

BAHRAIN ISLAMIC BANK B.S.C.
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2022

Commercial registration	: 9900 (registered with Central Bank of Bahrain as a retail Islamic bank)
Board of directors	: Dr. Esam Abdulla Fakhro, <i>Chairman</i> Khalid Yousif Abdul Rahman, <i>Vice Chairman</i> Jean Christophe Durand, <i>Vice Chairman</i> (Resigned on 11 January 2023) Usman Ahmed, <i>Vice Chairman</i> (Appointed on 11 January 2023) Mohamed Abdulla Nooruddin Khalid Abdulaziz Al Jassim Marwan Khaled Tabbara Dana Abdulla Buheji Isa Hasan Maseeh Gaby Samir El Hakim (Appointed 11 January 2023) Saqr Abdulmohsin Al Sijari (Appointed on 28 March 2022) Mohammed Abdulla Al Jalahma (Membership ended on 28 March 2022) Yaser Abduljalil Alsharifi (Resigned on 13 September 2022)
Office	: Salam Tower, Diplomatic Area PO Box 5240 Manama, Kingdom of Bahrain Telephone 17515151, Telefax 17535808
Auditors	: KPMG Fakhro

CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2022

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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.

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بنك البحرين الإسلامي

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	-

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BisB

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			
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 13th 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 – 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).

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بنك البحرين الإسلامي

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

19 Feb 2023

**Sharia'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 Sharia'a Board hereby present the following report on its activities in supervising the Bank's finances and investments from a Sharia 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 Sharia Coordination and implementation, the Sharia 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 Sharia'a.

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

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

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

1) Sharia'a Internal Audit

We planned with the Sharia'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 Sharia'a and Fatwas and decisions of the Sharia'a Board.

Shaikh Dr. A.Latif Mahmood Al Mahmood
Chairman

Shaikh Dr. Nedham M. Saleh Yacoubi
Vice Chairman

Shaikh Adnan Abdullah Al Qattan
Member

Shaikh Mohammed Jaffar Al Juffairi
Member

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 Sharia'a Department in conformity with the Plan and methodology approved by the Sharia'a Board.

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

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

2) Independent External Shari'a Compliance Audit

The Sharia'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 Sharia'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.

Third: Sharia Governance

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

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

Shaikh Dr. A.Latif Mahmood Al Mahmood
Chairman

Shaikh Dr. Nedham M. Saleh Yacoubi
Vice Chairman

Shaikh Adnan Abdullah Al Qattan
Member

Shaikh Mohammed Jaffar Al Juffairi
Member

Forth: Sharia Supervisory Board Operations

The Sharia 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 Sharia 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 Sharia'a Supervisory Board decides that:

- 1.All the Financial Statements inspected by the Sharia'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 Sharia'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 Sharia'a Supervisory Board and in accordance to Islamic Sharia.
- 4.Any gains resulted from sources or means prohibited by the provisions and principles of Islamic Sharia'a, have been directed to the Charity and Donations Fund.
- 5.Zakah was calculated according to the provisions and principles of Islamic Sharia'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 Sharia'a as per Sharia'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

Shaikh Dr. A.Latif Mahmood Al Mahmood
Chairman

Shaikh Dr. Nedham M. Saleh Yacoubi
Vice Chairman

Shaikh Adnan Abdullah Al Qattan
Member

Shaikh Mohammed Jaffar Al Juffairi
Member



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CR No. 6220-2

Independent auditors' report

To the Shareholders of

Bahrain Islamic Bank B.S.C.
PO Box 5240
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 Shariah Principles and Rules as determined by the Group's Shariah 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. • 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.	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; • 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;



Independent auditors' report to the shareholders (continued)
Bahrain Islamic Bank B.S.C.

- 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 to the shareholders (continued)
Bahrain Islamic Bank B.S.C.

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 Shariah Rules and Principles as determined by the Group's Shariah 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 ASIFs 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 ASIFs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.



Independent auditors' report to the shareholders (continued)
Bahrain Islamic Bank B.S.C.

- 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.

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

Bahrain Islamic Bank B.S.C.

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

Bahrain Islamic Bank B.S.C.

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

Bahrain Islamic Bank B.S.C.

