2.07%
IQRA	100%	68.13%	31.87%	100%	77.01%	22.99%
Time deposits	100%	54.69%	45.31%	100%	67.70%	32.30%

During the year, the Group did not increase its percentage of profits as mudarib. Further, the Group did not receive any incentive from profits of investment account holders..

The Group does not share profits with IAH resulting from investing current accounts and other funds received on the basis other than mudaraba contract.

Funds from IAH are invested in assets on a priority basis.

14.4 Equity of Investment Accountholders Reserves

	2022 BD'000	Movement BD'000	2021 BD'000
Profit equalisation reserve	1,486	86	1,400

14.5 Return on equity of investment accountholders

	2022 BD'000	2021 BD'000
Gross return to equity of investment accountholders	23,448	24,069
Group's share as a Mudarib	(19,306)	(20,388)
Allocation to profit equalization reserve	(86)	(90)
Net return on equity of investment accountholders	4,056	3,591

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15. OWNERS' EQUITY

a. Share capital

	2022 BD'000	2021 BD'000
<i>i. Authorised</i>		
2,000,000,000 shares (2021: 2,000,000,000 shares) of BD 0.100 each	200,000	200,000
<i>ii. Issued and fully paid up</i>		
1,064,058,587 shares (2021: 1,064,058,587 shares) of BD 0.100 each	106,406	106,406

b. Subordinated Mudaraba (AT1)

In order to meet minimum regulatory requirements relating to total equity as prescribed by Central bank of Bahrain, during the year, the Bank issued a Subordinated Mudaraba Sukuk (Basel III compliant Additional Tier 1 capital securities) of BD 25 million. The issue was at par and was fully subscribed for and paid in cash by the Parent.

Summary of key terms and conditions of this issue are as follows:

- Profits on these securities shall be distributed annually starting June 2022 subject to and in accordance with terms and conditions on the outstanding par value of the securities at an expected rate of 7.5% p.a.
- Security holder will not have a right to claim the profits and such event will not be considered as an event of default.
- Subordinated Mudaraba is invested in a general mudaraba pool of assets on an unrestricted comingled basis.
- In the event of non-viability, the Sukuk certificates will be converted either in full or in part in accordance with the conversion rules and procedures.
- The Sukuk certificates carry a call option after 5 years from the date of issue.

The Subordinated Mudaraba is recognized under the owners' equity in the consolidated statement of financial position and the profits paid to rab al-maal (security holder) will be accounted for as appropriation of profits.

In 2021, issuance costs of BD 458 thousand representing BD 394 thousand underwriting fee to the Parent and BD 64 thousand other transaction costs have been adjusted in the retained earnings. During the period, BD 1,901 thousand was paid as profit declarations on AT1 securities.

c. Treasury shares

	2022		2021
	Number of shares	BD'000	BD'000
At 31 December	5,855,358	892	892
			2022 BD'000
Cost of treasury shares, excluding shares under employee share incentive scheme			892
Market value of treasury shares			451

The treasury shares as a percentage of total shares in issue is 0.55% (2021: 0.55%)

Owners' equity instruments which are reacquired are deducted from equity. No gain or loss is recognised in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

d. Reserves

i) Statutory reserve

During the year, the Bank has appropriated BD 1,257 thousand (2021: BD 613 thousand) to the statutory reserve representing 10% of the profit for the year of BD 12,568 thousand (2021: BD 6,131 thousand). The reserve is not distributable except in such circumstances as stipulated in the Commercial Companies Law and following the approval of CBB.

ii) General reserve

The general reserve is established in accordance with the articles of association of the Bank and is distributable following a resolution of shareholders at a general meeting and the approval of CBB. The Group may transfer any amount to the general reserve, as approved by the shareholders at a general meeting, out of the profit for the year after appropriating the statutory reserve.

iii) Real estate fair value reserve

This represents cumulative unrealised revaluation gains on investment in real estate. This reserve is transferred to the consolidated statement of income upon sale of the investment in real estate.

iv) Investment fair value reserve

This represents the net unrealised gains or losses on equity investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

15. OWNERS' EQUITY (CONTINUED)

e. Additional information on shareholding pattern

i. Names and nationalities of the major shareholders and the number of shares in which they have an interest of 5% or more of outstanding shares:

Names	Nationality	2022		2021	
		Number of shares	% holding	Number of shares	% holding
National Bank of Bahrain	Bahraini	838,630,728	78.81%	838,630,728	78.81%
General Council of Kuwaiti Awqaf	Kuwaiti	76,366,321	7.18%	76,366,321	7.18%

ii. The Group has only one class of shares and the holders of these shares have equal voting rights.

iii. Distribution schedule of shares, setting out the number and percentage of holders in the following categories:

	2022			2021		
	Number of shares	Number of shareholders	% of total outstanding shares	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	86,303,690	2,723	8.11%	86,303,690	2,724	8.11%
1% and less than 5%	62,757,848	3	5.90%	62,757,848	3	5.90%
5% and less than 10%	76,366,321	1	7.18%	76,366,321	1	7.18%
10% and more	838,630,728	1	78.81%	838,630,728	1	78.81%
	1,064,058,587	2,728	100.00%	1,064,058,587	2,729	100.00%

Details of Directors' interests in the Group's shares as at the end of the year were:

Categories:

	2022		2021	
	Number of shares	Number of directors	Number of shares	Number of directors
Less than 1%	352,500	1	352,500	1

The following is the number of shares, and percentage of shareholding of Directors, Shari'a supervisory members and senior management (Assistant General Managers and above who are part of the management committee):

	2022		2021	
	Number of shares	% of Shareholding	Number of shares	% of Shareholding
Directors	352,500	0.033%	352,500	0.033%
Shari'a supervisory members	558,396	0.052%	558,396	0.052%
Senior management	47,834	0.004%	50,327	0.005%
	958,730	0.089%	961,223	0.090%

f. Proposed appropriations

The Board of Directors propose the appropriation for zakah of BD 170 thousand in 2022 (2021: BD 138 thousand), charitable donations of BD 250 thousand in 2022 (2021: BD 350 thousand) and dividends amounting to BD Nil thousand (2021: BD Nil thousand) which are subject to regulatory and shareholders' approval in the ensuing Annual General Meeting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

16. COMMITMENTS AND CONTINGENT LIABILITIES

Credit related commitments

These include commitments to enter into financing contracts which are designed to meet the requirements of the Group's customers.

Letters of credit and guarantees commit the Group to make payments on behalf of customers.

The Group has the following credit related commitments and contingent liabilities on behalf of customers:

	2022 BD'000	2021 BD'000
Letters of credit and acceptances	2,905	4,573
Guarantees	22,997	44,787
Credit cards	39,170	37,511
Altamweel Almaren	33,594	25,407
Commitments to finance	16,140	27,805
	114,806	140,083

As of December 31, 2022, the impairment allowance related to the credit risk for commitments and contingent liabilities was BD 1,582 thousand (2021: BD 3,296 thousand). During the period, an amount of BD 1,679 thousand (2021: Nil) relating to a guarantee was called upon. Accordingly, this exposure and its related impairment allowance of BD 1,679 thousand (2021: Nil) were transferred to financing assets.

17. CAPITAL ADEQUACY

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue Sukuk etc. No changes were made in the objectives, policies and processes from the previous years.

The Group's capital structure primarily consists of its paid-up capital, including share premium and reserves. From a regulatory perspective, a significant amount of the Group's capital is classified as Tier 1 as defined by the CBB, i.e. most of the capital is of a permanent nature.

The Group's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of financing facilities growth expectations for each business group, expected growth in off-balance sheet facilities, and future sources and uses of funds.

The Central Bank of Bahrain issued the final regulation to give effect to the Basel III framework which came into effect on 1 January 2015. The Basel III framework significantly revises the definition of regulatory capital. The framework emphasises on common equity as the predominant component of tier 1 capital by adding a minimum Common Equity Tier 1 (CET 1) capital ratio. The Basel III rules also require institutions to hold capital buffers. For the purpose of calculating CET 1 capital, the regulatory adjustments (deductions) including amounts above the aggregate limit for significant investments in financial institutions, mortgage servicing rights, and deferred tax assets from temporary differences, will be deducted from CET1 over a phased manner to be fully deducted by 1 January 2019. The Bank's current capital position is sufficient to meet the new regulatory capital requirements. The Group has applied CBB concessionary measures relating to adjustment of modification loss and incremental ECL provisions for the purpose of computation of capital adequacy ratio for the years ended 31 December 2022 and 2021.

The classification of the Group's capital in accordance with the regulatory requirements is as follows:

	2022 BD'000	2021 BD'000
CET 1 Capital before regulatory adjustments	126,586	116,370
Less: regulatory adjustments	-	-
CET 1 Capital after regulatory adjustments	126,586	116,370
AT1 Capital	25,000	25,000
T 2 Capital adjustments	10,214	9,997
Regulatory Capital	161,800	151,367

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For the year ended 31 December 2022

17. CAPITAL ADEQUACY (CONTINUED)

To assess its capital adequacy requirements in accordance with the CBB requirements, the Group adopts the Standardised Approach for its Credit Risk, Basic Indicator Approach for its Operational Risk and Standardised Approach for its Market Risk. The capital requirements for these risks are as follows:

	2022 BD'000	2021 BD'000
Risk weighted exposure:		
Total Credit Risk Weighted Assets	711,536	676,125
Total Market Risk Weighted Assets	186	471
Total Operational Risk Weighted Assets	117,705	117,482
Total Regulatory Risk Weighted Assets	829,427	794,078
Investment risk reserve (30% only)	-	-
Profit equalization reserve (30% only)	446	420
Total Adjusted Risk Weighted Exposures	828,981	793,658
Capital Adequacy Ratio	19.52%	19.07%
Tier 1 Capital Adequacy Ratio	18.29%	17.81%
Minimum requirement	12.5%	12.5%

18. INCOME FROM FINANCING

	2022 BD'000	2021 BD'000
Income from Murabaha financing	28,667	26,318
Income from Ijarah Muntahia Bittamleek	15,229	11,750
Income from Musharaka financing	3,922	4,030
Income from placements with financial institutions	1,590	341
	49,408	42,439

19. INCOME FROM INVESTMENT IN SULUK

	2022 BD'000	2021 BD'000
Profit income on investment in Sukuk	11,931	12,386
Gain on sale of Sukuk	710	1,009
	12,641	13,395

20. INCOME FROM INVESTMENT SECURITIES

	2022 BD'000	2021 BD'000
Gain on sale of investment in associates	-	49
Dividend income	30	23
	30	72

21. INCOME FROM INVESTMENT IN REAL ESTATE, NET

	2022 BD'000	2021 BD'000
Rental income	158	101
Gain on sale	19	19
Impairment charge	(794)	(913)
	(617)	(793)

22. OTHER INCOME, NET

	2022 BD'000	2021 BD'000
Recoveries from previously written off financing	827	640
Foreign exchange gain	976	920
Others	181	(158)
	1,984	1,402

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23. OTHER OPERATING EXPENSES

	2022 BD'000	2021 BD'000
Marketing and advertisement expenses	1,299	1,236
Professional services	2,222	1,483
Information technology related expenses	1,844	1,379
Card Centre expenses	1,252	1,189
Premises and equipment expenses	584	575
Communication expenses	1,094	1,109
Board remunerations	348	86
Board of directors sitting fees	181	168
Shari'a committee fees & expenses	73	78
Others	2,617	2,383
	11,514	9,686

24. IMPAIRMENT ALLOWANCE AND OTHER PROVISIONS, NET

	2022 BD'000	2021 BD'000
Financing assets (note 5.4)	9,411	5,221
Ijarah Muntahia Bittamleek (note 8)	871	6
Investments in Sukuk (note 6)	(32)	(90)
Investments at fair value through equity (note 6)	509	3,821
Investment in associates (note 7)	495	200
Placements with financial institutions	1	3,689
Other assets	19	-
Commitments	(1,714)	3,160
Impairment allowance, net	9,560	16,007
Litigation claims	1,885	3,202
Total impairment allowance and other provisions, net	11,445	19,209

25. LITIGATIONS AND CLAIMS

In the normal course of business, legal cases are filed by the Bank against its customers and against the Bank by its customers, employees or investors. The Group's legal department engages with in-house legal counsel and external legal counsel depending on the nature of the cases. A periodic assessment is carried out to determine the likely outcome of these legal cases and is reported to the senior management and Board of directors. The Group as part of the periodic assessment maintains adequate provisions. No further disclosures regarding contingent liabilities arising from any such claims are being made by the Bank as the directors believe that such disclosures may be prejudicial to the Group's legal position.

26. ZAKAH

The total Zakah payable as of 31 December 2022 amounted to BD 2,190 thousand (2021: BD 1,924 thousand) of which the Bank has BD 170 thousand Zakah payable (2021: BD 138 thousand) based on the statutory reserve, general reserve and retained earning as at 1 January 2023. The Zakah balance amounting to BD 2,020 thousand or 1.9 fils per share (2021: BD 1,786 thousand or 1.7 fils per share) is due and payable by the shareholders.

27. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year attributable to the shareholder of the Bank (adjusted for Profit distribution on AT 1 Capital) by the weighted average number of shares outstanding during the year net of treasury shares. There are no dilutive potential shares that are convertible into shares.

	2022 BD'000	2021 BD'000
Profit for the year attributable to the shareholders of the parent	12,568	6,131
Less: Profit distribution on AT 1 Capital	(1,901)	-
Profit for the year attributable to the shareholders of the parent for basic and diluted earnings per share computation	10,667	6,131
Weighted average number of shares outstanding during the year, net of treasury shares (thousand)	1,053,434	1,052,935
Basic and diluted earnings per share (fils)	10.13	5.82

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28. RELATED PARTY TRANSACTIONS

Related parties comprise of major shareholders, directors and Shari'a Supervisory board members of the Bank, senior management, close members of their families, entities owned or controlled by them and companies affiliated by virtue of common ownership or directors with that of the Bank. The transactions with these parties were made on commercial terms.

In 2021, the Bank has issued a Subordinated Mudaraba Sukuk (Basel III compliant Additional Tier 1 capital securities) of BD 25 million. The issue was at par and was fully subscribed for and paid in cash by the Parent. During the period, BD 1,901 thousand was paid as profit declarations on AT1 securities.

The significant balances and transactions with related parties at 31 December were as follows:

	2022				
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	Total BD'000
Assets					
Cash and balances with banks and Central Bank	689	-	-	-	689
Placements with financial institutions	19,996	-	-	-	19,996
Financing assets	-	-	1,169	348	1,517
Ijarah Muntahia Bittamleek	-	-	207	191	398
Investment in associates	-	8,832	-	-	8,832
Other assets	2,826	-	-	243	3,069
Liabilities and Equity of Investment Accountholders					
Financing from financial institutions	110,113	-	-	-	110,113
Placements from non-financial institutions and individuals	-	-	1,458	10	1,468
Customers' current accounts	-	1,038	389	115	1,542
Other liabilities	3,308	-	346	-	3,654
Equity of investment accountholders	-	-	719	906	1,625
Off Balance sheet					
Profit rate swap - notional amount	97,134	-	-	-	97,134
Income					
Income from financing	351	-	132	20	503
Income from investment in Sukuk	(169)	-	-	-	(169)
Share of results of associates, net	-	13	-	-	13
Other Income	2,200	-	-	-	2,200
Return on equity of investment accountholders	-	-	(2)	(85)	(87)
Expense on financing from financial institutions	(1,271)	-	-	-	(1,271)
Expense on placements from non-financial institutions and individuals	-	-	(7)	-	(7)
Expenses					
Other expenses	-	-	(602)	-	(602)
Staff costs	-	-	-	(2,433)	(2,433)

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For the year ended 31 December 2022

28. RELATED PARTY TRANSACTIONS (CONTINUED)

	2021				
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	Total BD'000
Assets					
Cash and balances with banks and Central Bank	317	-	-	-	317
Placements with financial institutions	18,509	-	-	-	18,509
Financing assets	-	-	1,396	167	1,563
Ijarah Muntahia Bittamleek	-	-	326	71	397
Investment in associates	-	(396)	-	-	(396)
Other assets	-	-	-	224	224
Liabilities and Equity of Investment Accountholders					
Financing from financial institutions	19,159	-	-	-	19,159
Placements from non-financial institutions and individuals	-	-	90	-	90
Customers' current accounts	-	1,374	650	226	2,250
Other liabilities	-	-	272	-	272
Equity of investment accountholders	-	-	516	1,995	2,511
Income					
Income from financing	35	-	116	11	162
Share of results of associates, net	-	(272)	-	-	(272)
Return on equity of investment accountholders	-	-	-	(89)	(89)
Expense on financing from financial institutions	(160)	-	-	-	(160)
Expense on placements from non-financial institutions and individuals	-	-	(14)	-	(14)
Expenses					
Other expenses	-	-	(332)	-	(332)
Staff costs	-	-	-	(1,924)	(1,924)

Compensation of the key management personnel is as follows:

	2022 BD'000	2021 BD'000
Short term employee benefits	1,738	1,725
Other long term benefits	187	199
Others	508	-
	2,433	1,924

Key management personnel includes staff at the grade of assistant general manager or above and part of management committee.

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29. RISK MANAGEMENT

a. Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The risks and the processes to mitigate these risks have not significantly changed from the previous year.

The Bank is primarily exposed to credit risk, liquidity risk, market risk (including profit rate risk, equity price risk, and foreign exchange risks), operational risk, reputational risk, and Shari'a-compliance risk.

b. Risk management objectives

The risk management philosophy of the Group is to identify, monitor, and manage the various dimensions of risk with the objective of protecting asset values and income streams such that the interest of the Group's shareholders (and others to whom the Group owes a liability) are safeguarded, while maximising the returns intended to optimise the Group's shareholder return while maintaining its risk exposure within self-imposed parameters.

The Bank's risk appetite is embodied through its risk strategy; BisB reviews and aligns its risk appetite in line with its evolving business plan, and changing economic and market scenarios, in addition to evolving regulatory requirements. The Bank also assesses its tolerance for specific risk categories and its strategy to manage these risks. To monitor and report exposures to these identified risks, the Bank adopted a comprehensive enterprise-wide Risk Management Framework that encompasses the risk limit, monitoring, and reporting structures.

c. Structure and Organization of the Risk Management Function

Risk management structure includes all levels of authorities, organizational structure, people and systems required for the effective functioning of risk management processes in the Group. The responsibilities associated with each level of the risk management structure and authorities include the following:

The Board retains ultimate responsibility and authority for all risk matters, including:

- i. Establishing overall policies and procedures; and
- ii. Delegating authority to the Board Risk & Compliance Committee, the Executive Committee, the Credit and Investment Committee, the Chief Executive Officer and further delegation to the management to approve and review.

