CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

to the Shareholders of Kuwait Finance House (Bahrain) B.S.C. (c)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Kuwait Finance House (Bahrain) B.S.C. (c) ("the Bank") and its subsidiaries (together "the Group") which comprise the consolidated statement of financial position as at 31 December 2022 and the related consolidated statements of income, cash flows, changes in owners' equity and changes in off-balance sheet equity of restricted investment account holders for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and the consolidated results of the operations, its cash flows, changes in owners' equity and changes in off-balance sheet equity of restricted investment account holders for the year then ended in accordance with Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ["AAOIFI"] ("FAS issued by AAOIFI").

In our opinion, the Bank has also complied with the Islamic Shari'a Principles and Rules as determined by the Shari'a Supervisory Board of the Bank during the year under audit.

Basis for opinion

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

Other information included in the Group's 2022 Annual Report

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

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

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

Responsibilities of the Board of Directors for the consolidated financial statements

The Bank's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Bank's Board of Directors.

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

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

to the Shareholders of Kuwait Finance House (Bahrain) B.S.C. (c)

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ASIFI issued by AAOIFI 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 ASIFI issued by AAOIFI, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

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

We communicate with the audit committee 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 audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on Other Regulatory Requirements

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 2), 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 Chairman's Report obtained as at the audit report date is consistent with the consolidated financial statements;
c) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2022 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position; and
d) satisfactory explanations and information have been provided to us by management in response to all our requests.

The partner incharge of the audit resulting in this independent auditors' report is Kazim Merchant.

Ernst + Young

Partner's registration no. 244
23 February 2023
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2022

	Note	2022 BD 000	2021 BD 000
ASSETS			
Cash and balances with banks and Central Bank of Bahrain	6	**78,648**	113,407
Due from banks	7	**45,028**	98,015
Financing contracts	8	**999,251**	1,057,975
Investments in equity	9	**3,419**	7,071
Investments in sukuk	10	**290,034**	355,042
Receivables and other assets	12	**144,993**	203,500
Premises, equipment and right of use assets		**3,707**	4,272
TOTAL ASSETS		**1,565,080**	1,839,282
LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY			
LIABILITIES			
Customers' current accounts		**137,461**	137,769
Due to banks	13	**17,339**	4,433
Due to non-banks		**108,784**	348,455
Other liabilities	15	**19,960**	19,063
TOTAL LIABILITIES		**283,544**	509,720
EQUITY OF INVESTMENT ACCOUNT HOLDERS - QUASI EQUITY			
Banks		**264,155**	201,051
Non-banks and individuals	16	**832,285**	944,433
TOTAL EQUITY OF INVESTMENT ACCOUNT HOLDERS - QUASI EQUITY		**1,096,440**	1,145,484
OWNERS' EQUITY			
Equity attributable to shareholders of the Parent			
Share capital	17	**132,519**	132,519
Statutory reserve	17	**30,405**	27,942
Fair value through equity reserve	17	**-**	1,850
Proposed dividend	17	**22,172**	21,767
		185,096	184,078
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY		**1,565,080**	1,839,282
OFF-BALANCE SHEET			
EQUITY OF RESTRICTED INVESTMENT ACCOUNT HOLDERS		**122,380**	136,710
ASSETS UNDER MANAGEMENT	14	**725,987**	660,739
CONTINGENT LIABILITIES AND COMMITMENTS	19	**57,128**	59,224