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

Bahrain Islamic Bank B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2022

	Shares under			Reserves					Total owners' equity
	Share capital	Sub-ordinated (AT1) shares	Treasury shares	Incentive scheme	Share premium	Statutory reserve	Real estate fair value reserve	Investment securities fair value reserve	Total reserves
	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000
Balance at 1 January 2022	106,406	25,000	(892)	(289)	206	5,349	1,545	1,778	(13,343)
Profit for the year	-	-	-	-	-	-	-	-	12,568
Zakah approved	-	-	-	-	-	-	-	-	(138)
Donations approved	-	-	-	-	-	-	-	-	(350)
Profit distribution on AT1 Capital	-	-	-	-	-	-	-	(204)	204
Share of reserve of investment in associate	-	-	-	-	-	-	-	-	-
Shares allocated to staff during the year	-	-	-	76	-	-	-	-	76
Purchase of treasury shares	-	-	(80)	-	-	-	-	-	-
Transfer to shares under employee share incentive scheme	-	-	80	(80)	-	-	-	-	-
Net movement in investment securities fair value reserve	-	-	-	-	-	-	-	41	41
Net movement in real estate fair value reserve	-	-	-	-	-	-	(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)
Balance at 1 January 2021	106,406	-	(892)	(257)	206	4,736	2,178	1,696	(18,031)
Profit for the year	-	-	-	-	-	-	-	-	6,131
Zakah approved	-	-	-	-	-	-	-	-	(122)
Donations approved	-	-	-	-	-	-	-	-	(250)
Issuance of AT1	-	25,000	-	-	-	-	-	-	-
Issuance costs of AT1	-	-	-	-	-	-	-	-	(458)
Shares allocated to staff during the year	-	-	-	82	-	-	-	-	82
Purchase of treasury shares	-	-	(114)	-	-	-	-	-	-
Transfer to shares under employee share incentive scheme	-	-	114	(114)	-	-	-	-	-
Net movement in investment securities fair value reserve	-	-	-	-	-	-	-	82	82
Net movement in real estate fair value reserve	-	-	-	-	-	-	(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.

Bahrain Islamic Bank B.S.C.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF GOOD FAITH QARD FUND

For the year ended 31 December 2022

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

Bahrain Islamic Bank B.S.C.

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

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.

1 REPORTING ENTITY (continued)**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").

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 shariah 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 Shariah 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 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.

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)

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

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.

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.

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)*

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

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 BD'000	2021 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	-	-

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 Quassi 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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".

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Investment securities (continued)

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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)**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

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 mudaraba 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)**z. Impairment of exposures subject to credit risk (continued)**

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2. 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
- 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)**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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)**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.

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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.

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 FINANCING ASSETS (continued)**5.4 The movement on impairment allowances is as follows:**

2022	Stage 1	Stage 2	Stage 3	Total
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	Stage 2	Stage 3	Total
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

6 INVESTMENT SECURITIES

	2022	2021
	BD'000	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.

6 INVESTMENT SECURITIES (continued)

The movement of impairment allowances on debt type instruments (Sukuk) is as follows:

2022	Stage 1	Stage 2	Stage 3	Total
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	Stage 2	Stage 3	Total
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.

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 % incorporation	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

8 IJARAH MUNTAHIA BITTAMLEEK

	2022			2021		
	<i>Properties</i>	<i>Aviation</i>	<i>Total</i>	<i>Properties</i>	<i>Aviation</i>	<i>Total</i>
	<i>BD'000</i>	<i>related</i>	<i>BD'000</i>	<i>BD'000</i>	<i>related</i>	<i>BD'000</i>
		<i>assets</i>			<i>assets</i>	
		<i>BD'000</i>	<i>BD'000</i>		<i>BD'000</i>	<i>BD'000</i>
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

8.1 The movement on impairment allowances is as follows:

2022	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
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	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
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

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9 PROPERTY AND EQUIPMENT

	2022						
	<i>Lands BD'000</i>	<i>Buildings BD'000</i>	<i>Fixture and fitting BD'000</i>	<i>Equipment BD'000</i>	<i>Furniture BD'000</i>	<i>Work in progress BD'000</i>	<i>Total BD'000</i>
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							
	<i>Lands BD'000</i>	<i>Buildings BD'000</i>	<i>Fixture and fitting BD'000</i>	<i>Equipment BD'000</i>	<i>Furniture BD'000</i>	<i>Work in progress BD'000</i>	<i>Total BD'000</i>
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
	<u>13,661</u>	<u>14,680</u>
	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	<u>13,661</u>	<u>14,680</u>

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
	<u>16,475</u>	<u>13,092</u>

*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)
	<u>230</u>	<u>361</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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).