The Board Risk & Compliance Committee is responsible for overseeing the Bank's risk management governance, specifically in relation to identifying, measuring, monitoring, and reporting the risks critical to the Bank's operations.

The Board Executive Committee comprises of three designated members of the Board of Directors. The Board Executive Committee has delegated authority by the Board to manage the ongoing credit activities of the Group. Decisions are taken by the Board Executive Committee either at periodic meetings or if the need arises, by circulation.

Credit and Investment Committee (CIC): The CIC oversees the Credit & Investment Policy of the bank, identifies possible risk assumed by the bank for different transactions. The CIC has the authority to make final decision on approval or rejection of proposed transactions within its delegated authority as well as to monitor the performance and quality of the bank's credit and investment portfolio. The purpose of CIC is to assist management in fulfilling its oversight responsibilities relating to the credit & investment objectives, policies, controls, procedures and related activities, including but not limited to the review of the bank's investment and credit exposures, and credit, investment, per party, concentration and group limits.

The Credit & Risk Management (C&RM) division – headed by the Chief Risk Officer – has day-to-day responsibility for managing the risks involved across all areas of the Bank. C&RM provides independent identification, measurement, monitoring and control of all risk parameters, while liaising with the business divisions that ultimately own the risks. C&RM comprises a number of specialist units, including Risk Management, Credit Review & Analysis, and Credit Administration.

d. Risk Measurement and Reporting Systems

Based on the risk appetite, the Group has put in place various limits. These limits have been approved by the Board. Any limit breach is reported by the Credit & Risk Management Department (C&RM) to the relevant management/Board-level committee. The limits are reviewed and revised periodically, as required by the relevant policy and regulatory requirements.

e. Credit Risk

Credit risk is considered to be the most significant and pervasive risk for the Group. The Group 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 Group to incur a financial loss. Credit risk arises principally from financing (credit facilities provided to customers), investment in Sukuk and from cash and deposits held with other banks. Further, there is credit risk in certain off-balance sheet financial instruments, including guarantees relating to purchase and sale of foreign currencies, letters of credit, acceptances and commitments to extend credit.

Credit risk monitoring and control is performed by the Credit and Risk Management Department which sets parameters and thresholds for the Group's financing activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

29. RISK MANAGEMENT (CONTINUED)

e. Credit Risk (Continued)

i) ECL - Significant increase in credit risk (SICR)

To determine whether credit risk has significantly increased since initial recognition, the Group will compare 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.

For the Corporate portfolio, the Group's assessment for significant increase in credit risk (SICR) is done at a counterparty level by assigning and reviewing the movement in internal rating.

For the Retail portfolio, the Group's assessment for SICR is done at a facility level using days past due as the primary criteria.

ii) Generating the term structure of Probability of Default (PD)

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group 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 Group 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. The macro economic factors used in this analysis are shortlisted from the list given below:

- (i) Gross domestic product, constant prices;
- (ii) Total investments;
- (iii) Gross national savings;
- (iv) Inflation, average consumer prices;
- (v) Volume of imports of goods and services;
- (vi) Volume of exports of goods and services (including oil);
- (vii) General government revenue;
- (viii) General government total expenditure;
- (ix) Unemployment rate;
- (x) General government net lending / borrowing;
- (xi) General government net debt;
- (xii) Domestic credit growth (%); and
- (xiii) Oil price.

Based on consideration of a variety of external actual and forecasted information, the Group 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 Group then uses these forecasts to adjust its estimates of PDs.

For Corporate portfolio, through the yearly review of the corporate portfolio, the Group observes yearly performances to compute a count based PD over the one year horizon for the past 5 years. These PDs are grouped as per internal risk ratings (i.e. from 1 to 7). An average default rate of the 5 yearly observed default provides the through the cycle PDs.

In relation to the retail portfolio, the portfolio is segmented by product, as demonstrated below:

- (i) Auto finance;
- (ii) Mortgage finance;
- (iii) Tasheel Finance and Others; and
- (iv) Credit cards.

PDs for each segment are measured using Observed Default Estimation and thus PD is calculated based on Days Past Due (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.

iii) Determining whether credit risk has increased significantly

In determining whether credit risk has increased significantly since initial recognition, the Group uses its internal credit risk grading system, external risk ratings, delinquency status of accounts, restructuring, expert credit judgement and, where possible, relevant historical experience.

Using its expert credit judgment and, where possible, relevant historical experience, the Group 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 and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

29. RISK MANAGEMENT (CONTINUED)

e. Credit Risk (Continued)

iii) Determining whether credit risk has increased significantly (Continued)

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. In 2021, the Group has adopted 74 days as a backstop in line with the CBB COVID-19 concessionary measures. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower. However, the concessionary measures that started in March 2020 ended on 30 June 2022. As such, as of 31 December 2022, the Bank reverted back to the pre-COVID-19 estimation of 30 days past due backstop for the measurement of the occurrence a significant increase in credit risk.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews and validations:

The Group classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below:-

Stage 1 (12 months ECL): for exposures subject to credit risk where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Group recognises an allowance based on the 12-month ECL. All accounts at origination would be classified as Stage 1. Only exceptions are Purchased or Originated Credit Impaired (POCI) assets.

Stage 2 (lifetime ECL not credit impaired): for exposures subject to credit risk where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the Group recognises an allowance for the lifetime ECL for all exposures categorized in this stage based on the actual / expected maturity profile including restructuring or rescheduling of exposures.

Stage 3 (lifetime ECL credit impaired): for credit-impaired exposures subject to credit risk, the Group recognises the lifetime ECL. Default identification process i.e. DPD of 90 or more is used as stage 3.

iv) Definition of 'Default'

The Group'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 relevant exposure or a group of exposures 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 exposure or group of exposures 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 impairment losses expected as a result of future events, no matter how likely, are not recognised. Objective evidence that an exposure or group of exposures is impaired includes observable data that comes to the attention of the holder of the exposure.

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

v) Incorporation of forward looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an exposure has increased significantly since its initial recognition and its measurement of ECL. The Group annually source macro-economic forecast data from the International Monetary Fund (IMF) database and Economist intelligence unit (EIU) database for Bahrain.

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

(vi) Measurement of ECL

The Group measures an ECL at an individual instrument level taking into account the projected cash flows, PD, LGD, Credit Conversion Factor (CCF) and discount rate. For portfolios wherein instrument level information is not available, the Group carries out ECL estimation on a collective basis.

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

- (i) Probability of Default (PD);
- (ii) Loss Given Default (LGD); and
- (iii) 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.

Corporate PD estimates are calculated based on statistical rating models, and assessed using rating tools tailored to various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

29. RISK MANAGEMENT (CONTINUED)

e. Credit Risk (Continued)

(vi) Measurement of ECL (Continued)

Retail PD estimates are measured using Observed Default Estimation at the segment level and thus PD will be calculated at DPD bucket level for each segment separately. Under this analysis, the delinquency status of accounts will be tracked at an interval of one year with a moving month cycle.

Debt type instruments portfolio, nostro and interbank placements portfolio is assessed for SICR using external ratings. The Group obtains PD estimates from Moody's / Standard & Poor's (S&P) / Fitch or any other external ratings.

LGD is the magnitude of the likely loss if there is a default. The Group 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 Group 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 financing commitments and financial guarantees, the EAD includes the amount drawn, as well as 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 exposures subject to credit risk for which credit risk has not significantly increased, the Group 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 Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a financing commitment or guarantee.

vii) Modified exposures subject to credit risk

The contractual terms of exposures subject to credit risk may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer.

When the terms of an exposure are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- Its remaining lifetime PD at the reporting date based on the modified terms; with
- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Group renegotiates exposures to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of profit payments, and amending the terms of financing covenants. Both retail and corporate financing exposures are subject to the forbearance policy.

For exposures modified as part of the Group's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect profit and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired / in default. A customer needs to demonstrate consistently good payment behaviour over a period of time (12 months) before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

viii) Credit Risk Mitigation

Credit risk mitigation refers to the use of a number of techniques, such as obtaining collateral and guarantees to mitigate the credit risks that the Group is exposed to. Credit risk mitigants reduce the credit risk by allowing the Group to protect against counterparty non-performance of credit contracts through collaterals, netting agreements and guarantees.

Generally, the Group extends credit facilities only where supported by adequate tangible collateral security and/or audited financial statements. Facilities may be considered without adequate tangible collateral security when audited financial statements reveal satisfactory financial position/repayment ability and the facilities are properly structured and supported by assignments, guarantees, etc. as appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

29. RISK MANAGEMENT (CONTINUED)

e. Credit Risk (Continued)

viii) Credit Risk Mitigation (Continued)

Personal guarantees of the partners/promoters/directors of the borrowing entity may be obtained in support of credit facilities. In all cases, a statement of net worth of the guarantor is compiled by the Account Officer, so that adequate information is available at a future date in case the guarantees need to be enforced.

Collateral coverage by type of credit exposure:

	Properties BD'000	Others BD'000	Total BD'000
2022			
Financing assets	473,783	66,034	539,817
Ijarah Muntahia Bittamleek	363,485	2,011	365,496
	837,268	68,045	905,313
2021			
Financing assets	455,912	62,960	518,872
Ijarah Muntahia Bittamleek	326,120	3,577	329,697
	782,032	66,537	848,569

The fair value of collateral that the Group holds relating to non performing facilities at 31 December 2022 amounts to BD 90,728 thousand (31 December 2021: BD 90,693 thousand). The collateral consists of cash, securities and properties. The utilisation of the above collaterals will be on a customer by customer basis and will be limited to the customer's total exposure.

ix) Gross maximum exposure to credit risk

The market value of tangible collateral security is properly evaluated by the Group approved surveyors (for properties) or based on publicly available quotations. Only the amount of such security equivalent to the exposure is taken into account while considering credit facilities.

The table below shows the gross maximum exposure to credit risk for the components of the consolidated statement of financial position, including credit related commitments. The figures represent gross exposure of any collateral held or other credit enhancements.

	2022 BD'000	2021 BD'000
Balances with banks and Central Bank	53,460	33,377
Placements with financial institutions	69,755	86,894
Financing assets	620,023	605,916
Ijarah Muntahia Bittamleek	289,986	257,382
Debt type investment instruments	238,512	253,639
	1,271,736	1,237,208
Letters of credit, guarantees and acceptances	25,902	49,360

x) Risk concentrations of the maximum exposure to credit risk

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The Group seeks to manage its credit risk exposure through diversification of financing activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

29. RISK MANAGEMENT (CONTINUED)

e. Credit Risk (Continued)

x) Risk concentrations of the maximum exposure to credit risk (Continued)

The distribution of the Group's assets, liabilities, equity of investment accountholders, commitments and contingent liabilities by geographic region and industry sector is as follows:

	Assets		Liabilities and equity of investment accountholders		Commitments and contingent liabilities	
	31 December 2022 BD'000	31 December 2021 BD'000	31 December 2022 BD'000	31 December 2021 BD'000	31 December 2022 BD'000	31 December 2021 BD'000
Geographical region						
Middle East	1,344,035	1,311,663	1,224,707	1,197,629	114,806	140,083
North America	17,421	12,330	792	757	-	-
Europe	327	527	457	373	-	-
Other	34	16	110	17	-	-
	1,361,817	1,324,536	1,226,066	1,198,776	114,806	140,083
Industry sector						
Trading and Manufacturing	88,610	84,922	49,474	61,572	14,075	18,425
Aviation	-	-	875	575	-	-
Real Estate	125,445	126,364	106,772	61,376	14,998	23,574
Banks and Financial Institutions	123,827	126,507	226,031	220,289	10,413	3,433
Personal / Consumer Finance	619,732	596,778	627,951	640,602	40,702	38,080
Governmental Organizations	348,703	333,080	61,300	69,784	24,632	39,809
Others	55,500	56,885	153,663	144,578	9,986	16,762
	1,361,817	1,324,536	1,226,066	1,198,776	114,806	140,083

xi) Credit quality of exposures subject to credit risk

(i) The following table sets out information about the credit quality of exposures subject to credit risk, unless specifically indicated:

	31 December 2022			
	Stage 1 BD'000	Stage 2 BD'000	Stage 3* BD'000	Total BD'000
Financing assets (Funded exposure)				
Low risks	440,237	5,774	-	446,011
Acceptable risks	73,862	70,649	-	144,511
Watch list	22	5,002	-	5,024
Non performing	-	-	63,686	63,686
Gross exposure	514,121	81,425	63,686	659,232
Less: ECL	(3,037)	(11,215)	(24,957)	(39,209)
Financing assets carrying amount	511,084	70,210	38,729	620,023
Ijarah Muntahia Bittamleek				
Low risks	259,893	1,256	-	261,149
Acceptable risks	17,184	10,306	-	27,490
Watch list	-	1,101	-	1,101
Non performing	-	-	3,466	3,466
Gross exposure	277,077	12,663	3,466	293,206
Less: ECL	(1,680)	(327)	(1,213)	(3,220)
Ijarah muntahia bittamleek carrying amount	275,397	12,336	2,253	289,986
Investment in Sukuk				
Low risks	238,641	-	-	238,641
Acceptable risks	-	-	-	-
Watch list	-	-	-	-
Non performing	-	-	12,527	12,527
Gross exposure	238,641	-	12,527	251,168
Less: ECL	(129)	-	(12,527)	(12,656)
Investment in Sukuk carrying amount	238,512	-	-	238,512

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

29. RISK MANAGEMENT (CONTINUED)

e. Credit Risk (Continued)

xi) Credit quality of exposures subject to credit risk (Continued)

	31 December 2022			
	Stage 1 BD'000	Stage 2 BD'000	Stage 3* BD'000	Total BD'000
Placements with financial institutions				
Low risks	69,760	-	-	69,760
Acceptable risks	-	-	-	-
Watch list	-	-	-	-
Non performing	-	-	3,686	3,686
Gross exposure	69,760	-	3,686	73,446
Less: ECL	(5)	-	(3,686)	(3,691)
Placements with financial institutions carrying amount	69,755	-	-	69,755
Balances with Banks				
Low risks	15,420	-	-	15,420
Acceptable risks	-	-	-	-
Watch list	-	-	-	-
Non performing	-	-	-	-
Gross exposure	15,420	-	-	15,420
Less: ECL	-	-	-	-
Balances with Banks carrying amount	15,420	-	-	15,420
Total funded exposures subject to credit risk carrying amount	1,110,168	82,732	41,187	1,234,087
Commitments				
Gross exposure	18,426	1,025	1,310	20,761
Less: ECL	(203)	(69)	(1,310)	(1,582)
Commitments carrying amount	18,223	956	-	19,179

*This includes BD 20,799 thousand of gross on-balance sheet exposures in the cooling off period.

(ii) The following table shows the movement in ECL in various stages:

	31 December 2022			
	Stage 1 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000
At 1 January 2022	4,190	9,631	38,861	52,682
Transfer to Stage 1	530	(166)	(364)	-
Transfer to Stage 2	(135)	256	(121)	-
Transfer to Stage 3	(77)	(237)	314	-
Net movement between stages	318	(147)	(171)	-
Charge for the year (net)	546	2,146	5,864	8,556
Write-off	-	-	(818)	(818)
Foreign exchange movement	-	-	(43)	(43)
At 31 December 2022	5,054	11,630	43,693	60,377

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For the year ended 31 December 2022

29. RISK MANAGEMENT (CONTINUED)

e. Credit Risk (Continued)

xi) Credit quality of exposures subject to credit risk (Continued)

(iii) The following table sets out information about the credit quality of exposures subject to credit risk, unless specifically indicated:

	31 December 2021			
	Stage 1 BD'000	Stage 2 BD'000	Stage 3* BD'000	Total BD'000
Financing assets (Funded exposure)				
Low risks	457,757	8,472	-	466,229
Acceptable risks	65,742	51,167	-	116,909
Watch list	1,214	2,810	-	4,024
Non performing	-	-	52,922	52,922
Gross exposure	524,713	62,449	52,922	640,084
Less: ECL	(3,136)	(9,209)	(18,271)	(30,616)
Financing assets carrying amount	521,577	53,240	34,651	609,468
Ijarah Muntahia Bittamleek				
Low risks	234,449	1,464	-	235,913
Acceptable risks	9,911	10,314	-	20,225
Watch list	474	-	-	474
Non performing	-	-	3,119	3,119
Gross exposure	244,834	11,778	3,119	259,731
Less: ECL	(730)	(414)	(1,205)	(2,349)
Ijarah muntahia bittamleek carrying amount	244,104	11,364	1,914	257,382
Investment in Sukuk				
Low risks	253,800	-	-	253,800
Acceptable risks	-	-	-	-
Watch list	-	-	-	-
Non performing	-	-	12,570	12,570
Gross exposure	253,800	-	12,570	266,370
Less: ECL	(161)	-	(12,570)	(12,731)
Investment in Sukuk carrying amount	253,639	-	-	253,639
Placements with financial institutions				
Low risks	86,898	-	-	86,898
Acceptable risks	-	-	-	-
Watch list	-	-	-	-
Non performing	-	-	3,686	3,686
Gross exposure	86,898	-	3,686	90,584
Less: ECL	(4)	-	(3,686)	(3,690)
Placements with financial institutions carrying amount	86,894	-	-	86,894
Balances with Banks				
Low risks	10,397	-	-	10,397
Acceptable risks	-	-	-	-
Watch list	-	-	-	-
Non performing	-	-	-	-
Gross exposure	10,397	-	-	10,397
Less: ECL	-	-	-	-
Balances with Banks carrying amount	10,397	-	-	10,397
Total funded exposures subject to credit risk carrying amount	1,116,611	64,604	36,565	1,217,780
Commitments				
Gross exposure	32,176	794	3,129	36,099
Less: ECL	(159)	(8)	(3,129)	(3,296)
Commitments carrying amount	32,017	786	-	32,803

*This includes BD 33,833 thousand of gross on-balance sheet exposures in the cooling off period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

29. RISK MANAGEMENT (CONTINUED)

e. Credit Risk (Continued)

xi) Credit quality of exposures subject to credit risk (Continued)

(iv) The following table shows the movement in ECL in various stages:

	31 December 2021			
	Stage 1 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000
At 1 January 2021	3,413	5,722	32,184	41,319
Transfer to Stage 1	234	(218)	(16)	-
Transfer to Stage 2	(124)	465	(341)	-
Transfer to Stage 3	(49)	(333)	382	-
Net movement between stages	61	(86)	25	-
Charge for the year (net)	716	3,995	7,275	11,986
Write-off	-	-	(644)	(644)
Foreign exchange movement	-	-	21	21
At 31 December 2021	4,190	9,631	38,861	52,682

f. Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its obligations when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to cease immediately. To guard against this risk, the Group has a large customer base and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, commodity Murabaha, Wakala receivables, credit lines and high-quality sukuk.

i) Maturity profile of Group's assets and liabilities

The table below summarises the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period from the consolidated statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's retention history of its equity of investment accountholders.