Hamad Abdulmohsen AlMarzouq
Chairman of the Board of Directors

Abdulhakeem Yaqoub Alkhayyat
Managing Director and Chief Executive Officer

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

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2022

	Note	2022 BD 000	2021 BD 000
Income from financing contracts	21	**58,328**	60,214
Income from investments	22	**2,650**	1,399
Income from sukuk	23	**14,275**	13,961
Income from due from banks	23	**1,481**	966
Share of loss from associate		**-**	(271)
OPERATING INCOME		**76,734**	76,269
Return on equity of investment account holders (wakala)	11	**(22,062)**	(16,032)
Return on equity of investment account holders (mudaraba) before Group's share as mudarib		**(9,343)**	(10,191)
Group's share as mudarib	16	**8,107**	8,649
Return on equity of investment account holders (mudaraba) after Group's share as mudarib		**(1,236)**	(1,542)
Profit on due to banks and non-banks	26	**(4,395)**	(9,824)
NET OPERATING INCOME		**49,041**	48,871
Staff costs		**12,716**	12,681
Depreciation and amortisation		**1,531**	1,690
(Reversal of) allowance for impairment and credit losses – net	24	**(173)**	1,807
Other expenses	25	**10,332**	9,666
TOTAL OPERATING EXPENSES		**24,406**	25,844
NET INCOME FOR THE YEAR		**24,635**	23,027
Attributable to:			
Shareholders of the Parent		**24,635**	23,020
Non-controlling shareholders		**-**	7
		24,635	23,027

Hamad Abdulmohsen AlMarzouq
Chairman of the
Board of Directors

Abdulhakeem Yaqoub Alkhayyat
Managing Director and
Chief Executive Officer

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Note	2022 BD 000	2021 BD 000
OPERATING ACTIVITIES			
Net income for the year		**24,635**	23,027
Adjustments for:			
Share of loss from investment in associate		**-**	271
Sukuk premium amortisation		**1,606**	1,455
Net (gain) loss on sale of investments	22	**(202)**	424
Foreign exchange gain	22	**(434)**	(530)
Depreciation and amortisation		**1,531**	1,690
(Reversal of) allowance for impairment and credit losses – net	24	**(143)**	1,856
Operating income before changes in operating assets and liabilities		**26,993**	28,193
Changes in operating assets and liabilities:			
Mandatory reserve with Central Bank of Bahrain		**(15,712)**	(4,494)
Financing contracts		**58,090**	(54,580)
Receivables and other assets		**37,016**	19,821
Customers' current accounts		**(308)**	4,655
Due to banks		**12,906**	(104,365)
Due to non-banks		**(239,671)**	(15,593)
Other liabilities		**1,968**	4,068
Net cash flows used in operating activities		**(118,718)**	(122,295)
INVESTING ACTIVITIES			
Disposal of investments - net		**2,215**	-
Decrease (increase) in investment in sukuk - net		**63,392**	(31,756)
Purchase of premises and equipment - net		**(966)**	(1,135)
Transaction costs incurred on the acquisition of non-controlling shareholders		**-**	(528)
Net cash flows from (used in) investing activities		**64,641**	(33,419)
FINANCING ACTIVITIES			
Net movement in equity of investment account holders		**(49,044)**	179,307
Payments of obligation in relation to right-of-use assets		**(638)**	(1,312)
Net cash flows (used in) from financing activities		**(49,682)**	177,995
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(103,759)**	22,281
Cash and cash equivalents at 1 January		**178,285**	156,004
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	27	**74,526**	178,285

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

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2022

	Equity attributable to shareholders of the Parent							
	Share capital	Statutory reserve	Fair value through equity reserve	Retained earnings	Proposed dividend	Total	Non-controlling shareholders	Total owners' equity
	BD 000	BD 000	BD 000	BD 000	BD 000	BD 000	BD 000	BD 000
Balance at 1 January 2022	132,519	27,942	1,850	-	21,767	184,078	-	184,078
Net income for the year	-	-	-	24,635	-	24,635	-	24,635
Other comprehensive income for the year (note 18)	-	-	(1,850)	-	-	(1,850)	-	(1,850)
Total comprehensive income for the year	-	-	(1,850)	24,635	-	22,785	-	22,785
Dividend payout	-	-	-	-	(21,767)	(21,767)	-	(21,767)
Proposed dividend (note 17)	-	-	-	(22,172)	22,172	-	-	-
Transfer to statutory reserve	-	2,463	-	(2,463)	-	-	-	-
Balance at 31 December 2022	**132,519**	**30,405**	**-**	**-**	**22,172**	**185,096**	**-**	**185,096**
Balance at 1 January 2021	132,519	25,640	1,018	311	-	159,488	7,741	167,229
Net income for the year	-	-	-	23,020	-	23,020	7	23,027
Other comprehensive income for the year (note 18)	-	-	832	-	-	832	-	832
Total comprehensive income for the year	-	-	832	23,020	-	23,852	7	23,859
Proposed dividend (note 17)	-	-	-	(21,767)	21,767	-	-	-
Transfer to statutory reserve	-	2,302	-	(2,302)	-	-	-	-
Gain on acquisition of non-controlling shareholders	-	-	-	738	-	738	-	738
Net movement in share of non-controlling shareholders	-	-	-	-	-	-	(7,748)	(7,748)
Balance at 31 December 2021	132,519	27,942	1,850	-	21,767	184,078	-	184,078