13 OTHER LIABILITIES

	2022	2021
	BD'000	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	2021
	BD'000	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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	2021
	BD'000	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

14.2 Assets in which IAH funds were invested

Assets in which IAH funds were invested as at 31 December are as follows:

	2022	2021
	BD'000	BD'000
Asset		
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

14 EQUITY OF INVESTMENT ACCOUNTHOLDERS (continued)**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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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15 OWNERS' EQUITY

	2022 BD'000	2021 BD'000
a. Share capital		
i. <i>Authorised</i>		
2,000,000,000 shares (2021: 2,000,000,000 shares) of BD 0.100 each	200,000	200,000
ii. <i>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:

- a. 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.
- b. Security holder will not have a right to claim the profits and such event will not be considered as an event of default.
- c. Subordinated Mudaraba is invested in a general mudaraba pool of assets on an unrestricted comingled basis.
- d. 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.
- e. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

15 OWNERS' EQUITY (continued)

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.

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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	Percentage of Shareholding	Number of shares	Percentage 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.

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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	2021
	BD'000	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.

17 CAPITAL ADEQUACY (continued)

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	2021
	BD'000	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

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	2021
	BD'000	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%

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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
	<u>49,408</u>	<u>42,439</u>

19 INCOME FROM INVESTMENT IN SUKUK

	2022 BD'000	2021 BD'000
Profit income on investment in Sukuk	11,931	12,386
Gain on sale of Sukuk	710	1,009
	<u>12,641</u>	<u>13,395</u>

20 INCOME FROM INVESTMENT SECURITIES

	2022 BD'000	2021 BD'000
Gain on sale of investment in associates	-	49
Dividend income	30	23
	<u>30</u>	<u>72</u>

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)
	<u>(617)</u>	<u>(793)</u>

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)
	<u>1,984</u>	<u>1,402</u>

23 OTHER 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 remuneration	348	86
Board of directors sitting fees	181	168
Shari'a committee fees & expenses	73	78
Others	2,617	2,383
	<u>11,514</u>	<u>9,686</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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	2021
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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
2022					
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	Total BD'000
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

	2021				
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	Total BD'000
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.

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 Sharia'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.

29 RISK MANAGEMENT (continued)**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.

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.

29 RISK MANAGEMENT (continued)**e. Credit Risk (Continued)***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.

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.

29 RISK MANAGEMENT (continued)

e. Credit Risk (Continued)

(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.

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.

29 RISK MANAGEMENT (continued)**e. Credit Risk (Continued)***vii) Modified exposures subject to credit risk (Continued)*

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.

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:

2022	Properties BD'000	Others BD'000	Total BD'000
Financing assets	473,783	66,034	539,817
Ijarah Muntahia Bittamleek	363,485	2,011	365,496
	<u>837,268</u>	<u>68,045</u>	<u>905,313</u>
2021	Properties BD'000	Others BD'000	Total BD'000
Financing assets	455,912	62,960	518,872
Ijarah Muntahia Bittamleek	326,120	3,577	329,697
	<u>782,032</u>	<u>66,537</u>	<u>848,569</u>

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.

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29 RISK MANAGEMENT (continued)

e. Credit Risk (Continued)

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.

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

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*

- (i) The following table sets out information about the credit quality of exposures subject to credit risk, unless specifically indicated:

	31 December 2022			<i>Total</i>
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3*</i>	
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
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

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29 RISK MANAGEMENT (Continued)**e) Credit Risk (continued)***xi) Credit quality of exposures subject to credit risk (continued)*

	31 December 2022			<i>Total</i>
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3*</i>	
Balances with Banks				
<i>Low risks</i>	15,420	-	-	15,420
<i>Acceptable risks</i>	-	-	-	-
<i>Watch list</i>	-	-	-	-
<i>Non performing</i>	-	-	-	-
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			<i>Total</i>
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	
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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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	Stage 2	Stage 3*	Total
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

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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)

	31 December 2021			Total
	Stage 1	Stage 2	Stage 3*	
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.

(iv) The following table shows the movement in ECL in various stages:

	31 December 2021			Total
	Stage 1	Stage 2	Stage 3	
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

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For the year ended 31 December 2022

29 RISK MANAGEMENT (continued)

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	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	No fixed maturity	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	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 individual	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)

The maturity profile of assets, liabilities and equity of investment accountholders at 31 December 2021 was as follows:

ASSETS	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	No fixed maturity	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
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
Investments 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	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

29 RISK MANAGEMENT (continued)

f. Liquidity risk (continued)

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

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
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%

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f. NET STABLE FUNDING RATIO (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
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	-	-	10,468.32	110,957
OBS items	140,083	-	-	-	7,004
Total RSF	486,608	179,580	109,478	702,609	829,262
NSFR (%)					108.6%

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.

29 RISK MANAGEMENT (continued)**g. Market Risk (continued)****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:

	<i>Equivalent long (short)</i>	<i>Equivalent long (short)</i>
	<i>2022</i>	<i>2021</i>
	<i>BD '000</i>	<i>BD '000</i>
Currency		
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.

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.

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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:

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>
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
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>
2021				
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.

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.