The maturity profile of assets, liabilities and equity of investment accountholders at 31 December 2022 was as follows:

	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	No fixed maturity BD '000	Total BD '000
Assets								
Cash and balances with the banks and Central Bank	31,997	-	-	-	-	-	38,040	70,037
Placements with financial institutions	69,755	-	-	-	-	-	-	69,755
Financing assets	13,467	23,908	33,001	72,518	201,606	275,523	-	620,023
Ijarah Muntahia Bittamleek	1,469	7,671	4,368	7,063	34,751	234,664	-	289,986
Investment securities	-	-	-	-	141,900	96,612	20,517	259,029
Investment in associates	-	-	-	-	-	-	8,832	8,832
Investment in real estate	-	-	-	-	-	-	13,661	13,661
Property and equipment	-	-	-	-	-	-	14,019	14,019
Other assets	39	712	3,988	243	477	674	10,342	16,475
Total assets	116,727	32,291	41,357	79,824	378,734	607,473	105,411	1,361,817
Liabilities and Equity of Investment Accountholders								
Placements from financial institutions	10,685	10,640	35,190	83,188	12,701	-	-	152,404
Placements from non-financial institutions and individuals	81,963	35,947	43,023	73,281	11,228	-	-	245,442
Financing from financial institutions	-	71,047	-	39,066	-	-	-	110,113
Customers' current accounts	231,078	-	-	-	-	-	-	231,078
Other liabilities	36,621	-	-	-	-	-	-	36,621
Equity of investment accountholders	368,138	26,040	14,795	25,782	14,162	1,491	-	450,408
Total liabilities and equity of investment accountholders	728,485	143,674	93,008	221,317	38,091	1,491	-	1,226,066
Liquidity gap	(611,758)	(111,383)	(51,651)	(141,493)	340,643	605,982	105,411	135,751
Cumulative liquidity gap	(611,758)	(723,141)	(774,792)	(916,285)	(575,642)	30,340	135,751	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

29. RISK MANAGEMENT (CONTINUED)

f. Liquidity Risk (Continued)

i) Maturity profile of Group's assets and liabilities (Continued)

The maturity profile of assets, liabilities and equity of investment accountholders at 31 December 2021 was as follows:

	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	No fixed maturity BD '000	Total BD '000
Assets								
Cash and balances with the banks and Central Bank	22,611	-	-	-	-	-	22,980	45,591
Placements with financial institutions	86,894	-	-	-	-	-	-	86,894
Financing assets	28,135	23,389	28,030	46,020	160,798	323,096	-	609,468
Ijarah Muntahia Bittamleek	9,521	6,794	9,218	14,110	61,581	156,158	-	257,382
Investment securities	4,997	-	883	-	79,572	168,187	20,985	274,624
Investment in associates	-	-	-	-	-	-	9,314	9,314
Investment in real estate	-	-	-	-	-	-	14,680	14,680
Property and equipment	-	-	-	-	-	-	13,491	13,491
Other assets	38	653	794	152	702	596	10,157	13,092
Total assets	152,196	30,836	38,925	60,282	302,653	648,037	91,607	1,324,536
Liabilities and Equity of Investment Accountholders								
Placements from financial institutions	37,492	61,011	10,943	10,965	12,935	-	-	133,346
Placements from non-financial institutions and individuals	55,564	50,328	58,198	43,671	4,657	-	-	212,418
Financing from financial institutions	-	19,159	-	37,760	-	-	-	56,919
Customers' current accounts	249,749	-	-	-	-	-	-	249,749
Other liabilities	30,114	-	-	-	-	-	-	30,114
Equity of investment accountholders	391,463	46,265	21,377	34,506	21,214	1,405	-	516,230
Total liabilities and equity of investment accountholders	764,382	176,763	90,518	126,902	38,806	1,405	-	1,198,776
Liquidity gap	(612,186)	(145,927)	(51,593)	(66,620)	263,847	646,632	91,607	125,760
Cumulative liquidity gap	(612,186)	(758,113)	(809,706)	(876,326)	(612,479)	34,153	125,760	-

LCR has been developed to promote short-term resilience of a bank's liquidity risk profile. The LCR requirements aim to ensure that a bank has an adequate stock of unencumbered high quality liquidity assets (HQLA) that consists of assets that can be converted into cash immediately to meet its liquidity needs for a 30 calendar day stressed liquidity period. The stock of unencumbered HQLA should enable the Bank to survive until day 30 of the stress scenario, by which time appropriate corrective actions would have been taken by management to find the necessary solutions to the liquidity crisis.

LCR is computed as a ratio of Stock of HQLA over the Net cash outflows over the next 30 calendar days. As of 31 December 2022, the Group had LCR ratio of 138% (2021: 225%).

NSFR is to promote the resilience of banks' liquidity risk profiles and to incentivise a more resilient banking sector over a longer time horizon. The NSFR will require banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. A sustainable funding structure is intended to reduce the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress. The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on-balance sheet and off-balance sheet items and promotes funding stability.

NSFR as a percentage is calculated as "Available stable funding" divided by "Required stable funding". As of 31 December 2022 the Group had NSFR ratio of 108% (2021: 108%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

29. RISK MANAGEMENT (CONTINUED)

f. Liquidity Risk (Continued)

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

Item	Unweighted Values (before applying factors)				BD'000
	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	151,585	-	-	18,006	169,591
Other Capital Instruments	-	-	-	-	-
Retail Deposits and deposits from small business customers:					
Stable Deposits	-	260,755	7,099	1,720	256,182
Less stable deposits	-	284,031	66,364	23,591	338,947
Wholesale funding:					
Operational deposits	-	-	-	-	-
Other wholesale funding	-	393,905	150,152	1,828	165,666
Other liabilities:					
NSFR Shari'a-compliant hedging contract liabilities	-	-	-	-	-
All other liabilities not included in the above categories	-	19,193	-	-	-
Total ASF	151,585	957,884	223,615	45,145	930,386

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

29. RISK MANAGEMENT (CONTINUED)

f. Liquidity Risk (Continued)

Item	Unweighted Values (before applying factors)				BD'000
	No Specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total Weighted Value
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	252,520	-	43,307	-	31,420
Deposits held at other financial institutions for operational purposes	-	-	-	-	-
Performing financing and sukuk/ securities:					
Performing financing to financial institutions secured by Level 1 HQLA	-	-	-	-	-
Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	79,515	4,668	10,733	24,994
Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	85,042	74,501	712,759	683,972
- With a risk weight of less than or equal to 35% as per the 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	-	-	-	-	-
Securities/ sukuk 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 Shari'a-compliant hedging contracts and contributions to default funds of CCPs	-	-	-	-	-
NSFR Shari'a-compliant hedging assets	1,886	-	-	-	1,886
NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	-	-	-	-
All other assets not included in the above categories	104,980	-	-	8,320	113,299
OBS items	114,804	-	-	-	5,740
Total RSF	474,190	164,557	122,476	731,812	861,311
NSFR (%)					108.0%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

29. RISK MANAGEMENT (CONTINUED)

f. Liquidity Risk (Continued)

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

Item	Unweighted Values (before applying factors)				BD'000
	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	141,369	-	-	15,369	156,739
Other Capital Instruments	-	-	-	-	-
Retail Deposits and deposits from small business customers:					
Stable Deposits	-	265,438	6,156	1,742	259,756
Less stable deposits	-	310,106	54,700	21,129	349,454
Wholesale funding:					
Operational deposits	-	-	-	-	-
Other wholesale funding	-	435,985	69,000	4,406	134,547
Other liabilities:					
NSFR Shari'a-compliant hedging contract liabilities	-	-	-	-	-
All other liabilities not included in the above categories	-	12,791	-	-	-
Total ASF	141,369	1,024,320	129,856	42,646	900,496

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

29. RISK MANAGEMENT (CONTINUED)

f. Liquidity Risk (Continued)

	Unweighted Values (before applying factors)				BD'000
	No Specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total Weighted Value
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	246,036	-	43,324	-	32,186
Deposits held at other financial institutions for operational purposes	-	-	-	-	-
Performing financing and sukuk/ securities:					
Performing financing to financial institutions secured by Level 1 HQLA	-	-	-	-	-
Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	93,553	4,503	11,032	27,316
Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	86,027	61,651	681,109	651,799
- With a risk weight of less than or equal to 35% as per the 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	-	-	-	-	-
Securities/ sukuk 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 Shari'a-compliant hedging contracts and contributions to default funds of CCPs	-	-	-	-	-
NSFR Shari'a-compliant hedging assets	-	-	-	-	-
NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	-	-	-	-
All other assets not included in the above categories	100,489	-	-	10,468	110,957
OBS items	140,083	-	-	-	7,004
Total RSF	486,608	179,580	109,478	702,609	829,262
NSFR (%)					108.6%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

29. RISK MANAGEMENT (CONTINUED)

g. Market Risk

The Group has accepted the definition of market risk as defined by CBB as “the risk of losses in on and off balance sheet positions arising from movements in market prices”.

i) Profit rate risk

Profit rate risk is the sensitivity of financial products to changes in the profit rates. Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The profit distribution to equity of investment accountholders is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

However, the profit sharing agreements will result in displaced commercial risk when the Group's results do not allow the Group to distribute profits inline with the market rates.

A fundamental review and reform of major profit rate benchmarks is being undertaken globally. The majority of LIBOR and other Interbank Offer Rates are discontinued after 31 December 2021 and replaced with certain Alternative Reference Rates (“ARRs”), with the exception of certain USD LIBOR rates where cessation is delayed until 30 June 2023. The transition away from the IBORs covers most of the business units and support functions of the Group.

The Group Assets and liabilities committee monitors and manages the Group's transition to alternative rates. The committee evaluates the extent to which contracts reference IBOR cash flows, whether such contracts will need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties. The committee reports to the Group's board of directors quarterly and collaborates with other business functions as needed. It provides periodic reports to management of profit rate risk and risks arising from IBOR reform.

As of 31 December 2022, the Group have completed the transition for all of its contracts from LIBOR and other interbank offer rates to alternative benchmarks, except for three contracts which amounted to BD 29,546 thousand, which are either in process of transitioning to the relevant alternative benchmark or that will mature before 30 June 2023. To manage its profit rate risk on the sukuk portfolio, the group entered into a profit rate swaps with its Parent during the period.

ii) Equity price risk

Equity price risk is the sensitivity of financial products to the changes in equity prices. Equity risk arises from holding open positions in equities or equity based instruments, thereby creating exposure to a change in the market price of the equity. In addition to Group performance expectations, equity prices are also susceptible to general economic data and sector performance expectations.

As at the consolidated statement of financial position date, the Group has unquoted (equities and Sukuk) of BD 40 million (31 December 2021: BD 44 million). The impact of changes in the value of these unquoted equities and Sukuk and the related impact on equity will only be reflected when the financial instrument is sold or deemed to be impaired.

iii) Foreign exchange risk

Foreign exchange risk is the sensitivity of financial products to changes in spot foreign exchange rates. The value of the Group's portfolio which is denominated in a number of currencies may be exposed to these risks when converted back to the Group's base currency.

The Group had the following significant net exposures denominated in foreign currencies as of 31 December:

Currency	Equivalent long / (short) 2022 BD'000	Equivalent long / (short) 2021 BD'000
Pound Sterling	32	228
Euro	117	87
Kuwaiti Dinars	8	18

As the Bahraini Dinar is pegged to the US Dollar, positions in US Dollars are not considered to represent significant foreign exchange risk.

Moreover, as the Group does not have significant exposures in other currencies, movement of the currency exchange rates against the Bahraini Dinar with other variables held constant will have an immaterial impact on the consolidated statement of income and owners' equity.

iv) Commodity risk

Commodity risk is defined as inherent risk in financial products arising from their sensitivity to changes in commodity prices. Since prices in commodity markets are determined by fundamental factors (i.e. supply and demand of the underlying commodity) these markets may be strongly correlated within a particular sector and less correlated across sectors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

29. RISK MANAGEMENT (CONTINUED)

h. Operational Risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

30. SEGMENTAL INFORMATION

For management purposes, the Group is organized into three major business segments;

Corporate	Principally handling equity of corporate investment accountholders', corporate current accounts, and providing Islamic financing facilities to corporate customers.
Retail	Principally handling equity of individual retail customers' investment accountholders', retail current accounts, and providing Islamic financing facilities to individual customers.
Investment	Principally handling equity of banks' and financial institutions' investment accountholders, providing money market, trading and treasury services as well as the management of the Group's investment activities. Investment activities involve handling debt and equity investments in local and international markets and investment in real estate.

These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at estimated market rates on an arm's length basis. Transfer charges are based on a pool rate which approximates the cost of funds.

Segment information is disclosed as follows:

	31 December 2022			
	Corporate BD'000	Retail BD'000	Investment BD'000	Total BD'000
Total income	10,935	27,817	11,574	50,326
Total expenses	(5,690)	(18,084)	(2,539)	(26,313)
Provision for impairment	(9,051)	(1,421)	(973)	(11,445)
Profit / (loss) for the year	(3,806)	8,312	8,062	12,568
Other information				
Segment assets	297,556	682,374	381,887	1,361,817
Segment liabilities, and equity	437,693	611,674	312,450	1,361,817

	31 December 2021			
	Corporate BD'000	Retail BD'000	Investment BD'000	Total BD'000
Total income	9,470	25,668	12,761	47,899
Total expenses	(4,562)	(15,850)	(2,147)	(22,559)
Provision for impairment	(4,711)	(1,298)	(13,200)	(19,209)
Profit / (loss) for the year	197	8,520	(2,586)	6,131
Other information				
Segment assets	280,324	636,343	407,869	1,324,536
Segment liabilities, and equity	441,740	630,758	252,038	1,324,536

The Group operates solely in the Kingdom of Bahrain and, as such, no geographical segment information is presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

31. FINANCIAL INSTRUMENTS

Fair value hierarchy

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction.

Fair values of quoted securities/Sukuk are derived from quoted market prices in active markets, if available. For unquoted securities/Sukuk, fair value is estimated using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

In case of financing assets the average profit rate of the portfolio is in line with current market rates for similar facilities and hence after consideration of adjustment for prepayment risk and impairment charges it is expected that the current value would not be materially different from fair value of these assets. Unquoted shares and unquoted managed funds of BD 20,517 thousand (31 December 2021: BD 20,985 thousand) are treated as Level 3 investments. During the year fair value movement of BD 509 thousand (31 December 2021: BD 3,821 thousand) was charged to income statement and BD 41 thousand (31 December 2021: BD 82 thousand) was charged to the fair value reserve. The estimated fair value of the Bank's other financial instruments are not significantly different from their carrying values due to their short-term nature.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy at 31 December:

	Level 1 BD'000	Level 2 BD'000	Level 3 BD'000	Total BD'000
2022				
Investment securities				
Unquoted shares	-	-	20,081	20,081
Unquoted managed funds	-	-	436	436
Other Assets	-	1,886	-	1,886
Total	-	1,886	20,517	22,403
2021	Level 1 BD'000	Level 2 BD'000	Level 3 BD'000	Total BD'000
Investment securities				
Unquoted shares	-	-	20,549	20,549
Unquoted managed funds	-	-	436	436
Total	-	-	20,985	20,985

Transfers between Level 1, Level 2 and Level 3

During the years ended 31 December 2022 and 2021, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

32. EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a Qard fund account where the Group uses these funds for various charitable purposes. The movements in these funds is shown in the consolidated statement of sources and uses of good faith Qard fund. The non-Islamic income includes the penalties charged on late repayments for Islamic facilities.

33. SHARI'A SUPERVISORY BOARD

The Group's Shari'a Supervisory Board consists of four Islamic scholars who review the Group's compliance with general Shari'a principles and specific Fatwas, rulings and guidelines issued. Their review includes examination of evidence relating to the documentation and procedures adopted by the Group to ensure that its activities are conducted in accordance with Islamic Shari'a principles.

34. SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through Zakah and charity fund's expenditures and donations to good faith Qard fund for marriage, refurbishment, medical treatments, etc.

35. COMPARATIVE FIGURES

Certain prior year's figures have been reclassified to conform to the presentation adopted in the current year. Such reclassification did not affect previously reported profit for the year or total owners' equity.

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RISK AND CAPITAL MANAGEMENT DISCLOSURE



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RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2022

1. Background

These disclosures have been prepared in accordance with the Public Disclosure Module ("PD"), Section PD-1.3: Disclosures in Annual Reports, CBB Rule Book Volume II for Islamic Banks. To avoid any duplication, information required under PD module but already disclosed in other sections of annual report has not been reproduced. These disclosures are part of the annual report for the year ended 31 December 2022 and should be read in conjunction with the consolidated financial statements for the year ended 31 December 2022 and other sections of the annual report. Rules concerning the disclosures under this section are applicable to Bahrain Islamic Bank B.S.C. (the "Bank") being a locally incorporated Bank with an Islamic retail banking license, and its subsidiaries together known as (the "Group").

The Board of Directors seeks to optimise the Group's performance by enabling the various Group business units to realise the Group's business strategy and meet agreed business performance targets by operating within the agreed capital and risk parameters and the Group risk policy framework.

2. Statement of Financial Position Under the Regulatory Scope of Consolidation

The table below shows the reconciliation between the statement of financial position in the published financial statements (accounting statement of financial position) and the regulatory statement of financial position.