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

CONSOLIDATED STATEMENT OF CHANGES IN OFF-BALANCE SHEET EQUITY OF RESTRICTED INVESTMENT ACCOUNT HOLDERS

For the year ended 31 December 2022

	Balance at 1 January 2022	**Additional investments**	**Gross income**	**Mudarib share**	**Withdrawals / distributions**	**Balance at 31 December 2022**
	BD 000	**BD 000**	**BD 000**	**BD 000**	**BD 000**	**BD 000**
Investment in Murabaha	**136,710**	**71,915**	**7,684**	**(1,479)**	**(92,450)**	**122,380**

	Balance at 1 January 2021	Additional investments	Gross income	Mudarib share	Withdrawals / distributions	Balance at 31 December 2021
	BD 000	BD 000	BD 000	BD 000	BD 000	BD 000
Investment in Murabaha	136,710	96,035	9,105	(1,833)	(103,307)	136,710

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

1 CORPORATE INFORMATION AND ACTIVITIES

Kuwait Finance House (Bahrain) B.S.C. (c) (the "Bank") is a closed joint stock company incorporated in the Kingdom of Bahrain on 22 January 2002 under the Bahrain Commercial Companies Law No. 21/2001 and is registered with the Ministry of Industry and Commerce under commercial registration (CR) number 21/2001. The Bank is regulated and supervised by the Central Bank of Bahrain (the "CBB") and has an Islamic retail banking license. The Bank operates under Islamic principles and in accordance with all the relevant regulatory guidelines for Islamic banks issued by the CBB. The address of the Bank's registered office is World Trade Centre, road number 365, Building number 1B, Block 316, P.O. Box 2066, Manama, Kingdom of Bahrain.

The Bank offers a full range of Islamic banking services and products. The activities of the Bank include accepting Shari'a compliant money placements / deposits, managing Shari'a compliant profit sharing investment accounts, offering Shari'a compliant financing contracts, dealing in Shari'a compliant financial instruments as principal / agent, managing Shari'a compliant financial instruments and other activities permitted under the CBB's Regulated Islamic Banking Services as defined in the licensing framework.

The Bank is a wholly owned subsidiary of Kuwait Finance House K.S.C.P. (the "Ultimate Parent"), a public company incorporated in the State of Kuwait and listed at the Kuwait Stock Exchange. The Ultimate Parent is regulated and supervised by the Central Bank of Kuwait. The Bank's Shari'a Supervisory Board is entrusted to ensure the Group's adherence to Shari'a rules and principles in its transactions and activities.

The Bank and its subsidiaries (together the "Group") operate in the Kingdom of Bahrain and Hashemite Kingdom of Jordan. KFH Jordan is a key subsidiary (wholly owned by the Bank which was incorporated in the Hashemite Kingdom of Jordan in 2007) is engaged in real estate related activities along with its subsidiaries.

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

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors passed on 7 February 2023.

2 BASIS OF PREPARATION

2.1 Accounting convention

The consolidated financial statements have been prepared under the historical cost basis, except for assets and liabilities that are measured at fair value. The consolidated financial statements are presented in Bahraini Dinars ("BD") being the functional currency of the Bank and the reporting currency of the Group. All the values are rounded off to the nearest BD thousand, unless otherwise indicated.