Table – 1. Statement of Financial Position (PD- 1.3.14)

	Statement of Financial position as per published financial statements 31 December 2022 BD'000	Statement of Financial position as per Regulatory Reporting 31 December 2022 BD'000	Reference
ASSETS			
Cash and balances with banks and Central Bank	70,037	70,037	
Gross placements with financial institutions	73,446	73,446	
<i>Less: Expected credit loss (stage 3)</i>	(3,686)	(3,686)	
<i>Less: Expected credit loss (stage 1 and stage 2)</i>	(5)	-	
Net placements with financial institutions	69,755	69,760	
Gross financing assets	659,232	659,232	
<i>Less: Expected credit loss (stage 3)</i>	(24,957)	(24,957)	
<i>Less: Expected credit loss (stage 1 and stage 2)</i>	(14,252)	-	
Net financing assets	620,023	634,275	
Gross investment securities	285,963	285,963	
<i>Less: Expected credit loss (stage 3)</i>	(26,805)	(26,805)	
<i>Less: Expected credit loss (stage 1 and stage 2)</i>	(129)	-	
Net investment securities	259,029	259,158	
Ijarah Muntahia Bittamleek	293,206	293,206	
<i>Less: Expected credit loss (stage 3)</i>	(1,213)	(1,213)	
<i>Less: Expected credit loss (stage 1 and stage 2)</i>	(2,007)	-	
Net Ijarah Muntahia Bittamleek	289,986	291,993	
Investment in associates	8,832	8,832	
Investment in real estate	13,661	13,661	
Property and equipment	14,019	14,019	
Other assets	16,475	16,494	
TOTAL ASSETS	1,361,817	1,378,229	

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2022

2. Statement of Financial Position Under the Regulatory Scope of Consolidation (Continued)

Table - 1. Statement of Financial Position (PD- 1.3.14) (Continued)

	Statement of Financial position as per published financial statements 31 December 2022 BD'000	Statement of Financial position as per Regulatory Reporting 31 December 2022 BD'000	Reference
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
Liabilities			
Placements from financial institutions	152,404	152,404	
Placements from non-financial institutions and individuals	245,442	245,442	
Financing from financial institutions	110,113	110,113	
Customers' current accounts	231,078	231,078	
Other liabilities	36,621	36,349	
<i>of which: Expected credit loss - Off balance sheet exposures (stage 3)</i>	1,310	1,310	
<i>of which: Expected credit loss - Off balance sheet exposures (stage 1 and stage 2)</i>	272	-	
<i>of which: Other liabilities</i>	35,039	35,039	
Total Liabilities	775,658	775,386	
Total Equity of Investment Accountholders	450,408	450,408	
Owners' Equity			
Share capital	106,406	106,406	a
Treasury shares	(892)	(892)	b
Shares under employee share incentive scheme	(293)	(293)	c
Share premium	206	206	d
Statutory reserve	6,606	6,606	e
Real estate fair value reserve	1,320	1,320	f
Investment securities fair value reserve	1,615	1,615	g
Expected credit loss	-	16,684	h
<i>of which: amount eligible for Tier 2 capital subject to a maximum of 1.25% of credit risk weighted assets</i>	-	8,894	i
<i>of which: amount ineligible for Tier 2 capital</i>	-	7,790	j
Profit for the year	12,568	12,568	k
Retained earnings brought forward	(16,785)	(16,785)	l
<i>of which: Retained earnings as of 1 January 2022</i>	(13,343)	(13,343)	
<i>of which: Zakah and donations approved</i>	(488)	(488)	
<i>of which: Profit distribution on AT1 Capital</i>	(1,901)	(1,901)	
<i>of which: Share of reserve of investment in associate</i>	204	204	
<i>of which: Transfer to statutory reserve</i>	(1,257)	(1,257)	
Equity Attributable to Parent's Shareholders	110,751	127,435	
Subordinated Mudaraba (AT1)	25,000	25,000	m
Total Owners' Equity	135,751	152,435	
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY	1,361,817	1,378,229	

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2022

3. Capital Adequacy

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders, issue sukuk etc.

The Group's capital structure is primarily made up of its paid-up capital, and including reserves. From a regulatory perspective, the significant amount of the Group's capital is in Tier 1 form as defined by the CBB, i.e., most of the capital is of a permanent nature.

The Group's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of financing facilities growth expectations for each business group, expected growth in off-balance sheet facilities, and future sources and uses of funds. To assess its capital adequacy requirements in accordance with CBB requirements, the Group follows the Standardised Approach for its Credit Risk, Basic Indicator Approach for its Operational Risk, and Standardised Approach for its Market Risk. Allocation of assets between equity shareholders and profit sharing investment accounts are based on the profit distribution on equity investment accountholders policy approved by the Board.

All transfer of funds or regulatory capital within the Group is carried out after proper approval process.

For the purposes of guidance, every table was cross referenced with the relevant paragraph number of the Central Bank of Bahrain's Public Disclosures Module.

Table - 2. Capital Structure (PD-1.3.13, and 1.3.14)

The following table summarises the eligible capital as of 31 December 2022 after deductions for Capital Adequacy Ratio (CAR) calculation:

	CET 1 BD'000	AT1 & T2 BD'000	Source based on reference letters of the statement of financial position under the regulatory scope of consolidation
Components of capital			
Issued and fully paid ordinary shares	106,406	-	a
General reserves	-	-	
Statutory reserves	6,606	-	e
Share premium	206	-	d
Retained earnings brought forward	(16,785)	-	l
COVID-19 concessionary measures adjustments*:			
Modification loss and Government subsidy, net	12,897		
Aggregate ECL provision relating to stage 1 and 2 exposures	4,258		
Current period profits	12,568		k
Unrealized gains and losses on available for sale financial instruments	1,615	-	g
Less:			
Employee stock incentive program funded by the bank (outstanding)	293	-	c
Treasury shares	892	-	b
Total Common Equity Tier 1 capital after the regulatory adjustments above (CET1)	126,586	-	
Instruments issued by parent company (AT1 Subordinated Mudaraba)		25,000	m
Assets revaluation reserve - property, plant, and equipment		1,320	f
Expected credit loss (ECL) - stages 1 & 2		8,894	i
Total Available AT1 & T2 Capital		35,214	
Total Capital		161,800	

* As per CBB circular 06/226/2020 issued on 21 June 2020 on Regulatory concessionary measures, aggregate of modification loss and incremental ECL provision for stage 1 and 2 from March to December 2020 are added back to Tier 1 capital. This aggregated amount must be deducted proportionately from Tier 1 capital on an annual basis for three years ending 31 December 2022, 31 December 2023 and 31 December 2024. Further, as per CBB circular ODG/28/2022, this amortization must start from 1 January 2023.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2022

3. Capital Adequacy (Continued)

Table – 2. Capital Structure (PD-1.3.13, and 1.3.14) (Continued)

	Amount of exposures BD'000
Total Credit Risk Weighted Assets	711,536
Total Market Risk Weighted Assets	186
Total Operational Risk Weighted Assets	117,705
Total Regulatory Risk Weighted Assets	829,427
Investment risk reserve (30% only)	-
Profit equalization reserve (30% only)	446
Total Adjusted Risk Weighted Exposures	828,981
TOTAL CAPITAL ADEQUACY RATIO	19.52%
Minimum requirement:	12.5%
CET 1 ratio	9.0%
Tier 1 ratio	10.5%
Total Capital ratio	12.5%

AT1 Subordinated Mudaraba

In 2021, the Bank issued a Subordinated Mudaraba Sukuk (Basel III compliant Additional Tier 1 capital securities) of BD 25 million to meet minimum regulatory requirements relating to total equity as prescribed by Central bank of Bahrain. The issue was at par and was fully subscribed for and paid in cash by the Parent.

Summary of key terms and conditions of this issue are as follows:

- Profits on these securities shall be distributed on a semi-annual basis subject to and in accordance with terms and conditions on the outstanding par value of the securities at an expected rate of 7.5% p.a.
- Security holder will not have a right to claim the profits and such event will not be considered as an event of default.
- Subordinated Mudaraba is invested in a general mudaraba pool of assets on an unrestricted comingled basis.
- In the event of non-viability, the Sukuk certificates will be converted either in full or in part in accordance with the conversion rules and procedures.
- The Sukuk certificates carry a call option after 5 years from the date of issue.

The Subordinated Mudaraba is recognized under the owners' equity in the condensed interim consolidated statement of financial position and the profits paid to rab al-maal (security holder) will be accounted for as appropriation of profits.

In 2021, issuance costs of BD 458 thousand representing BD 394 thousand underwriting fee to the Parent and BD 64 thousand other transaction costs have been adjusted in the retained earnings.

During 2022, an amount of BD 1,901 thousand were paid to AT1 holders as profit distributions.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2022

3. Capital Adequacy (Continued)

Table - 3. Capital requirements by type of Islamic financing contracts (PD-1.3.17)

The following table summarises the amount of exposures as of 31 December 2022 subject to standardised approach of credit risk and related capital requirements by type of Islamic financing contracts:

	Exposure			Risk Weighted Assets*			Capital Requirements		
	Self-Financed BD'000	IAH BD'000	Total BD'000	Self-Financed BD'000	IAH ⁽³⁾ BD'000	Total BD'000	Self-Financed BD'000	IAH BD'000	Total BD'000
Credit Risk Weighted Assets									
Funded									
Cash and balances with banks and Central Bank	51,494	18,543	70,037	6,822	-	6,822	853	-	853
Murabaha and Wakala receivables - interbank	69,760	-	69,760	22,931	-	22,931	2,866	-	2,866
Murabaha receivables*	341,862	206,010	547,872	261,955	47,357	309,312	32,744	5,920	38,664
Musharaka receivables*	53,913	32,490	86,403	44,757	8,091	52,848	5,595	1,011	6,606
Investment in Sukuk	148,908	89,733	238,641	-	-	-	-	-	-
Investment in equity and funds	20,517	-	20,517	72,769	-	72,769	9,096	-	9,096
Ijarah Muntahia Bittamleek*	182,198	109,795	291,993	116,153	20,999	137,152	14,519	2,625	17,144
Investment in associates	8,832	-	8,832	29,213	-	29,213	3,652	-	3,652
Investment in real estate	13,661	-	13,661	27,322	-	27,322	3,415	-	3,415
Property and equipment	14,019	-	14,019	14,018	-	14,018	1,752	-	1,752
Other assets	16,494	-	16,494	19,009	-	19,009	2,376	-	2,376
	921,658	456,571	1,378,229	614,949	76,447	691,396	76,868	9,556	86,424
Unfunded									
Commitments and contingent liabilities	114,806	-	114,806	20,140	-	20,140	2,518	-	2,518
Total Credit Risk Weighted Assets	1,036,464	456,571	1,493,035	635,089	76,447	711,536	79,386	9,556	88,942
Total Market Risk Weighted Assets	186	-	186	186	-	186	23	-	23
Total Operational Risk Weighted Assets	117,705	-	117,705	117,705	-	117,705	14,713	-	14,713
Total Risk Weighted Assets	1,154,355⁽¹⁾	456,571⁽²⁾	1,610,926	752,980	76,447	829,427	94,122	9,556	103,678

* The risk weighted assets are net of credit risk mitigant of BD 51,465 thousand.

⁽¹⁾ The exposure is gross of expected credit loss Stages 1 & 2 of BD 6,163 thousand and net of expected credit loss Stage 3 of BD 30,284 thousand.

⁽²⁾ The exposure is gross of expected credit loss Stages 1 & 2 of BD 10,522 thousand and net of expected credit loss Stage 3 of BD 14,550 thousand.

⁽³⁾ For assets funded through IAH only 30% of exposure is considered.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2022

3. Capital Adequacy (Continued)

Table – 4. Capital requirements for market risk (PD-1.3.18)

The following table summarises the amount of exposures as of 31 December 2022 subject to standardised approach of market risk and related capital requirements:

Market Risk - Standardised Approach

Foreign exchange risk (BD'000)	15
Total of Market Risk - Standardised Approach	15
Multiplier	12.5
Risk Weighted Exposures for CAR Calculation (BD'000)	186
Total Market Risk Exposures (BD'000)	186
Total Market Risk Exposures - Capital Requirement (BD'000)	23

Table – 5. Capital requirements for operational risk (PD-1.3.30 (a & b) and PD-1.3.19)

The following table summarises the amount of exposures as of 31 December 2022 subject to basic indicator approach of operational risk and related capital requirements:

Indicators of operational risk

Average Gross income (BD'000)	62,776
Multiplier	12.5
	784,700
Eligible Portion for the purpose of the calculation	15%
Total Operational Risk Exposure (BD'000)	117,705
Total Operational Risk Exposures - Capital Requirement (BD'000)	14,713

Table – 6. Capital Adequacy Ratios (PD-1.3.20)

The following are Capital Adequacy Ratios as of 31 December 2022 for total capital and CET 1 capital:

	Total capital ratio	T1 Capital ratio	CET 1 capital ratio
Top consolidated level	19.52%	18.29%	15.27%

4. Risk Management

4.1 Group-wide Risk Management Objectives

The risk management philosophy of the Group is to identify, capture, monitor, and manage the various dimensions of risk with the objective of protecting asset values and income streams such that the interest of the Group's shareholders (and others to whom the Group owes a liability) are safeguarded, while maximising the returns intended to optimise the Group's shareholder return and maintaining its risk exposure within self-imposed parameters.

In addition to satisfying the minimum regulatory capital requirements of CBB, the Group seeks to constantly identify and quantify, to the extent possible, the various risks that are inherent in the normal course of its business.

The Group reviews and aligns its risk appetite in line with its evolving business plan, and changing economic and market scenarios, in addition to evolving regulatory requirements. The Group also assesses its tolerance for specific risk categories and its strategy to manage these risks. To monitor and report exposures to these identified risks, the Group adopted a comprehensive enterprise-wide Risk Management Framework that encompasses the risk limit, monitoring, and reporting structures.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2022

4. Risk Management (Continued)

4.2 Strategies, Processes and Internal Controls

4.2.1 Group's risk strategy

The Group maintains a risk appetite and strategy document that is reviewed on an annual basis by the Board Risk and Compliance Committee and is approved by the Board. It also maintains a comprehensive Risk Management Framework that is approved by the Board. These are also supported by appropriate limit structures. These policies provide an enterprise-wide integrated risk management framework for the Group.

The Risk Management Framework identifies risk objectives, policies, strategies, and risk governance both at the Board and management level.

Limit structures serve as key components in articulating risk strategy in quantifiable risk appetite. They are further supported by a comprehensive framework for various risk silos with its own policies and methodology documents.

There are appropriate internal controls in place to ensure that the integrity of the risk management identification, monitoring and reporting systems. This is conducted through periodic internal audit, in addition to external validation, when required.

4.2.2 Credit risk

The Group manages its credit risk exposure by evaluating each new product/activity with respect to the credit risk introduced by it, in addition to ongoing review of existing credit risk exposures. The Group has established a limit structure to avoid concentration of risks for counterparty, sector, and geography.

4.2.3 Market risk

The Group proactively measures and monitors the market risk in its portfolio using appropriate measurement techniques such as limits on its foreign exchange open positions. The Group periodically carries out stress testing to assess the impact of adverse market conditions on its market risk sensitive portfolio.

The Group has established a limit structure to monitor and control the market risk in its trading portfolio. These limits include maximum Stop-loss limits and position limits. As at 31 December 2022, the group does not maintain any trading portfolio.

4.2.4 Operational risk

The Group carries out Risk Control Self-Assessment ("RCSA") exercises on a regular basis to record potential risks, controls and events on a continuous basis across different business and support functions. Key operational risk reports are delivered to all relevant stakeholders in the Bank on a periodic basis.

The Group has a mechanism to review the policies and procedures in effect.

4.2.5 Equity price risk

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the investment portfolio. Currently, acquiring additional equity investments are off-strategy.

4.2.6 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The profit distribution to investment accountholders is based on profit sharing agreements.

However, the profit sharing agreements will result in displaced commercial risk when the Group's results do not allow the Group to distribute profits in line with market rates.

4.2.7 Displaced Commercial Risk

Displaced Commercial Risk ("DCR") refers to the market pressure to pay returns that exceed the rate that has been earned on the assets financed by the liabilities, when the return on assets is underperforming as compared with competitors rates.

The Group manages its Displaced Commercial Risk by placing gap limits between the returns paid to investors and market returns.

The Group manages its DCR as outlined in the Group's Profit Distribution On Equity of Investment Accountholders Policy. The Group may forego its mudarib fee in case displaced commercial risk arises. The Group benchmarks its rates with other leading banks in the market.

All the above strategies used have been effective throughout the reporting period.

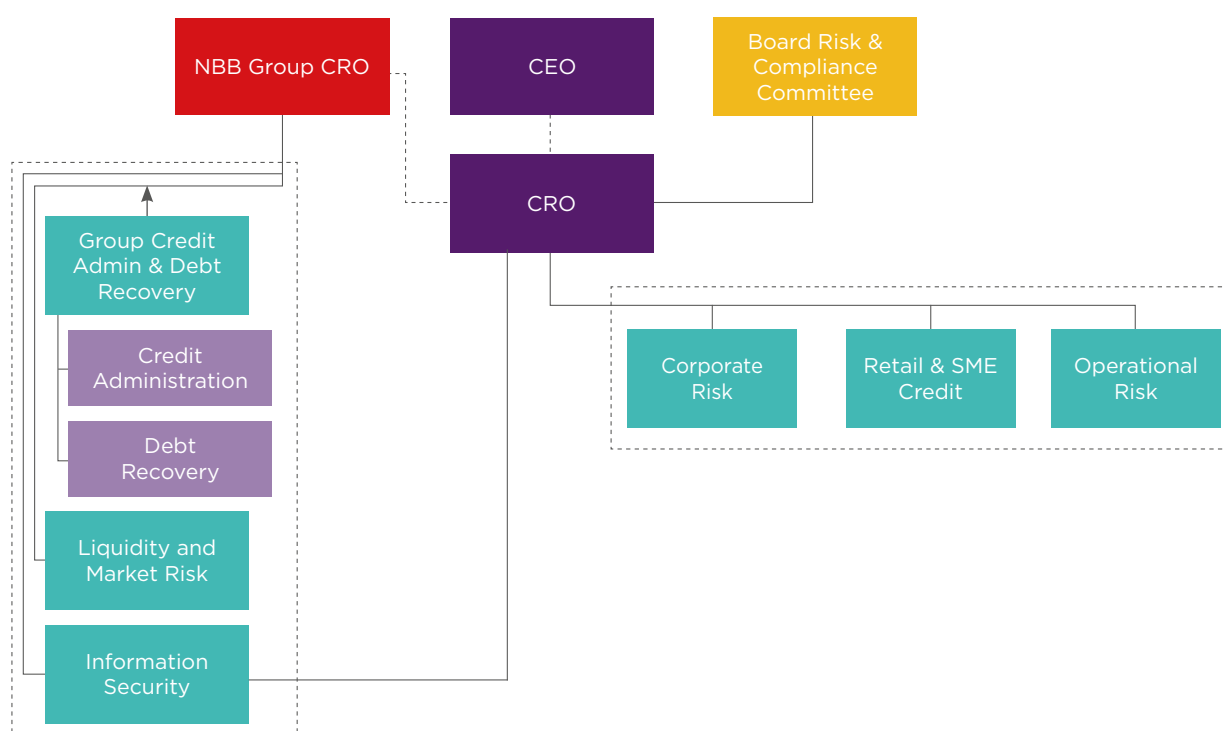
RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2022

4. Risk Management (Continued)

4.3 Structure and Organisation of Risk Management Function

Risk Management Structure includes all levels of authorities (including Board level Risk & Compliance Committee, in addition to the NBB Group reporting), organisational structure, people, and systems required for the smooth functioning of risk management processes in the Group. The responsibilities associated with each level of risk management structure and authorities include the following:



The board retains ultimate responsibility and authority for all risk matters, including:

- Establishing overall policies and procedures; and
- Delegating authority to Board Risk and Compliance Committee, Board Executive Committee, Credit and Investment Committee, the Chief Executive Officer and further delegation to management to approve and review.

4.4 Risk Measurement and Reporting Systems

Based on risk appetite of the Group, the Group has put in place various limits. These limits have been approved by the Board of Directors. Any limit breaches are reported to the respective senior management committees and the Board by the Credit and Risk Management Department ("CRMD"). The limits are reviewed and revised at least on an annual basis or when is deemed required.

The Group has developed a risk measurement and reporting system that generates various types of reports which has enhanced the monitoring process of the Group.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2022

4. Risk Management (Continued)

4.5 Credit Risk

4.5.1 Introduction

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from lending and debt-type investment activities. The Group controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are secured by suitable tangible collateral wherever deemed necessary.

The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept in terms of counterparties, product types, geographical area, and industry sector. The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Corporate counterparties are regularly assessed by the use of a credit risk classification system. Counterparty limits are established after a comprehensive credit assessment and after factoring in a counterparty risk rating generated by the Credit Risk Rating System. Risk ratings are subject to regular revision by the Credit Review Unit ("CRU"). Any changes to the Credit Risk Policy will be approved by the Board.

All credit proposals undergo a comprehensive risk assessment examining the customer's financial condition, operating performance, nature of the business, quality of management, and market position, etc. The credit approval decision is made based on such risk assessment.

Retail credit is assessed by the Retail Credit Unit prior to booking as against the Bank's approved retail financing credit criteria.

Exposure limits are based on the aggregate exposure to counterparty and any connected entities across the Group. Corporate facilities are reviewed on an annual basis by CRU, or more frequently based on the client's credit condition.

4.5.2 Types of credit risk

Exposures subject to credit risk comprise of due from banks and financial institutions, murabaha receivables, musharaka, sukuk, commitments to finance and financial instruments resulting in contingencies (guarantees and letter of credit) and other assets.

Due from banks and financial institutions

Due from banks and financial institutions comprise commodity murabaha receivables and wakala receivables.

Murabaha receivables

The Group finances these transactions through buying the commodity which represents the object of the Murabaha contract and then reselling this commodity to the Murabeh (beneficiary) at a profit. The sale price (cost plus profit margin) is repaid in installments by the Murabeh over the agreed period. The transactions are secured either by the object of the Murabaha contract (in case of real estate finance) or by a total collateral package securing the facilities given to the Murabeh.

Musharaka investments

Musharaka is a form of partnership between the Group and its clients whereby each party contributes to the capital of partnership in equal or varying degrees to establish a new project or share in an existing one, whereby each of the parties becomes an owner of the capital on a permanent or declining basis. Profits are shared in an agreed ratio, but losses are shared in proportion to the amount of capital contributed.

Ijarah Muntahia Bittamleek

The legal title of the assets under Ijarah muntahia bittamleek only passes to the lessee at the end of the Ijarah term, through gift, consideration, or gradual sale, provided that all Ijarah installments are settled.

4.5.3 Credit impaired exposures

The Group defines facilities as credit impaired facilities which are overdue for a period of 90 days or more, any exposure against which specific impairment provision is held irrespective of whether the customer is currently in arrears or not, and customers which are classified in stage 3 and are in cooling off period in line with CBB guidelines. It is a Group policy to classify all facilities of a counterparty as credit impaired if one or more facilities meets the conditions for credit impaired facilities.

As a policy, the Group places any facility where there is reasonable doubt about the collectability of the receivable on a non-accrual basis, irrespective of whether the customer concerned is currently in arrears or not. In such cases, income is recognised to the extent that it is actually received.

For general and specific impairment assessments, the Group classifies its credit exposures into Stage 1, Stage 2 and Stage 3, based on impairment methodology followed, as described below:-

Stage 1 (12 months ECL): for exposures subject to credit risk where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the group recognises an allowance based on the 12-month ECL. All accounts at origination would be classified as Stage 1 with the exception of Purchased or Originated Credit Impaired (POCI) assets.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2022

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

4.5.3 Credit impaired exposures (Continued)

Stage 2 (lifetime ECL not credit impaired): for exposures subject to credit risk where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the group recognises an allowance for the lifetime ECL for all exposures classified in this stage based on the actual / expected maturity profile including restructured or rescheduled exposures.

Stage 3 (lifetime ECL credit impaired): for credit-impaired exposures, the group recognises the lifetime ECL. Default identification process i.e. DPD of 90 more is used as Stage 3.

Measurement of ECL

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

- (i) Probability of Default (PD);
- (ii) Loss Given Default (LGD); and
- (iii) 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.

Corporate PD estimates are calculated based on statistical rating models, and assessed using rating tools tailored to various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD.

Retail PD estimates are measured using Observed Default Estimation at the segment level and thus PD is calculated based at DPD bucket level for each segment separately. Under this analysis, the delinquency status of accounts will be tracked at an interval of one year with a moving month cycle.

Debt type instruments Portfolio, Nostro and Interbank Placements portfolio is assessed for SICR using external ratings, the group obtains PD estimates from Moody's / Standard & Poor's (S&P) / Fitch or any other external ratings.

LGD is the magnitude of the likely loss if there is a default. The group 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, relevant industry and recovery costs of any collateral that is integral to the exposures.

EAD represents the expected exposure in the event of a default. The group 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 funded exposures is the gross carrying amount. For financing commitments and financial guarantees, the EAD includes the potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

4.5.4 External credit assessment institutions

The Group relies on external ratings for rated corporate customers and counterparties. The Group uses Standard & Poor's, Fitch, Moody's and Capital Intelligence to provide ratings for such counterparties. In case of unrated counterparties, the Group will assess the credit risk on the basis of defined parameters. These ratings are used for risk assessment and calculation of risk weighted equivalents. The Group's policy has the mapping of the external ratings with the internal ratings used by the Group and the corresponding internal rating is allocated to the exposure accordingly to transfer it in the Group's banking book.

4.5.5 Definition of Geographical distribution

The geographic distribution of the credit exposures is monitored on an ongoing basis by the Group's Risk Management Department and reported to the Board on a quarterly basis. The Group's classification of geographical area is according to its business needs and the distribution of its portfolios.

4.5.6 Concentration risk

Concentration risk is the credit risk stemming from not having a well diversified credit portfolio, i.e. being overexposed to a single customer, industry sector, or geographic region. As per CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's prior approval for any planned exposure to a single unconnected counterparty, or group of closely related counterparties, exceeding 15% of the bank's consolidated total capital. Also, banks are required to obtain the CBB's prior approval for any planned exposure to connected counterparties exceeding 25% of their consolidated total capital at an aggregate level.

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

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2022

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

4.5.7 Credit risk mitigation

Credit risk mitigation refers to the use of a number of techniques, like collaterals and guarantees to mitigate the credit risks that the Group is exposed to. Credit risk mitigants reduce the credit risk by allowing the Group to protect against counterparty non-compliance with credit contracts, through sale of collaterals, netting agreements, and guarantees. The Group uses on-balance sheet netting as a credit risk mitigation technique only if there is a well-founded legal basis for concluding that the netting or offsetting agreement is enforceable, and is able to determine at any time those assets and liabilities with the same counterparty that are subject to the netting agreement.

Generally, the Group extends credit facilities only where supported by audited financial statement and/or adequate tangible collateral security. Facilities may be considered without adequate tangible collateral security, when audited financial statements reveal satisfactory financial position/repayment ability and the facilities are properly structured and supported by assignments, guarantees, etc. as appropriate.

In general, personal guarantees of the partners/promoters/directors of the borrowing entity are obtained in support of credit facilities. In all cases, a statement of net worth of such personal guarantor is to be compiled/estimated by the Account Officer, so that adequate information is available at a future date in case the guarantees need to be enforced.

The market value of tangible collateral security is properly evaluated by the Group's approved valuers (for properties) or as per the suitable valuation methodology as outlined in the Bank's Credit Risk Mitigation Policy.

Financing to value percentage of securities and list of acceptable securities to the bank are governed through Board approved policies.

The majority of the Group's current credit portfolio is secured through mortgage of real estate properties. The Group may dispose off the assets as a last resort after carrying out due legal process.

4.5.7.1 General policy guidelines of collateral management

Acceptable Collateral: The Group has developed guidelines for acceptable collateral. Assets offered by customers must meet the following criteria to qualify as acceptable collateral:

- Assets must be maintaining their value, at the level prevalent at inception, until maturity date of the facility granted;
- Such assets should be easily convertible into cash, if required (liquidity);
- There should be a reasonable market for the assets (marketability); and
- The Group should be able to enforce its rights over the asset if necessary (enforceability).

Ownership: Prior to valuation or further follow up on the offered collateral, Credit Administration ensures satisfactory evidence of the borrower's ownership of the assets.

Valuation: All assets offered as collateral are valued by an appropriate source either in-house or by an external appraiser (in the case of real estate related collateral). The Group maintains a list of independent appraisers, approved by management.

a. Valuation of shares and financial securities: The Group performs in-house valuation on the following types of securities:

- For shares and securities listed in active markets, quoted bid prices are utilized;
- For unquoted shares and stakes in collective investment undertakings (CIUs), valuation is determined based on (i) present value of future cashflows and/or (ii) net asset value as and when financials are available; and
- For sukuk, collateral value is based on net realizable value.

b. Valuation of real estate and others: Besides assets mentioned above, the valuation of following securities are also conducted with the help of external valuers and/or independent reports:

- Real Estate;
- Equipment and machinery; and

The Credit Administration requests the concerned department to arrange for the valuation from approved valuers. In the case of real estate, re-evaluations are conducted at least annually by Bank approved evaluators.

The following additional guidelines are also followed by the Group:

- No facility should be disbursed until credit documentation is properly signed and security/guarantees required have been signed and registered, where required. Exceptional cases can be considered by sanctioning authorities; and
- All documents received as security or support for credit facilities should be lodged in the safe custody through the Credit Administration and should be kept under dual control. The Group must ascertain that collateral providers are authorised and acting within their capacity.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2022

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

4.5.7 Credit risk mitigation (continued)

4.5.7.2 Guarantees

In cases where a letter of guarantee from a parent company or a third party is accepted as a credit risk mitigant, the Group ensures that all guarantees are irrevocable, and should be in line with internal policies. Also no maturity (negative) mismatch is permissible between the guarantee and exposure.

4.5.7.3 Custody / collateral management

The assets, or title to the asset, will be maintained in the Group's custody or with custodians approved by the Group. Adequate systems and controls exist to confirm the assets held with each custodian.

The release of collateral without full repayment of all related financial obligations can be done only if the approved level of security coverage is maintained post the release otherwise it requires authorisation of the same level that originally approved and sanctioned the facility. Substitution of collateral is permitted if the new collateral would further minimise the Group's risk exposure.

When collateral is released to the customer, the Head of Credit Administration obtains and maintains in his records acknowledgement of receipt from the customer or his/her authorised representative.

4.5.8 Counterparty credit risk

The Group has adopted the Standardised Approach to allocate capital for counterparty credit risk. The Group has put in place an internal counterparty limit structure which is based on internal / external ratings for different types of counterparties. The Group has also set concentration limits as a percentage of its capital based on internal and external grades. In case of a counterparty rating downgrade / deterioration, the Group may require further collateral or advise the counterparty to reduce its exposure on a case by case basis.

4.5.8.1 Exposure

The measure of exposure reflects the maximum loss that the Group may suffer in case a counterparty fails to fulfill its commitments, or loss that may arise due to exposures relating to concentration per product, asset classes, collateral, segments, country, region, currencies, market, etc. Exposure shall always be calculated on the basis of approved limits or actual outstanding exposure (financing facilities, investments or others), whichever is higher.

4.5.8.2 Counterparty

A counterparty is defined as an obligor (individual/company/other legal entity), a guarantor of an obligor, or a person receiving funds from the Group, the issuer of a security in case of a security held by the Group, or a party with whom a contract is made by the Group for financial transactions.

4.5.8.3 Group exposure

Group exposure is defined as the total exposure to all counterparties closely related or connected to each other. For this purpose, a Group is two or more counterparties that are related (both directly or indirectly) either through the existence of a control relationship or economic interdependence.

4.5.8.4 Connected counterparties

Connected counterparties' includes companies or persons connected with the Group, including, in particular; controllers of the Group (and their appointed board representatives); subsidiaries, associates and related parties of the Group; holders of controlled functions in the Group and their close family members; members of the Shari'a Supervisory Board.

4.5.8.5 Large exposure

Large exposure is any exposure whether direct, indirect, or funded by equity of investment accountholders to a counterparty or a group of closely related counterparties which is greater than or equal to 10% of the Group's capital base.

Prior written approval from the CBB is required in the following cases:

- a. If any unconnected counterparty (single/group) exposure exceeds 15% of Group's Capital Base;
- b. If any facility (new/extended) to any connected counterparty exceeds 25% of the consolidated total capital at an aggregate level

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2022

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

4.5.8 Counterparty credit risk (continued)

4.5.8.6 Maximum exposure

The Group has set an internal maximum exposure limit in the light of CBB guidelines.

4.5.8.7 Reporting

The Group reports large counterparty exposures (as defined above) to CBB on a periodic basis. The Group reports the exposures on a gross basis without any set-off. However, debit balances on accounts may be offset against credit balances where both are related to the same counterparty, provided the Group has a legally enforceable right to do so.

4.5.8.8 Other matters

As a Group's strategy, exposure to connected counterparties may be undertaken only when negotiated and agreed based on commercial terms.

The Group shall not assume any exposure to its external auditors.

4.5.9 Related party transactions

The disclosure relating to related party transactions has been made in the audited consolidated financial statements for the year ended 31 December 2022. All related party transactions have been made on commercial terms.

Table – 7. Credit Risk Exposure (PD-1.3.23(a))

The following table summarises the amount of gross funded and unfunded credit exposure (before deducting credit risk mitigant) as of 31 December 2022 and average gross funded and unfunded exposures over the year ended 31 December 2022:

	Total gross credit exposure BD'000	*Average gross credit exposure over the period BD'000
Funded		
Cash and balances with banks and Central Bank	70,037	63,512
Placements with financial institutions	69,755	120,726
Financing assets	620,023	638,189
Investment in Sukuk	238,512	233,419
Investment in equity and funds	20,517	20,527
Ijarah Muntahia Bittamleek	289,986	282,092
Investment in associates	8,832	8,817
Investment in real estate	13,661	13,764
Property and equipment	14,019	13,971
Other assets	16,475	15,372
Total	1,361,817	1,410,389
Unfunded		
Commitments and contingent liabilities	114,806	126,762
Total	1,476,623	1,537,151

* Average balances are computed based on quarter end balances.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2022

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

Table – 8. Credit Risk – Geographic Breakdown (PD-1.3.23(b))

The following table summarises the geographic distribution of exposures as of 31 December 2022, broken down into significant areas by major types of credit exposure:

	North America BD'000	Europe BD'000	Middle East BD'000	Other BD'000	Total BD'000
Cash and balances with banks and Central Bank	9,767	327	59,909	34	70,037
Placements with financial institutions	-	-	69,755	-	69,755
Financing assets	-	-	620,023	-	620,023
Investment in Sukuk	-	-	238,512	-	238,512
Investment in equity and funds	-	-	20,517	-	20,517
Ijarah Muntahia Bittamleek	-	-	289,986	-	289,986
Investment in associates	-	-	8,832	-	8,832
Investment in real estate	-	-	13,661	-	13,661
Property and equipment	-	-	14,019	-	14,019
Other assets	7,654	-	8,821	-	16,475
Total	17,421	327	1,344,035	34	1,361,817
Unfunded					
Commitments and contingent liabilities	-	-	114,806	-	114,806
Total	17,421	327	1,458,841	34	1,476,623

* Geographical distribution of exposure into significant areas by major type of credit exposure is based on counterparty's country of incorporation.

Table – 9. Credit Risk – Industry Sector Breakdown (PD-1.3.23(c))

The following table summarises the distribution of funded and unfunded exposures as of 31 December 2022 by industry, broken down into major types of credit exposure:

	Trading and Manufacturing BD'000	Banks and Financial Institutions BD'000	Real Estate and Construction BD'000	Personal & Consumer Finance BD'000	Governmental Organisation BD'000	Other BD'000	Total BD'000
Funded							
Cash and balances with banks and Central Bank	-	29,428	-	-	40,609	-	70,037
Placements with financial institutions	-	69,755	-	-	-	-	69,755
Financing assets	80,988	14,840	75,940	378,814	38,443	30,998	620,023
Investment in Sukuk	-	-	-	-	238,512	-	238,512
Investment in equity and funds	-	2,589	16,797	-	-	1,131	20,517
Ijarah Muntahia Bittamleek	7,621	-	11,778	239,370	31,139	78	289,986
Investment in associates	-	4,078	4,754	-	-	-	8,832
Investment in real estate	-	-	13,661	-	-	-	13,661
Property and equipment	-	-	-	-	-	14,019	14,019
Other assets	-	3,137	2,515	1,548	-	9,275	16,475
Total	88,609	123,827	125,445	619,732	348,703	55,501	1,361,817
Unfunded							
Commitments and contingent liabilities	14,075	10,413	14,998	40,702	24,632	9,986	114,806
Total	102,684	134,240	140,443	660,434	373,335	65,487	1,476,623

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2022

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

Table – 10. Credit Risk – Financing Facilities to Highly Leveraged or Other High Risk Counterparties (PD-1.3.23(e))

The following balances represent the financing facilities to highly leveraged or other high risk counterparties as of 31 December 2022:

	Gross BD'000	Stage 3 ECL BD'000	Net* BD'000
Counterparties			
Counterparty # 1	8,595	-	8,595
Counterparty # 2	7,217	551	6,666
Counterparty # 3	6,000	6,000	-
Counterparty # 4	3,756	-	3,756
	25,568	6,551	19,017

* Gross of expected credit loss stage 1 and 2 of BD 235 thousand.

Table – 11. Credit Risk – Concentration of Risk (PD-1.3.23(f))

The Bank has the following exposures that are in excess of the individual obligor limit of 15% of the Bank's capital as of 31 December 2022:

	Gross BD'000	Stage 3 ECL BD'000	Net** BD'000
Counterparties			
Counterparty # 1*	219,552	-	219,552
Counterparty # 2*	43,897	-	43,897
	263,449	-	263,449

* Represents exempted large exposures.