2.2 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI"), the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank, the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives. The consolidated financial statements for the year ended 31 December 2021 were prepared in accordance with FAS issued by AAOIFI as modified by CBB. The transition from "FAS as issued by AAOIFI as modified by CBB" to "FAS issued by AAOIFI" has not resulted in any changes to the previously reported numbers in the consolidated statement of financial position as of 1 January 2021 and 31 December 2021, and the consolidated statement of income, cash flows, changes in owners' equity, changes in off-balance sheet equity of restricted investment accounts holders for the year ended 31 December 2021. For matters not covered by FAS, the Group uses the relevant International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

2 BASIS OF PREPARATION (continued)

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies.

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

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and continue to be consolidated until the date when such control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed off during the year, if any, are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate. A change in the Group's ownership of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Share of non-controlling shareholders represents the portion of net income and net assets not held by the Group and are presented separately in the consolidated statement of income and within owner's equity in the consolidated statement of financial position, separately from the equity attributable to shareholders of the Parent. Transactions with the non-controlling shareholders are handled in the same way as transactions with external parties.

3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements. The most significant uses of judgments and estimates are as follows:

3.1 Going concern

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

3.2 Fair value of unquoted equity securities

Fair value is determined for each investment individually in accordance with the valuation policies set out in note 4.22 and note 31. Where the fair values of the Group's unquoted equity securities cannot be derived from an active market, they are derived using a variety of valuation techniques. Judgment by management is required to establish fair values through the use of appropriate valuation models, consideration of comparable assets, discount rates and the assumptions used to forecast cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

3.3 Impairment of financing contracts

In determining impairment on financing contracts, judgment is required in the estimation of the amount and timing of future cash flows. Further, assessment is also required of whether credit risk on the financial contract has increased significantly since initial recognition or the default has occurred and also the incorporation of forward-looking information in the measurement of expected credit losses ("ECL").

3.4 Impairment of investments at fair value through equity

The Group treats investments carried at fair value through equity as impaired when there is a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Group evaluates factors, such as the historical share price volatility for comparable quoted equities and future cash flows and the discount factors for comparable unquoted equities.

3.5 Estimation of net realisable value ("NRV") for land and development cost and repossessed assets

Land and development cost and repossessed assets are carried at the lower of their carrying value and expected fair value less costs to sell (i.e. net realisable value). The fair value is determined by independent real estate valuation experts based on appropriate valuation methods taking into consideration local market conditions existing at the reporting date.

3.6 Liquidity

The Group manages its liquidity through consideration of the maturity profile of its assets, liabilities and equity of investment account holders which is set out in the maturity profile in note 32 and liquidity risk disclosures in note 33.3. This requires judgment when determining the maturity of assets and liabilities with no specific maturities.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

4.1 Adoption of new and amended standards and interpretations

FAS 37 Financial Reporting by Waqf Institutions

AAOIFI issued FAS 37 "Financial Reporting by Waqf Institutions" in 2020. The objective of the standard is to establish principles of financial reporting by Waqf institutions, which are established and operated in line with Shari'a principles and rules. This standard shall be effective for the financial periods beginning on or after 1 January 2022 with early adoption permitted.

The Board of Directors does not expect the above accounting standard to have an impact on the consolidated financial statements of the Group.

FAS 38 Wa'ad, Khiyar and Tahawwut

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1 Adoption of new and amended standards and interpretations (continued)

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

This standard applies to accounting and financial reporting for all transactions involving Wa'ad, Khiyar or Tahawwut arrangements carried out under Shari'a principles and rules. The standard categorises Wa'ad and Khiyar into the following types:

a) ancillary Wa'ad or Khiyar–where the Wa'ad or Khiyar is associated with a Shari'a compliant arrangement, and is related to the structure of the transaction, e.g. a promise by the purchase orderer (potential buyer) attached to a Murabaha transaction, or a promise to purchase after the end of the Ijarah term in an Ijarah Muntahia Bittamleek transaction, or the option of seeing (i.e. inspecting) in a sale transaction; and

b) product Wa'ad or Khiyar–where the Wa'ad or Khiyar is used as a stand-alone Shari'a compliant arrangement in itself e.g. foreign exchange forward promise or an option of cancellation of sale with Arboun.