** Gross of expected credit loss stage 1 and 2 of BD nil thousand.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2022

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

Table - 12. Credit Risk – Residual Contractual Maturity Breakdown (PD-1.3.23(g) PD-1.3.38)

The following table summarises the maturity profile of the total assets based on contractual maturities as at 31 December 2022. All the assets with no fixed contractual maturities are disclosed under no fixed maturity:

	Up to One month BD'000	1-3 months BD'000	3-6 months BD'000	6-12 months BD'000	1-3 years BD'000	3-5 years BD'000	5-10 years BD'000	10-20 years BD'000	Over 20 years BD'000	No fixed maturity BD'000	Total BD'000
Assets											
Cash and balances with banks and Central Bank	31,997	-	-	-	-	-	-	-	-	38,040	70,037
Placements with financial institutions	69,755	-	-	-	-	-	-	-	-	-	69,755
Financing assets	13,467	23,908	33,001	72,518	201,606	162,374	75,165	30,602	7,382	-	620,023
Investment in Sukuk	-	-	-	-	141,901	39,338	57,273	-	-	-	238,512
Investment in equity and funds	-	-	-	-	-	-	-	-	-	20,517	20,517
Ijarah Muntahia Bittamleek	1,469	7,671	4,368	7,063	34,751	37,677	77,853	97,891	21,243	-	289,986
Investment in associates	-	-	-	-	-	-	-	-	-	8,832	8,832
Investment real estate	-	-	-	-	-	-	-	-	-	13,661	13,661
Property and equipment	-	-	-	-	-	-	-	-	-	14,019	14,019
Other assets	39	712	3,988	243	477	673	-	-	-	10,343	16,475
Total Assets	116,727	32,291	41,357	79,824	378,735	240,062	210,291	128,493	28,625	105,412	1,361,817

Table - 13. Credit Risk – Credit Impaired Exposures, Past Due Exposures, and Impairment Allowances by industry sector (PD-1.3.23(h) PD-1.3.24(b) PD-1.3.24(d))

The following table summarises the credit impaired facilities, past due facilities, and impairment allowances disclosed by major industry sector as of 31 December 2022:

	Credit impaired or past due Islamic financing contracts* BD'000	Aging of credit impaired or past due Islamic financing contracts				Stage 3 ECL				Stage 1 & 2 ECL		
		Less than 3 months BD'000	3 months to 1 year BD'000	1 to 3 years BD'000	Over 3 years BD'000	Balance at the beginning of the year BD'000	Charge for the year (net)** BD'000	Write-offs during the year BD'000	Balance at the end of year BD'000	Balance at the beginning of the year BD'000	Charge for the year (net)** BD'000	Balance at the end of year BD'000
Trading and Manufacturing	54,453	40,924	3,774	7,223	2,532	10,786	6,021	132	16,675	6,495	(296)	6,199
Real Estate	27,861	25,293	1,681	887	-	83	185	27	241	806	1,239	2,045
Banks and Financial Institutions	76	76	-	-	-	-	33	-	33	202	232	434
Personal / Consumer Finance	42,683	31,513	5,819	3,117	2,234	7,871	825	168	8,528	3,173	(306)	2,867
Others	16,852	15,614	171	1,067	-	737	448	492	693	2,813	1,901	4,714
Total	141,925	113,420	11,445	12,294	4,766	19,477	7,512	819	26,170	13,489	2,770	16,259

* Gross of expected credit loss of BD 32,089 thousand.

** Net of transfers between stages.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2022

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

Table – 14. Credit Risk – Credit Impaired Exposures, Past Due Exposures, and Impairment Allowances (by geographic area)
(PD-1.3.23(i) PD-1.3.24(c))

The following table summarises the credit impaired facilities, past due facilities, and impairment allowances by geographical area as of 31 December 2022:

	Credit impaired or past due or impaired Islamic financing contracts BD'000	Stage 3 ECL BD'000	Stage 1 & 2 ECL BD'000
Middle East	141,925	26,170	16,259

Table – 15. Credit Risk – Restructured Financing Facilities (PD-1.3.23(j))

The following table summarises the aggregate amount of restructured corporate financing facilities during the year as of 31 December 2022:

	Gross Outstanding BD'000	Stage 3 ECL BD'000	Net BD'000
Total Islamic financing ⁽¹⁾	952,438	26,170	926,268
Restructured financing facilities* ⁽²⁾	36,193	1,072	35,121
Percentage	3.80%	4.10%	3.79%

*Excludes facilities restructured during the period amounting to BD 9,234 thousand which are past due as of 31 December 2022. The nature of the concessions include alignment of the payment terms with the clients' expected cash flows.

⁽¹⁾ Gross of expected credit loss Stages 1 and 2 of BD 16,259 thousand.

⁽²⁾ Gross of expected credit loss Stage 2 of BD 4,232 thousand.

Table – 16. Credit Risk Mitigation (PD-1.3.25 (b) and (c))

The following table summarises the exposure as of 31 December 2022 by type of Islamic financing contract covered by Shari'a-compliant collateral eligible as per CA module of volume 2 of the CBB Rule Book:

	Total exposure covered by	
	Tamkeen Guarantee BD'000	Others BD'000
Financing assets	1,700	98,187
Ijarah Muntahia Bittamleek	-	27,698
Total	1,700	125,885

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2022

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

Table – 17. Counterparty Credit (PD-1.3.26 (b))

The following table summarises the counterparty credit risk exposure covered by collateral after the application of haircuts as of 31 December 2022:

	Financing assets BD'000	Ijarah Muntahia Bittamleek BD'000	Total BD'000
Exposures:			
Secured*	99,887	27,698	127,585
Unsecured*	520,136	262,288	782,424
Total	620,023	289,986	910,009
Collateral held:			
- Cash	23,376	382	23,758
- Guarantees	1,248	-	1,248
- Shares	4,980	-	4,980
- Real Estate**	3,883	17,596	21,479
Total	33,487	17,978	51,465
Collateral as a percentage of secured exposure	33.52%	64.91%	40.34%

* The financing assets and Ijarah Muntahia Bittamleek exposures are net of ECL.

** A haircut of 30% is applied on the Real Estate collateral.

4.6 Market Risk

4.6.1 Introduction

The Group has accepted the definition of market risk as defined by CBB as the risk of losses in on- and off-balance sheet positions arising from movements in market prices.

4.6.2 Sources of market risk

For the Group, market risk may arise from movements in profit rates, foreign exchange markets, equity markets, or commodity markets. A single transaction or financial product may be subject to any number of these risks.

Profit rate risk is the sensitivity of financial products to changes in the profit rates. Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The profit distribution to equity of investment accountholders is based on profit sharing agreements. One of the methods the Bank uses to manage profit rate risk is through the use of profit rate swaps. For further detail on profit rate swaps, please refer to the consolidated financial statements for the year ended 31 December 2022.

Foreign exchange risk is the sensitivity of financial products to changes in spot foreign exchange rates. The value of the Group's portfolio which is denominated in a number of currencies may be exposed to these risks when converted back to the Group's base currency. The Group enters into foreign exchange swap contracts (Waad) to manage against foreign exchange fluctuations.

Equity price risk is the sensitivity of financial products to the changes in equity prices. Equity risk arises from holding open positions in equities or equity based instruments, thereby creating exposure to a change in the market price of the equity. The Group has established a limit structure to monitor and control the market risk in its equity type instruments portfolio. These limits include maximum Stop-loss limits and position limits. As at 31 December 2022, the group did not have any trading portfolio. Currently, any new equity investments are off-strategy.

Commodity risk is defined as inherent risk in financial product arising from their sensitivity to changes in commodity prices. Since prices in commodity markets are determined by fundamental factors (i.e. supply and demand of the underlying commodity) these markets may be strongly correlated within particular sector and less correlated across sectors.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2022

4. Risk Management (Continued)

4.6 Market Risk (Continued)

4.6.3 Market risk strategy

The Group's Board is responsible for approving and reviewing the risk strategy and significant amendments to the risk policies. The Group's senior management is responsible for implementing the risk strategy approved by the Board, and continually enhancing the policies and procedures for identifying, measuring, monitoring, and controlling risks.

In line with the Group's risk management objectives and risk tolerance levels, the specific strategies for market risk management include:

- a. The Group proactively measures and continually monitors the market risk in its portfolio;
- b. The Group at all times holds sufficient capital in line with the CBB Pillar 1 regulatory capital requirements;
- c. The Group establishes a limit structure to monitor and control the market risk in its portfolio. These limits includes position limits, and maximum/stop loss limits;
- d. The Group carries out stress testing periodically using the worst case scenarios to assess the effects of changes in the market value due to changing market conditions; and
- e. The Group clearly identifies the foreign currencies in which it wishes to deal in and actively manages its market risk in all foreign currencies in which it has significant exposure.

4.6.4 Market risk measurement methodology

Market risk measurement techniques include the use of a number of techniques for market risk measurement. The risk measurement techniques mentioned in this section are used for measuring market risk in both trading book as well as banking book.

The various techniques which are used by the Group for the measurement, monitoring and control of market risk are as follows:

- a. Overnight open positions;
- b. Stop loss limits;
- c. Stress Testing; and
- d. Profit rate risk gap analysis.

4.6.5 Market risk monitoring and limits structure

The CRMD proposes through the Board Risk and Compliance Committee (BRCC) and Board the tolerance for market risk. Based on these tolerances, Risk Unit and Treasury have established appropriate risk limits that maintain the Group's exposure within the strategic risk tolerances over a range of possible changes in market prices and rates.

4.6.6 Limits monitoring

The Treasury Department and Risk Unit monitor the risk limits for each transaction, ensure that the limits are well within set parameters, and report periodically to top management.

4.6.7 Breach of limits

In case a limit is breached, the escalation and approval process will follow the Board-approved delegated authority limits. The limits are revised at least annually or when deemed required.

4.6.8 Portfolio review process

On a monthly basis, Risk Unit reviews the Group's assets and liabilities portfolio to evaluate the overall corporate exposure to market risk. As part of the review, Risk Unit also monitors the Group's overall market exposure against the risk tolerance limits set by the Board. Risk Unit also reviews the adherence to approved limits to control the market risk. Changes, if any, in market risk limits are communicated to business units after review by the CRO/CEO and approval by the ALCO and BRCC, as per the delegated authorities approved by the Board.

4.6.9 Reporting

Risk Unit generates at regular periodic intervals market risk management reports. These reports aim to provide the Group's senior management with an up-to-date view of its market risk exposure.

4.6.10 Stress testing

Stress tests produce information summarising the Group's exposure to extreme, but possible, circumstances and offer a way of measuring and monitoring the portfolio against extreme price movements of this type. The Group's Risk Unit employs different stress categories: profit rates and foreign exchange rates. For each stress category, the worst possible stress shocks that might realistically occur in the market are defined.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2022

4. Risk Management (Continued)

4.6 Market Risk (Continued)

4.6.11 Foreign subsidiary

The Group does not have any foreign subsidiary.

Table – 18. Market Risk Capital Requirements (PD-1.3.27 (b))

The following table summarises the maximum and minimum capital requirement for foreign exchange risk for the year:

	Foreign exchange risk BD'000
Maximum value capital requirement	23
Minimum value capital requirement	15

4.7 Operational Risk

4.7.1 Introduction

Operational risk is the risk of loss arising from system failure, human error, fraud, or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit. Insurance risk transfer is also a tool through which certain operational risks are mitigated. With respect to the management oversight process, operational risk appetite thresholds are set to control and monitor enterprise-wide operational loss.

4.7.2 Sources of operational risk

The different sources of operational risks faced by the Group can be classified broadly into the following categories:

- People risk which arises due to staffing inadequacy, unattractive remuneration structure, lack in staff development policies, lack in procedures for appointment, unhealthy professional working relationship, and unethical environment;
- Processes risk which arises due to inadequate general controls, inadequate application controls, improper business and market practices and procedures, inappropriate/inadequate monitoring and reporting;
- Systems (Technology) risk which arises due to integrity of information - lacking in timeliness of information, omission and duplication of data, hardware failures due to power surge, cyber-attacks, obsolescence or low quality;
- External risk which arises due to natural or non-natural (man made) disaster; and
- Legal risk which arises due to contractual obligations.

4.7.3 Operational risk management strategy

As a strategy, the Group will identify the sources of operational risks in coordination with each business unit. The Group carried out Risk Control Self-Assessments ("RCSA"), and plans to do a continuous and on-going exercise to identify the operational risks it is exposed to.

The Group on a continuous basis will:

- assess the effectiveness of controls associated with identified risks;
- regularly monitor operational risk profiles and material exposures to losses / loss events;
- identify stress events and scenarios to which it is vulnerable and assess their potential impact, and the probability of aggregated losses from a single event leading to other risks;
- Monitoring and reporting of operational risk is through the Operational Risk Management Forum (ORMF), a management-level committee responsible for monitoring and discussing the operational risks emanating from the group's activities; and
- Effecting appropriate contingency and business continuity planning that takes into account the operational risks facing the Group, and providing BCP and operational risk training at a Bank-wide level on the same to ensure that this is fostered across the organization.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2022

4. Risk Management (Continued)

4.7 Operational Risk (Continued)

4.7.4 Operational risk monitoring and reporting

The internal monitoring and reporting process ensures a consistent approach for providing pertinent information to senior management to highlight operational risks through ongoing, periodic reviews.

The objective of the reporting process is to ensure relevant information is provided to senior management and the Board to enable the proactive management of operational risk. The process ensures a consistent approach for providing information that enables appropriate decision making and action taking.

The group has a legal department dedicated to monitor any legal risk arising out of contracts / agreements entered into by the group on a day to day basis. The department also liaises with external lawyers for legal cases filed by the group against delinquent accounts for recovery or any legal cases filed against the group.

4.7.5 Operational risk mitigation and control

For those risks that cannot be controlled, the business units in conjunction with Risk Unit will decide whether to accept the risks, reduce the level of business activity involved, transfer the risk outside the Group, or withdraw from the associated activity completely. Risk Unit facilitates the business units in co-developing the mitigation plans. The group deals with the pending legal cases through internal and external lawyers depending upon the severity of the cases.

Table - 19. Operational Risk Exposure (PD-1.3.30 (a) & (b))

The following table summarises the amount of exposure subject to basic indicator approach of operational risk and related capital requirements:

	Gross income		
	2021 BD'000	2020 BD'000	2019 BD'000
Total Gross Income	66,109	53,977	68,242
Indicators of operational risk			
Average Gross income (BD'000)			62,776
Multiplier			12.5
			784,700
Eligible Portion for the purpose of the calculation			15%
TOTAL OPERATIONAL RISK WEIGHTED EXPOSURE (BD'000)			117,705

As at 31 December 2022, there are five significant shari'a audit observations that are expected to be resolved during the course of the year.

4.8 Equity Position in the Banking Book

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment portfolio. To date, the Bank does not carry significant equity position risk in its banking book.

The accounting policies, including valuation methodologies and their related key assumptions, are consistent with those disclosed in the consolidated financial statements for the year ended ended 31 December 2022. Equity type instruments carried at fair value through equity and investment properties are kept for capital gain purposes, all other investments including investments in associates are kept for strategic long term holdings.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2022

4. Risk Management (Continued)

4.8 Equity Position in the Banking Book (Continued)

Table – 20. Equity Position Risk in Banking Book (PD-1.3.31 (b), (c) & (g))

The following table summarises the amount of total and average gross exposure of equity investments and funds as of 31 December 2022::

	Total gross exposure ⁽¹⁾ BD'000	Average gross exposure ⁽²⁾ BD'000	Publicly traded BD'000	Privately held BD'000	Risk weighted assets BD'000	Capital Requirements BD'000
Equity investments	34,360	34,347	-	34,360	72,115	9,014
Funds	436	436	-	436	654	82
Total	34,796	34,783	-	34,796	72,769	9,096

⁽¹⁾ Balances are gross of provision of BD 14,278 thousand.

⁽²⁾ Average balances are computed based on quarter end balances.

Table – 21. Equity Gains or Losses in Banking Book (PD-1.3.31 (d), (e) & (f))

The following table summarises the cumulative realised and unrealised gains during the year ended 31 December 2022:

	BD'000
Cumulative realised gain arising from sales or liquidations in the reporting period	-
Total unrealised losses recognised in the consolidated statement of financial position but not through consolidated statement of income	-
Unrealised gains included in CET 1 Capital	1,615
Unrealised gains included in Tier 2 Capital	-

4.9 Equity of Investment Accountholders ("IAH")

The Group may require to decrease or increase losses or profit on certain IAH accounts for the purpose of income smoothing. Thus the Group is exposed to some of the price risk on assets funded by equity of Investment Accountholders ("IAH"). The CBB requires the Group to maintain capital to cover the price risk arising from 30% of assets funded by IAH on a pro-rata basis.

The Group is authorised by the IAH to invest the account holder's funds on the basis of Mudaraba contract in a manner which the Group deems appropriate without laying down any restrictions as to where, how, and for what purpose the funds should be invested. Under this arrangement the Group can commingle the equity of investment accountholders investment funds with its own funds (owner's equity) or with other funds the Group has the right to use (e.g. current accounts or any other funds which the Group does not receive on the basis of Mudaraba contract). The IAH and the Group generally participate in the returns on the invested funds; however, the Group does not share profits with IAH resulting from investing current accounts and other funds received on the basis other than mudaraba contracts. In such type of contract, the Group is not liable for any losses incurred on the joint pool other than the loss resulting from gross negligence or wilful misconduct on the part of the Group or due to the Group's violation of the terms and conditions as agreed between the Group and the IAH. During the year, the Group waived 15% of profit from mudarib fees in order to maintain a competitive profit distribution to IAH.

After adopting FAS 31 in 2020, all new funds raised using wakala structure, together called "wakala pool" are comingled with the Bank's pool of funds based on an underlying mudaraba agreement. This comingled pool of funds is invested in a common pool of assets in the manner which the Group deems appropriate without laying down restrictions as to where, how and what purpose the funds should be invested.

The amount received from the customer on account of equity of investment accountholders is not invested completely in the portfolio of selected investments as the Group is required to maintain a cash reserve with CBB. In addition, the Group requires to set aside certain amount to meet operational requirements. The income allocated to the equity of investment accountholders deposits being received is in accordance with the utilisation of such funds. The utilisation rate is determined by the ALCO with the approval of Shari'a Supervisory Board.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2022

4. Risk Management (Continued)

4.9 Equity of Investment Accountholders ("IAH") (Continued)

Proposal for new products is initiated by the business lines within the Group and ALCO review such proposal to ensure that the new product is in line with the Group's business and risk strategy. All new products require the approval of the Shari'a Supervisory Board of the Bank. The business lines of the Group have expertise in creating high end value added products offering a wide range of products, expected return, tenors, and risk profile. Information on new products or any change in the existing products will be placed on the Group's website or published in the media.

These accounts are made available to customers through Retail Banking (to include the Thuraya Banking segment), in addition to the Group's Corporate and Institutional Banking division. The Group has designed a Customer Experience and Process Governance Unit to address customer dissatisfaction which reports to Chief Retail Banking. The complaints are investigated by personnel not directly related to the subject matter of the complaints.

The Group offers equity of investment accountholders in different currencies for maturity periods ranging from 1 month, 3 months, 6 months, 9 months, 12 months, and 36 months. The customer signs a written contract covering all terms and conditions of the investment, including tenor, basis of profit allocation, and early withdrawal. This is made available to both retail and corporate customers.

Because equity of investment accountholders is a significant funding source for the Group, the Group regularly monitors rate of return offered by competitors to evaluate the expectation of its IAH. The Group's policy provide whole or partial waiver of the mudarib share of income from investment in order to provide a reasonable return to its investors.

The Group has written policies and procedures applicable to its portfolio of Equity of investment accountholders. Equity of investment accountholders funds are invested and managed in accordance with Shari'a requirements.

Profits of an investment jointly financed by the Group and the equity of investment accountholders shall be allocated between them according to the contribution of each of the Group and the IAH in the jointly financed investment. Operating expenses incurred by the Group are not charged to investment account. In case of the loss resulting from the transactions in a jointly financed investment, such loss shall first be deducted from undistributed profits, if any. Any excess of such loss shall be deducted from Investment Risk Reserve (IRR). Any remaining of such loss shall be deducted from the total balance of fund available in the Joint pool, as at that date, in the respective ratio of the Group's and IAH's respective contribution to the comingled pool. The Bank proportionately allocates non-performing assets to the IAH pool of assets. The ECL charge is also allocated to the IAH pool, in proportion of the non-performing assets financed by IAH to the total non-performing assets. Amounts recovered from these non-performing assets shall be subject to allocation between IAH and owners' equity.

In case of early withdrawal of IAH fund before completion of the term, the effective utilisation method will be applied.

In case of term deposits, the IAH account holders can withdraw funds on a premature basis by paying a nominal amount of fees / penalty; such penalties are offered for charity.

Additional disclosures such as the below are disclosed in the Bank's website:

- a. Characteristics of investors for whom investment account may be appropriate
- b. Purchase redemption and distribution procedures
- c. Product information and the manner in which the products are made available to investors

Governance of IAH

- a. Shariah review of allocation of assets and resultant income;
- b. Disclosure of profit rates on deposit products and mudaraba fees either in the branch or website;
- c. ALCO discusses the profit rate to be offered to URIA accounts. Any exceptional profit rates offered to customers are subject to approval by the relevant authority.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2022

4. Risk Management (Continued)

4.9 Equity of Investment Accountholders ("IAH") (Continued)

Table – 22. Equity of Investment Accountholders by Type (PD-1.3.33 (a))

The following table summarises the breakdown of equity of investment accountholders accounts as of 31 December 2022:

	BD'000
Banks and financial institutions	29,953
Individuals and non-financial institutions	420,455
Total	450,408

Table – 23. Equity of Investment Accountholders Ratios (PD-1.3.33 (d) & (f))

The following table summarises the return on average assets and mudarib share as a percentage of the total investment profit for the year ended 31 December 2022:

Profit Paid on Average IAH Assets *	0.82%
Mudarib Fee to Total income from jointly financed assets	31.11%

*Average assets funded by IAH have been calculated using month end balances.

Table – 24. Equity of Investment Accountholders Ratios (PD-1.3.33 (e) & (g))

The following table summarises the profit distributed to IAH and financing ratios to the total of IAH by type of investment for the year ended 31 December 2022:

	Average declared rate of return	Proportion of total profit distributed by type of IAH	Proportion of IAH investments to total IAH
Saving accounts (including VEVO)	0.06%	2.74%	34.43%
Defined accounts - 1 month	0.79%	0.56%	0.56%
Defined accounts - 3 months	0.79%	0.22%	0.22%
Defined accounts - 6 months	0.84%	0.34%	0.32%
Defined accounts - 9 months	0.94%	0.02%	0.01%
Defined accounts - 1 year	1.15%	2.84%	1.97%
Investment certificates	2.75%	0.00%	0.00%
IQRA	1.53%	2.10%	1.10%
Tejoori	0.06%	2.87%	35.85%
Customer special deposits	2.41%	45.89%	14.25%
Wakala - Financial institutions	2.19%	17.68%	5.49%
Wakala - Non-financial institutions and individuals	3.63%	24.75%	5.82%
		100%	100%

The calculation and distribution of profits was based on quarterly average balances.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2022

4. Risk Management (Continued)

4.9 Equity of Investment Accountholders ("IAH") (Continued)

Table – 25. Equity of Investment Accountholders to Total Financing (PD-1.3.33 (h) & (i))

The following table summarises the percentage of counterparty type to total financing for each type of Shari'a-compliant contract to total financing as of 31 December 2022:

	Percentage of Counterparty Type to Total Financing					
	Self Financed		IAH		Total	
	BD'000	%	BD'000	%	BD'000	%
Gross financing assets*						
Murabaha	341,862	62.40%	206,010	37.60%	547,872	100.00%
Corporate	159,015	62.40%	95,824	37.60%	254,839	100.00%
Retail	182,847	62.40%	110,186	37.60%	293,033	100.00%
Musharakah	53,913	62.40%	32,490	37.60%	86,403	100.00%
Corporate	939	62.40%	567	37.60%	1,506	100.00%
Retail	52,974	62.40%	31,923	37.60%	84,897	100.00%
Total	395,775	62.40%	238,500	37.60%	634,275	100.00%
Gross Ijarah Muntahia Bittamleek**						
Corporate	31,850	62.40%	19,193	37.60%	51,043	100.00%
Retail	150,348	62.40%	90,602	37.60%	240,950	100.00%
Total	182,198	62.40%	109,795	37.60%	291,993	100.00%
ECL Stage 1 and 2	(10,145)	62.40%	(6,114)	37.60%	(16,259)	100.00%
Total	567,828	62.40%	342,181	37.60%	910,009	100.00%

*Net of expected credit loss (Stage 3) of BD 24,957 thousands.

**Net of expected credit loss (Stage 3) of BD 1,213 thousands.

Table – 26. Equity of Investment Accountholders Share of Profit by account type (PD-1.3.33 (d) (l) (m) & (n))

	Gross return on equity of IAH BD'000	Transfer to equalization reserve BD'000	Average mudaraba %	Mudarib fees BD'000	Release from IRR BD'000	Profit paid to IAH BD'000	Ratio of PER to IAH %
Account Type	A	B		C	D	(A-B-C+D)	
Tejoori	7,860	45	97.98%	7,702	-	113	1.56%
Saving	6,412	36	97.95%	6,282	-	94	1.92%
Vevo	807	5	97.76%	789	-	13	15.22%
IQRA Deposits	261	-	68.13%	178	-	83	47.01%
Defined deposit	4,374	-	54.69%	2,392	-	1,982	2.81%
Wakala	3,648	-	53.82%	1,963	-	1,685	3.37%
	23,362	86		19,306	-	3,970	

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2022

4. Risk Management (Continued)

4.9 Equity of Investment Accountholders ("IAH") (Continued)

Table – 27. Equity of Investment Accountholders Share of Profit (PD-1.3.33 (l) (m) & (n))

The following table summarises the share of profits earned by and paid out to profit sharing investment accounts and the Group as Mudarib for the year ended 31 December 2022:

Share of profit allocated to IAH before transfer to/from reserves - BD '000	23,362
Percentage share of profit earned by IAH before transfer to/from reserves	5.19%
Net return on equity of IAH - BD '000	4,056
Share of profit paid to IAH after transfer to/from reserves - BD '000	3,970
Percentage share of profit paid to IAH after transfer to/from reserves	0.88%
Share of profit paid to Bank as mudarib - BD '000	19,306

Table – 28. Equity of Investment Accountholders Percentage Return to Profit Rate of Return (PD-1.3.33 (q))

The following table summarises the average distributed rate of return or profit rate on profit sharing investment accounts for the year ended 31 December 2022:

	3 months	6 months	12 months	36 months
Percentage of average distributed rate of return to IAH	1.21%	1.95%	2.63%	3.02%

Table – 29. Equity of Investment Accountholders Type of Assets (PD-1.3.33 (r) & (s))

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets for the year ended 31 December 2022:

	As of 31-Dec-21 BD'000	Movement during the year BD'000	As of 31-Dec-22 BD'000
Cash and balances with banks and Central Bank	23,346	(4,803)	18,543
Murabaha and Wakala receivables - interbank	11,400	(11,400)	-
Gross financing assets*	267,200	(28,700)	238,500
Gross Ijarah Muntahia Bittamleek*	111,091	(1,296)	109,795
Investment securities	109,060	(19,327)	89,733
Expected credit loss (Stage 1 and 2)	(5,867)	(296)	(6,163)
Total	516,230	(65,822)	450,408

* Net of ECL stage 3.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2022

4. Risk Management (Continued)

4.9 Equity of Investment Accountholders ("IAH") (Continued)

Table – 30. Equity of Investment Accountholders Profit Earned and Paid (PD-1.3.33 (w))

The following table summarises the amount and rate of return of profits earned by the Group and paid out to equity of investment accountholders over the past five years:

	Profit Earned (jointly financed)		Profit Paid to (IAH)	
	BD'000	%	BD'000	%
2022	62,049	5.09%	3,970	0.88%
2021	55,834	4.62%	3,501	0.68%
2020	53,169	4.92%	4,009	0.81%
2019	57,396	5.37%	12,685	2.97%
2018	53,939	4.86%	13,939	1.77%

Table – 31. Treatment of assets financed by IAH (PD-1.3.33 (v))

	Assets BD'000	RWA BD'000	RWA for Capital Adequacy Purposes BD'000	Capital Requirements BD'000
Cash and balances with banks and Central Bank	18,543	-	-	-
Murabaha and Wakala receivables - interbank	-	-	-	-
Financing assets ⁽¹⁾	238,500	184,826	55,448	6,931
Investment in Sukuk ⁽²⁾	89,733	-	-	-
Ijarah Muntahia Bittamleek ⁽¹⁾	109,795	69,997	20,999	2,625
Other Assets	-	-	-	-
	456,571	254,823	76,447	9,556

⁽¹⁾ The exposure is gross of ECL stage 1 and 2 of BD 6,114 thousand.

⁽²⁾ The exposure is gross of ECL stage 1 and 2 of BD 49 thousand.

4.10 Liquidity Risk

4.10.1 Introduction

Liquidity risk is defined as "the risk that the Group will be unable to meet its obligations as they come due because of an inability to obtain adequate funding or to liquidate assets".

4.10.2 Sources of liquidity risk

The sources of liquidity risk can broadly be categorised in the following:

- Funding risk is the risk of not being able to fund net outflows due to unanticipated withdrawal of capital or deposits;
- Call risk is the risk of crystallisation of a contingent liability; and
- Event risk is the risk of rating downgrades or other negative public news leading to a loss of market confidence in the Group.

4.10.3 Bank's funding strategy

The Board reviews the funding strategy on an annual basis and amends the existing strategy, as deemed necessary. For this purpose, all business units advise the Treasurer of their projected liquidity requirements and contributions at the start of each year as part of annual budgeting process.

The funding strategy highlights any anticipated liquidity shortfalls, the funding requirements to finance these shortfalls and their impact on the statement of financial position. The Group's Liquidity Risk Management Policy address liquidity contingency plan to deal with stressed scenarios and outline an action plan that can be taken in the event of liquidity stress situation.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2022

4. Risk Management (Continued)

4.10 Liquidity Risk (Continued)

4.10.4 Liquidity risk strategy

The Group monitors the liquidity position by comparing maturing assets and liabilities over various time buckets to include short term, medium term, and long-term buckets. The Group carries out stress testing periodically using the worst case scenarios to assess the effects of changes in market conditions on the liquidity of the Group. As a strategy the Group maintains a large customer base and good customer relationships.

The Group manages funding requirements through the following sources: Current accounts, savings accounts, other URIA accounts, interbank lines, and borrowing by leverage of Sukuk portfolio. Appropriate thresholds are set for attaining funding from each source in the Group's Risk Appetite Framework.

In fulfilment of Basel III and regulatory requirements, the Group reports the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR") on a monthly and quarterly basis, respectively. In efforts to maintain both metrics above the regulatory and internal limits, the Bank adopts the following strategies:

LCR: The Bank intends on maintaining its LCR within the prescribed regulatory and internal limits through the gradual build up of its customer deposit base and uncumbered High Quality Liquid Assets ("HQLA"), predominantly through sovereign bonds and high grade fixed income assets.

NSFR: The Bank intends on building a stable funding profile by maintaining a balanced trade-off between available and required stable funding, specifically focusing on building its retail deposit base and build up of capital, with particular focus on stable funding to build its longer-term liquidity.

4.10.5 Liquidity risk measurement tools

The Group is monitoring the liquidity risk through ALCO.

4.10.6 Liquidity risk monitoring

The Group has set the tolerance for liquidity risk which are communicated to the Risk Unit and Treasury Department. Based on these tolerances, Risk Unit and Treasury have established appropriate risk limits that maintain the Group's exposure within the strategic risk tolerances over a range of possible changes in liquidity situations due to cash flows in current accounts, and IAH accounts.

4.10.7 Liquidity limits structure

The Group uses a combination of different limits to ensure that liquidity is managed and controlled in an optimal manner. The Group has set the following limits for monitoring liquidity risks:

- a. Liquidity Gap limits; and
- b. Liquidity Ratio limits.

4.10.8 Liquidity risk stress testing

To evaluate whether the Group is sufficiently liquid, behavior of the Group's cash flows under different conditions are observed.

4.10.9 Contingency funding plan

The Group does contingency funding exercises which details procedures to be followed by the Group, in the event of a liquidity crisis or a situation where the Group faces stressed liquidity conditions. The contingency funding plan will be an extension of day to day liquidity management and involves maintenance of an adequate amount of liquid assets and management of access to funding resources. The ALCO members discuss and monitor the situation over regular time-intervals to ensure sufficient liquidity in the Group.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2022

4. Risk Management (Continued)

4.10 Liquidity Risk (Continued)

Table – 32. Liquidity Ratios (PD-1.3.37)

The following table summarises the liquidity ratios for the past five years:

	2022	2021	2020	2019	2018
Due from banks and financial institutions / Total Assets	5.12%	6.56%	3.67%	6.22%	10.74%
Islamic Financing / Customer Deposits ⁽¹⁾	89.06%	82.63%	75.81%	80.92%	83.31%
Customer Deposits ⁽¹⁾ / Total Assets	75.02%	79.19%	85.30%	78.71%	71.85%
Short term assets ⁽²⁾ / Short term liabilities ⁽³⁾	11.78%	11.44%	8.94%	16.59%	22.97%
Liquid Assets ⁽⁴⁾ / Total Assets	7.46%	8.08%	5.66%	8.15%	13.11%
Growth in Customer Deposits	-2.58%	1.47%	7.29%	3.00%	(0.67%)
Leverage ratio	13.88%	13.88%	12.02%	12.00%	14.30%

⁽¹⁾ Customer deposits include customer current accounts, commodity murabaha deposits from financial institutions, placements from non-financial institutions and individuals and IAH.

⁽²⁾ Short term assets includes cash and balances with banks and placements with financial institutions (maturing in a year).

⁽³⁾ Short term liabilities includes customer current accounts, other liabilities, placements from financial institutions (maturing within one year) and IAH (maturing within one year).

⁽⁴⁾ Liquid assets includes cash and balances with banks and Central Bank (excluding CBB reserve) and placements with financial institutions (maturing in a year).

Table – 33. Maturity Analysis (PD-1.3.37, PD-1.3.38)

The following table summarises the maturity profile of the total assets, total liabilities and equity of investment accountholders based on contractual maturities as at 31 December 2022. All the assets with no fixed contractual maturities are disclosed under no fixed maturity:

	Up to 3 months BD'000	3-6 months BD'000	6-12 months BD'000	1-3 years BD'000	Over 3 years BD'000	No fixed maturity BD'000	Total BD'000
Assets							
Cash and balances with banks and Central Bank	31,997	-	-	-	-	38,040	70,037
Placements with financial institutions	69,755	-	-	-	-	-	69,755
Financing assets	37,375	33,001	72,518	201,606	275,523	-	620,023
Investment in Sukuk	-	-	-	141,901	96,611	-	238,512
Investment in equity and funds	-	-	-	-	-	20,517	20,517
Ijarah Muntahia Bittamleek	9,140	4,368	7,063	34,751	234,664	-	289,986
Investment in associates	-	-	-	-	-	8,832	8,832
Investment real estate	-	-	-	-	-	13,661	13,661
Property and equipment	-	-	-	-	-	14,019	14,019
Other assets	751	3,988	243	477	673	10,343	16,475
Total Assets	149,018	41,357	79,824	378,735	607,471	105,412	1,361,817
Liabilities And Equity Of Investment Accountholders							
Placements from financial institutions	21,326	35,190	83,187	12,701	-	-	152,404
Placements from non-financial institutions and individuals	117,910	43,023	73,281	11,228	-	-	245,442
Financing from financial institutions	71,047	-	39,066	-	-	-	110,113
Customers' current accounts	231,078	-	-	-	-	-	231,078
Other liabilities	36,622	-	-	-	-	-	36,622
Equity of investment accountholders	394,177	14,795	25,783	14,162	1,491	-	450,408
Total Liabilities And IAH	872,160	93,008	221,317	38,091	1,491	-	1,226,067

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2022

4. Risk Management (Continued)

4.11 Profit Rate Risk

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of funding due to the sources of finance.

A fundamental review and reform of major profit rate benchmarks is being undertaken globally. There is uncertainty as to the timing and the methods of transition for replacing existing benchmark interbank offered rates (IBORs) with alternative rates.

The majority of LIBOR and other Interbank Offer Rates are discontinued after 31 December 2021 and replaced with certain Alternative Reference Rates ("ARRs"), with the exception of certain USD LIBOR rates where cessation is delayed until 30 June 2023. The transition away from the IBORs covers most of the business units and support functions of the Group.

The Group Assets and liabilities committee monitors and manages the Group's transition to alternative rates. The committee evaluates the extent to which contracts reference IBOR cash flows, whether such contracts will need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties.

Senior management identifies the sources of profit rate risk exposures based upon the current as well as forecasted balance sheet structure of the Group. The profit rate risk in the Group may arise due to the following transactions:

- a. Murabaha transactions;
- b. Wakala transactions;
- c. Ijarah Muntahia Bittamleek;
- d. Sukuk; and
- e. Musharaka investments.