For ancillary Wa'ad or Khiyar, at the end of each financial reporting period, the Group assesses whether any of the ancillary Wa'ad or Khiyar, in either capacity of a promiser or promisee, has turned into an onerous contract or commitment. Onerous contract or commitment is accounted for in line with the requirements of FAS 30 "Impairment, Credit Losses and Onerous Commitments".

For product Wa'ad or Khiyar, the Group is required to account for any obligation or rights arising from such arrangement and subsequently, at each reporting period, the carrying amount of the recognized constructive obligation or rights shall be reviewed and necessary adjustments shall be made. Any gains or losses shall be taken to the statement of income unless these pertain to a Tahawwut (hedging) arrangement.

The adoption of the above accounting standard did not have a material impact on the consolidated financial statements.

4.2 New standards, amendments and interpretations issued but not yet effective

FAS 39 Financial Reporting for Zakah

AAOIFI issued FAS 39 "Financial Reporting for Zakah" in 2021. The objective of the standard is to establish principles of financial reporting of Zakah, attributable to different stakeholders of an Islamic financial institution. This standard shall be effective for the financial periods beginning on or after 1 January 2023 with early adoption permitted. The Board of Directors does not expect the above accounting standard to have an impact on the consolidated financial statements of the Group.

FAS 40 Financial Reporting for Islamic Finance Windows

AAOIFI issued FAS 40 "Financial Reporting for Islamic Finance Windows" in 2021. The objective of this standard is to establish financial reporting requirements for Islamic financial services offered by conventional financial institution (in form of Islamic finance window). This standard shall be effective for the financial periods beginning on or after 1 January 2024 with early adoption permitted. The Board of Directors does not expect the above accounting standard to have an impact on the consolidated financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.2 New standards, amendments and interpretations issued but not yet effective (continued)

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

The revised FAS 1 “General Presentation and Disclosures in the Financial Statements” describes and improves the overall presentation and disclosure requirements prescribed in line with the global best practices and supersedes the earlier FAS 1. The Islamic financial institutions are required to publish periodic financial statements to satisfy the common information needs of the users, as described in the conceptual framework. This standard sets out the overall requirements for presentation of financial statements and a recommended structure of financial statements that facilitate faithful presentation in line with Shari’a principles and rules and comparability with the institution’s financial statements of previous periods, and the financial statements of other institutions. This standard shall be effective on the financial statements of the institutions beginning on or after 1 January 2023. Early adoption of the standard is permitted. The Board of Directors does not expect the above accounting standard to have an impact on the consolidated financial statements of the Group.

4.3 Financial assets and impairment

a) Financial assets

Financial assets consist of cash balances with banks and the Central Bank of Bahrain, Due from banks, Investment in equity, Investment in sukuk, Murabaha financing (net of deferred profits), Ijarah Muntahia Bittamleek, Receivables and other assets, financing commitments and financial guarantee contracts. Balances relating to these contracts are stated net of impairment and allowance for credit losses.

b) Impairment assessment

Impairment of financial assets

The Group applies three-stage approach to measure ECL on financial assets carried at amortised cost. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: Twelve months ECL

For exposures where there has not been a Significant Increase in Credit Risk (“SICR”), since initial recognition, a portion of the lifetime ECL associated with the probability of default events occurring within next twelve months is recognised.

Twelve-month ECL (Stage 1) is the portion of ECL that results from probable default events on a financial contract within twelve months after the reporting date.

Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a SICR since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

Lifetime ECL (Stage 2) is a probability-weighted estimate of credit losses and is determined based on the difference between the present value of all cash shortfalls. The cash shortfall is the difference between all contractual cash flows that are due to the Group and the present value of the recoverable amount, for financial assets that are not credit-impaired at the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Financial assets and impairment (continued)

b) Impairment assessment (continued)

Stage 3: Lifetime ECL – credit impaired

Financial contracts are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.

For Stage 3 financial contracts, the allowance for credit-impairment are determined based on the difference between the net carrying amount and the recoverable amount of the financial contract.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event; and
- probability that the borrower will enter bankruptcy or other financial reorganization.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of a provision account and the amount of the loss is recognised in the consolidated statement of income.

Financing contracts together with the associated provisions are written off when there is no realistic prospect of future recovery and collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced in the consolidated statement of income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective profit rate. If a financial asset has a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable.

Measurement of ECL

The key inputs into the measurement of ECL are the following variables.

- Probability of Default (PD);
- Loss Given Default (LGD); and
- Exposure At Default (EAD).

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

Probability of default

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. The Group employs statistical models for analysing the data collected and generate estimates of 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 changes in key macro-economic factors, across various geographies in which the Bank has taken exposures. For most exposures, the key macro-economic indicators include gross domestic product (GDP) growth, real interest rates, oil prices and equity prices.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Financial assets and impairment (continued)

b) Impairment assessment (continued)

Stage 3: Lifetime ECL – credit impaired (continued)

Incorporation of forward - looking information

The Group employs statistical models to incorporate macro-economic factors on historical default rates. In case none of the macro-economic parameters are statistically significant or the results of forecasted PDs are significantly deviated from the present forecast for the economic conditions, quantitative PD overlay shall be used by the management after analyzing the portfolio.

Incorporating forward-looking information increases the level of judgment as to how changes in these macroeconomic factors will affect the ECL applicable to the stage 1 and stage 2 exposures which are considered as performing (Stage 3 are the exposures under default category). The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically.

Loss Given Default

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 and collaterals held, based on historical data using both internal and external factors including hair cuts.

Exposure At Default

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 amounts allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For financing commitments and financial guarantees, the EAD is converted to consolidated statement of financial position equivalents. The EAD is estimated using the outstanding exposure adjusted by CCF times undrawn portion of the facilities. In case of financial guarantee, EAD is estimated as CCF times the committed amount. The outstanding exposure is equivalent to the principal outstanding. The undrawn portion refers to the portion of the unutilized credit limit.

Significant Increase in Credit Risk

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

The criteria for determining whether credit risk has increased significantly vary on a portfolio level and include quantitative and qualitative factors, including days past due and risk rating.

Restructured financial assets

The contractual terms of a financing contract may be modified for a number of reasons including changing market conditions, and other factors not related to the current or potential credit deterioration of a customer.

The Group considers restructured financing to customers due to financial difficulties as one of the reasons for determining the significant increase in credit risk. This may involve extending the payment arrangements and documenting the agreement of new conditions for providing finance. Management continuously reviews restructured facilities to ensure that all criteria are met and that future payments are likely to occur.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Financial assets and impairment (continued)

b) Impairment assessment (continued)

Backward transition

FAS 30 staging model is of symmetrical nature as exposures may migrate from lifetime ECL measurement (Stage 2 and Stage 3) to 12 month ECL measurement (Stage 1). Once such indicators are no longer triggered, movement back to Stage 1 or Stage 2 are subject to certain criteria such as cooling off period, SICR indicators and payment history, where applicable.

Write-offs

Financing contracts are written-off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written-off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Presentation of allowance for impairment and expected credit losses in the consolidated statement of financial position

Allowance for impairment and expected credit losses are presented in the consolidated statement of financial position as follows:

- financial assets measured at amortised cost, as a deduction from the gross carrying amount of the assets; and
- financing commitments and financial guarantee contracts: generally as a provision in other liabilities.