The profit distribution to equity of investment accountholders is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

4.11.1 Sources of Profit Rate Risk

The different profit rate risks faced by the Group can be classified broadly into the following categories:

- a. Re-pricing risk which arises from timing differences in the maturity (for fixed rate) and re-pricing (for floating rate) of assets, liabilities and off balance sheet positions. As profit rates vary, these re-pricing mismatches expose the Group's income and underlying economic value to unanticipated fluctuations;
- b. Yield curve risk which arises when unanticipated shifts of the yield curve have adverse effects on the Group's income and/or underlying economic value;
- c. Basis risk which arises from imperfect correlation in the adjustment in the rate earned on products priced and the rate paid on different instruments with otherwise similar re-pricing characteristics. When profit rates change, these differences can give rise to unexpected changes in the cash flows and earnings spread between assets, liabilities, and off balance sheet instruments of similar maturities or re-pricing frequencies; and
- d. Displaced Commercial Risk refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared with competitors rates.

4.11.2 Profit rate risk strategy

The Group is subject to profit rate risk on its financial assets, financial liabilities, and Islamic hedging instruments. The Group recognises income on certain of its financial assets on a time-apportioned basis. As a strategy the Group:

- a. has identified the profit rate sensitive products and activities it wishes to engage in;
- b. has established a structure to monitor and control the profit rate risk of the Group;
- c. measures profit rate risk through establishing maturity/re-pricing schedule that distributes profit rate sensitive assets, liabilities, Islamic hedging instruments, and off-balance sheet items in pre-defined time bands according to their maturity; and
- d. makes efforts to match the amount of floating rate assets with floating rate liabilities in the banking book.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2022

4. Risk Management (Continued)

4.11 Profit Rate Risk (Continued)

4.11.3 Profit rate risk measurement tools

The Group uses the following tools for profit rate risk measurement in the banking book:

- Re-pricing gap analysis which measures the arithmetic difference between the profit-sensitive assets and liabilities of the banking book in absolute terms; and
- Basis Point Value ("BPV") analysis which is the sensitivity measure for all profit rate priced products and positions. The BPV is the change in net present value of a position arising from basis point shift in the yield curve. This quantifies the sensitivity of the position or portfolio to changes in profit rates.

4.11.4 Profit rate risk monitoring and reporting

The Group has implemented information systems for monitoring, controlling and reporting profit rate risk. Reports are provided on a timely basis to all relevant stakeholders in the Group on a periodic basis.

Table – 34. Profit Rate Risk in Banking Book (PD-1.3.40 (b))

The following table summarises the profit rate gap position as of 31 December 2022:

	Up to 3 months BD'000	3-6 months BD'000	6-12 months BD'000	1-3 years BD'000	Over 3 years BD'000	Total BD'000
Assets						
Placements with financial institutions	69,755	-	-	-	-	69,755
Financing assets	37,375	33,001	72,518	201,606	275,523	620,023
Ijara Muntahia Bittamleek	9,140	4,368	7,063	34,751	234,664	289,986
Investment in Sukuk	-	-	-	141,901	96,611	238,512
Other assets*	-	2,826	-	-	-	2,826
Total profit rate sensitive assets	116,270	40,195	79,581	378,258	606,798	1,221,102
Liabilities And Equity Of Investment Accountholders						
Placements from financial institutions**	21,326	35,190	83,187	12,701	-	152,404
Placements from non-financial institutions and individuals	117,910	43,023	73,281	11,228	-	245,442
Financing from financial institutions	71,047	-	39,066	-	-	110,113
Equity of investment accountholders***	394,177	14,795	25,783	14,162	1,491	450,408
Other liabilities****	1,379	-	-	-	-	1,379
Total profit rate sensitive liabilities and IAH	605,839	93,008	221,317	38,091	1,491	959,746
On-balance sheet profit rate gap	(489,569)	(52,813)	(141,736)	340,167	605,307	261,356
Off-balance sheet exposures	55,408	3,638	27,613	16,424	11,723	114,806
Total profit rate gap	(434,161)	(49,175)	(114,123)	356,591	617,030	376,162

* Other assets relate to fair value and the receivable of the profit rate swap entered into during the year.

** Placements from financial institutions includes frozen accounts of BD 8,741 thousand.

*** The Bank uses expected withdrawal pattern to classify its saving accounts into different maturity buckets. The remaining IAH balances are disclosed on a contractual basis.

**** Other liabilities relate to payable on profit rate swap entered into during the year.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2022

4. Risk Management (Continued)

4.11 Profit Rate Risk (Continued)

Table – 34. Profit Rate Risk in Banking Book (PD-1.3.40 (b)) (Continued)

The following table summarises the effect on the value of assets, liabilities and economic capital for a benchmark change of 200 bp in profit rates as of 31 December 2022:

	Effect on value of Asset BD'000	Effect on value of Liability BD'000	Effect on value of Economic Capital BD'000
Upward rate shocks:	5,061	(7,495)	(2,435)
Downward rate shocks:	(5,061)	7,495	2,435

Table – 35. Quantitative Indicators of Financial Performance and Position (PD-1.3.9 (b) PD-1.3.33 (d))

The following table summarises the basic quantitative indicators of financial performance for the past 5 years:

	2022	2021	2020	2019	2018
Return on average equity	9.61%*	5.53%*	(11.58%)	5.21%	9.48%
Return on average assets	0.94%	0.48%	(1.03%)	0.50%	0.91%
Cost to Income Ratio	52.29%	47.10%	60.00%	59.30%	55.47%

* Average equity includes AT1 Subordinated Mudaraba of BD 25 million

Table – 36. The following table summarises the historical data over the past five years in relation to Profit Sharing Investment Accounts (PD-1.3.41):

The details of income distribution to Profit Sharing Investment Accounts (PSIA) for the last five years:

	2022 BD'000	2021 BD'000	2020 BD'000	2019 BD'000	2018 BD'000
Allocated income to IAH	23,362	23,979	16,551	35,686	41,162
Distributed profit	3,970	3,501	4,010	12,685	13,939
Mudarib fees	19,306	20,388	12,476	23,001	27,223
	2022	2021	2020	2019	2018
Balances (BD '000s):					
Profit Equalization Reserve (PER)	1,486	1,400	1,310	1,245	1,245
Investment Risk Reserve (IRR)	-	-	-	-	1,177
PER Movement	86	90	65	-	-
IRR Movement	-	-	-	(1,177)	-
Ratios (%):					
Income allocated to IAH / Mudarabah assets %	1.92%	1.99%	1.53%	2.96%	3.71%
Mudarabah fees / Mudarabah assets %	1.58%	1.69%	1.16%	1.91%	2.45%
Distributed profit / Mudarabah assets %	0.33%	0.29%	0.38%	1.05%	1.26%
Rate of Return on average IAH %	0.97%	0.86%	0.98%	1.70%	1.76%
Profit Equalization Reserve / IAH %	0.37%	0.33%	0.32%	0.29%	0.16%
Investment Risk Reserve / IAH %	0.00%	(0.00)	(0.00)	0.00%	0.15%

4.12 CBB Penalties (PD 1.3.44)

During the year, the CBB imposed financial penalties of BD 191,536 regarding CBB Directives on EFTS.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2022

5. Glossary of Terms

ALCO	Assets and Liabilities Committee
BCP	Business Continuity Plan
BisB	Bahrain Islamic Bank B.S.C.
BPV	Basis Point Value
BRCC	Board Risk and Compliance Committee
CA Module	Capital Adequacy Module
CAR	Capital Adequacy Ratio
CBB	Central Bank of Bahrain
CRMD	Credit and Risk Management Department
CR & AD	Credit Review and Analysis Department
C&IC	Credit and Investment Committee
DCR	Displaced Commercial Risk
Excom	Executive Committee
FX	Foreign Exchange
GM-C&RM	General Manager-Credit and Risk Management
Group	Bahraini Islamic Bank B.S.C. and its subsidiaries
HR Committee	Human Resource Committee
IAH	Investment Account Holder
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
IT Committee	Information Technology Committee
IRR	investment Risk Reserve
MLG	Minimum Liquidity Guidelines
PCD	Prudential Consolidation and Deduction Requirements Module
PD	Public Disclosure
PER	Profit Equalisation Reserve
PSIA	Profit Sharing Investment Account
RCSA	Risk and Control Self-Assessment
RMC	Risk Management Committee
RWE	Risk Weighted Exposures
VaR	Value-at-Risk
L/C	Letter of Credit
L/G	Letter of Guarantee
ECL	Expected Credit Losses

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KEY ESG PERFORMANCE INDICATORS



KEY ESG PERFORMANCE INDICATORS

Appendices

SDG INDEX

OUR SDG INDEX										
		1 NO POVERTY 	2 ZERO HUNGER 	3 GOOD HEALTH AND WELL-BEING 	4 QUALITY EDUCATION 	5 GENDER EQUALITY 	6 CLEAN WATER AND SANITATION 	7 AFFORDABLE AND CLEAN ENERGY 	8 DECENT WORK AND ECONOMIC GROWTH 	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
1	About This Report									
2	Who we Are								★	
3	Our Strategic Direction								★	★
4	Delivering Value through our Capitals			★	★	★	★	★	★	
5	Financial Capital	★				★			★	
6	Human Capital			★	★	★			★	
7	Intellectual Capital					★			★	
8	Natural Capital						★	★		
9	Social & Relationship Capital	★	★	★	★	★				★
10	Safeguarding Value					★				★

		10 REDUCED INEQUALITIES 	11 SUSTAINABLE CITIES AND COMMUNITIES 	12 RESPONSIBLE CONSUMPTION AND PRODUCTION 	13 CLIMATE ACTION 	14 LIFE BELOW WATER 	15 LIFE ON LAND 	16 PEACE, JUSTICE AND STRONG INSTITUTIONS 	17 PARTNERSHIPS FOR THE GOALS
1	About This Report								
2	Who we Are		★		★				★
3	Our Strategic Direction	★		★	★			★	★
4	Delivering Value through our Capitals		★	★					
5	Financial Capital	★	★		★			★	
6	Human Capital	★						★	★
7	Intellectual Capital		★	★	★				★
8	Natural Capital		★		★				
9	Social & Relationship Capital	★							
10	Safeguarding Value	★		★				★	★

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GRI & BAHRAIN BOURSE INDEX



GRI & BAHRAIN BOURSE INDEX

GRI STANDARDS				
GRI 1: FOUNDATION 2021				
Statement of Use	Bahrain Islamic Bank (BisB) has reported in accordance with the GRI Standards for the period from 1 January 2022 to 31 December 2022			
GRI 2: GENERAL DISCLOSURES				
GRI DISCLOSURE	CONTENT	Bahrain Bourse Disclosures	REFERENCE SECTION	NOTES
The Organization and its Reporting Practice				
2-1	Organizational details		1,2,3	
2-2	Entities included in the organization's sustainability reporting	G8: Sustainability reporting G9: Disclosure Practices G10: External Assurance	1,2,3	
2-3	Reporting period, frequency and contact point	G8: Sustainability reporting G9: Disclosure Practices	1	
2-4	Restatements of information		1,2	
2-5	External assurance	G10: External Assurance	1	
Activities and Workers				
2-6	Activities, value chain and other business relationships		2,3	
2-7	Employees	S3: Employee Turnover S4: Gender Diversity	5	
2-8	Workers who are not employees	S5: Temporary Worker ratio S9: Child & Forced Labour	5	
Governance				
2-9	Governance structure and composition	G1: Board Diversity	9,10	
2-10	Nomination and selection of the highest governance body	G2: Board Independence	1,9,10	
2-11	Chair of the highest governance body		9,10	
2-12	Role of the highest governance body in overseeing the management of impacts		9,10	
2-13	Delegation of responsibility for managing impacts		9,10	
2-14	Role of the highest governance body in sustainability reporting	G3: Incentivized Pay	9,10	
2-15	Conflicts of interest	G6: Ethics & Anti-Corruption	9,10	
2-16	Communication of critical concerns		9,10	
2-17	Collective knowledge of the highest governance body		9,10	
2-18	Evaluation of the performance of the highest governance body		9,10	
2-19	Remuneration policies	G3: Incentivized Pay S1: CEO Pay Ratio S2: Gender Pay Ratio	10,11	
2-20	Process to determine remuneration	S2: Gender Pay Ratio	11	
2-21	Annual total compensation ratio	G3: Incentivized Pay S1: CEO Pay Ratio S2: Gender Pay Ratio	11	

GRI & BAHRAIN BOURSE INDEX (Continued)

GRI 2: GENERAL DISCLOSURES (Continued)				
Strategy, Policies, and Practices				
2-22	Statement on sustainable development strategy	G8: Sustainability reporting G9: Disclosure Practices E8 & E9: Environmental Oversight	2	
2-23	Policy commitments		2,5	
2-24	Embedding policy commitments		2,5	
2-25	Processes to remediate negative impacts		12	
2-26	Mechanisms for seeking advice and raising concerns		1,4,9,10,13	
2-27	Compliance with laws and regulations	G6: Ethics & Anti-Corruption	9,10	
2-28	Membership associations		9,10	
Stakeholder Engagement				
2-29	Approach to stakeholder engagement		2	
2-30	Collective bargaining agreements	G3: Collective Bargaining	2	
GRI 3: MATERIAL TOPICS				
3-1	Process to determine material topics		2	
3-2	List of material topics		2	
3-3	Management of material topics		2	
GRI 200: Economic Standard Series				
GRI 201: Economic Performance 2016				
GRI 201 Topic Specific				
3-3	Management Approach		4,12	
201-1	Direct economic value generated and distributed		4,12	
201-3	Defined benefit plan obligations and other retirement plans		4,12	
201-4	Financial assistance received from government		None	
GRI 202: Market Presence 2016				
GRI 202 Topic Specific				
3-3	Management Approach		5	
202-2	Proportion of senior management hired from the local community	S11: Nationalization	5	
GRI 203: Indirect Economic Impacts 2016				
GRI 203 Topic Specific				
3-3	Management Approach	E10: Climate Risk Mitigation	4	
203-2	Significant indirect economic impacts		4	

GRI & BAHRAIN BOURSE INDEX (Continued)

GRI 204: Procurement Practices 2016				
GRI 204 Topic Specific				
3-3	Management Approach		8	
204-1	Proportion of spending on local suppliers	G5: Supplier Code of Conduct	8	
GRI 205: Anti-Corruption 2016				
GRI 205 Topic Specific				
3-3	Management Approach		5,6	
205-1	Operations assessed for risks related to corruption	G6: Ethics & Anti-Corruption	<i>Practice still under development</i>	
205-2	Communication and training about anti-corruption policies and procedures	G6: Ethics & Anti-Corruption	5,6	
205-3	Confirmed incidents of corruption and actions taken	G6: Ethics & Anti-Corruption	<i>Practice still under development</i>	
GRI 300: Environmental Standard Series				
GRI 302: Energy 2016				
GRI 302 Topic Specific				
3-3	Management Approach	E10: Climate Risk Mitigation	7	
302-1	Energy consumption within the organization	E3: Energy Usage	7	
302-2	Energy consumption outside of the organization	E4: Energy Intensity E5: Energy Mix	<i>Information Not Available</i>	
302-4	Reduction of energy consumption	E4: Energy Intensity E5: Energy Mix	7	
GRI 303: Water and Effluents 2018				
GRI 303 Topic Specific				
3-3	Management Approach		7	
303-5	Water Consumption	E6: Water Usage	7	
GRI 305: Emissions 2016				
GRI 305 Topic Specific				
3-3	Management Approach	E8 & E9: Environmental Oversight	7	
305-1	Direct (Scope 1) GHG emissions	E1: GHG Emissions	7	
305-2	Energy indirect (Scope 2) GHG emissions	E1: GHG Emissions	7	
305-3	Other indirect (Scope 3) GHG emissions	E1: GHG Emissions	7	
305-4	GHG emissions intensity	E1: GHG Emissions E2: Emissions Intensity	7	
305-5	Reduction of GHG emissions	E1: GHG Emissions	7	
GRI 306: Waste 2020				
GRI 306 Topic Specific				
3-3	Management Approach		7	
306-1	Waste generation and significant waste-related impacts	E7: Environmental Operations	7	
306-2	Management of significant waste-related impacts	E7: Environmental Operations	7	
306-3	Waste generated diverted from disposal	E7: Environmental Operations	7	

GRI & BAHRAIN BOURSE INDEX (Continued)

GRI 400: Social Standard Series				
GRI 401: Employment 2016				
GRI 401 Topic Specific				
3-3	Management Approach		5	
401-1	New employee hires and employee turnover	S3: Employee Turnover	5	
401-2	Benefits provided to full-time employees that are not provided to part-time employees		5	
401-3	Parental Leave		5	
GRI 403: Occupational Health & Safety 2018				
GRI 403 Topic Management Disclosures				
3-3	Management Approach		5	
403-1	Occupational health and safety management system	S8: Global Health and Safety	5	
403-2	Hazard identification, risk assessment, and incident investigation	S7: Injury Rate S8: Global Health and Safety	5	
403-3	Occupational health services	S8: Global Health and Safety	5	
403-4	Worker participation, consultation, and communication on Occupational health and safety	S8: Global Health and Safety	5	
403-5	Worker training on occupational health and safety	S8: Global Health and Safety	5	
403-6	Promotion of worker health	S8: Global Health and Safety	5	
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	S8: Global Health and Safety	5	
GRI 403 Topic Specific				
403-8	Workers covered by an occupational health and safety management system	S7: Injury Rate	5	
403-9	Work-related injuries	S7: Injury Rate	5	
403-10	Work-related ill health	S7: Injury Rate	5	
GRI 404: Training and Education 2016				
GRI 404 Topic Specific				
3-3	Management Approach		5	
404-1	Average hours of training per year per employee		5	
404-2	Programs for upgrading employee skills and transition assistance programs		5	
404-3	Percentage of employees receiving regular performance and career development reviews		5	
GRI 405: Diversity and Equal Opportunity 2016				
GRI 405 Topic Specific				
3-3	Management Approach		5,9,10	
405-1	Diversity of governance bodies and employees	G1: Board Diversity S4: Gender Diversity	5,9,10	

GRI & BAHRAIN BOURSE INDEX (Continued)

GRI 406: Non-Discrimination 2016				
GRI 406 Topic Specific				
3-3	Management Approach		5	
406-1	Incidents of discrimination and corrective actions taken	S6: Non-discrimination	5	
GRI 410: Security Practices				
GRI 406 Topic Specific				
3-3	Management Approach		5	
410-1	Security personnel trained in human rights policies or procedures	S10: Human rights	5	
GRI 413: Local Community 2016				
GRI 413 Topic Specific				
3-3	Management Approach		8	
413-1	Operations with local community engagement, impact assessments, and development programs	S12: Community Investment	8	
GRI 418: Customer Privacy				
GRI 418 Topic Specific				
3-3	Management Approach		6	
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	G7: Data Privacy	6	

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