4.4 Foreign currency translation

The consolidated financial statements are presented in Bahraini Dinars, which is the Bank's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(i) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency using the rate of exchange prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the date of the consolidated statement of financial position. All differences are taken to the consolidated statement of income with the exception of all monetary items that provide an effective protection for a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are recognised in the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial recognition. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Exchange gains and losses on non-monetary items classified as "fair value through statement of income" are taken to the consolidated statement of income and for items classified as "fair value through equity" such differences are taken to other comprehensive income. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.4 Foreign currency translation (continued)

(ii) Group companies

As at the reporting date, the assets and liabilities of subsidiaries are translated into the Group's presentation currency (Bahraini Dinars) at the rate of exchange prevailing at the date of the consolidated statement of financial position, and their statements of income are translated at the average exchange rates for the year. Exchange differences arising on translation are recognised in other comprehensive income. On disposal of a foreign subsidiary, the cumulative amount recognised in other comprehensive income relating to that particular foreign subsidiary is recognised in the consolidated statement of income.

4.5 Financial instruments - initial recognition and subsequent measurement

Date of recognition

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. All financial assets and liabilities are initially recognised on the trade date, i.e. the date that the Group becomes a party to the contractual provisions of the instrument.

Initial and subsequent measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets recorded at fair value through statement of income.

(i) Due from banks

Murabahas are international commodity murabaha transactions. The Bank arranges a murabaha transaction by buying a commodity (which represents the object of the murabaha) and then resells this commodity to the beneficiary murabeh (after computing a profit margin). The sale price (cost plus the profit margin) is paid either lump sum at maturity or in installments by the murabeh over the agreed period.

Murabaha with banks are stated net of deferred profits and provision for impairment, if any. Wakala with banks are stated at cost less provision for impairment, if any.

(ii) Financing contracts

(a) Murabaha

Murabaha represents the sale of goods at cost plus an agreed profit. Murabaha receivables are stated net of deferred profits, any amounts written off and provision for impairment, if any. Promise made in the murabaha to the purchase orderer is not obligatory upon the customer.

(b) Ijarah Muntahia Bittamleek

Ijarah Muntahia Bittamleek mainly comprise of land and buildings and certain other assets. Ijarah Muntahia Bittamleek is a lease whereby the legal title of the leased asset passes to the lessee at the end of the ijarah (lease term), provided that all ijarah installments are settled.

Assets under Ijarah Muntahia Bittamleek are initially recognised at cost and subsequently depreciated at rates calculated to write off the cost of each asset over its useful life to its residual value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.5 Financial instruments - initial recognition and subsequent measurement (continued)

(iii) Investments

The Group classifies its investments at either (i) amortised cost, (ii) fair value through equity or (iii) fair value through income statement, on the basis of both the Group's business model for managing investments and the expected cash flow characteristics of the investment in line with the nature of the underlying Islamic contracts.

Recognition and Initial measurement

All investment are initially recognized at cost plus transaction costs except for investments at fair value through income statement. Transaction costs relating to investments at fair value through income statement are charged to the consolidated statement of income when incurred.

Subsequent measurement

a) Investments at amortised cost

Investments carried at amortised cost are re-measured as such using the effective profit rate method. All gains or losses arising from the amortization process and those arising from de-recognition or impairment of the investment, are recognized in the consolidated statement of income. Investment carried at amortised cost is tested for impairment at each reporting period in accordance with FAS 30 "Impairment, credit losses and onerous commitments".

b) Investments at fair value through income statement

Investments carried at fair value through income statement are re-measured at fair value at end of each reporting period. The resultant remeasurement gain or loss, if any being the difference between the carrying amount and the fair value is recognized in the consolidated statement of income.

c) Investments at fair value through equity

Investments carried at fair value through equity are re-measured at fair value at the end of each reporting period. The resultant re-measurement gain or loss, if any, being the difference between the carrying amount and the fair value is directly recognized in equity under "fair value through equity reserve". Investment carried at fair value through equity is tested for impairment at each reporting period in accordance with FAS 30 "Impairment, credit losses and onerous commitments".

Reclassification

When, and only when, the Group changes its business model for managing investments, it reclassifies all affected financial assets prospectively from the reclassification date. In case of reclassification, the Group does not restate any previously recognized gains, losses (including impairment gains or losses) or returns/ profits.

(iv) Equity of investment account holders

Equity of investment account holders is invested in cash, balances with banks and Central Bank of Bahrain, due from banks, sukuk and financing contracts. No priority is granted to any party for the purpose of distribution of profits. According to the terms of acceptance of the investment account holders funds, 100% of these funds are invested after deductions of mandatory reserve and sufficient operational cash requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.5 Financial instruments - initial recognition and subsequent measurement (continued)

(iv) Equity of investment account holders (continued)

Equity of investment account holders is carried at fair value of consideration received less amounts settled. Expenses are allocated to investment accounts in proportion of average equity of investment account holders to average assets, however, investment related expenses and assets are excluded.

Income is allocated proportionately between equity of investment account holders and owners' equity on the basis of the average balances outstanding during the year and share of the funds invested.

4.6 Derecognition of financial assets and financial 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 where:

- the rights to receive cash flows from the asset have expired; 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; or
- 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 assets, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset 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.

4.7 Impairment of financial assets

(i) Financial assets carried at amortised cost

The Group applies three-stage approach to measure ECL on financial assets carried at amortised cost as required by FAS 30 with ECL model explained above.

(ii) Investments at fair value through equity

For investments at fair value through equity, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as "fair value through equity", objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value less any impairment loss on that investment previously recognised is removed from fair value through equity reserve and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value subsequent to impairment are recognised directly in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.8 Offsetting financial instruments

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable or religious 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.

4.9 Recognition of income and expense

(i) Income recognition

(a) Murabaha

Where the income is quantifiable and contractually determined at the commencement of the contract, income is recognised on a time-apportioned basis over the period of the contract based on the principal amounts outstanding. Accrual of income is suspended when the Group believes that the recovery of these amounts may be doubtful.

(b) Ijarah Muntahia Bittamleek

Ijarah income is recognised on a time-apportioned basis, net of depreciation, over the lease term. Accrual of income is suspended when the Group believes that the recovery of these amounts may be doubtful.

(c) Dividends

Dividends from investments in equity securities are recognised when the right to receive the payment is established.

(d) Fees and commission income

Fees and commission income is recognised when earned.

(e) Revenue from sale of real estate

Revenue on sale of real estate is recognised when all of the following conditions are met:

- A sale is consummated and contracts are signed;
- The buyer's investment, as of the date of financial statements, is adequate (25% and above) to demonstrate a commitment to pay for the property; and
- The Group has transferred to the buyer the risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property.

Where property is under development and agreement has been reached to sell such property when construction is complete, the Group considers whether the contract comprises:

- contract to construct a property; or
- contract for the sale of a completed property.

Where a contract is determined to be a construction contract, revenue is recognised using the percentage of completion method as construction progresses. The percentage of work completed is measured based on the costs incurred up until the end of the reporting period as a proportion of total costs expected to be incurred.

Where the contract is judged to be for the sale of a completed property, revenue is recognised when the significant risks and rewards of ownership of the property are transferred to the buyer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.9 Recognition of income and expense (continued)

(i) Income recognition (continued)

(f) Service income

Revenue from rendering of services is recognised when the services are rendered.

(g) Group's share as a mudarib

The Group's share as a mudarib for managing the equity of investment account holders is accrued based on the terms and conditions of the related mudaraba agreements whereas, for off balance sheet equity of investment account holders, mudarib share is recognised when distributed.

(ii) Expense recognition

(a) Profit on due to banks and non-banks.

Profit on these is accrued on a time-apportioned basis over the period of the contract based on the principal amounts outstanding.

(b) Return on equity of investment account holders

Return on equity of investment account holders is based on the income generated from jointly financed assets after deducting mudarib share (in case of mudaraba contracts) and is accrued based on the terms and conditions of the underlying mudaraba or wakala agreement. Investor's share of income represents income generated from assets financed by investment account holders net of allocated operating expenses. The Group's share of profit is deducted from the investors' share of income before distribution to investors.

4.10 Investment in associates

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Investment in associate is accounted for using the equity method of accounting. Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised nor individually tested for impairment.

After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in the associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated statement of income.

The consolidated statement of income reflects the share of the results of operations of the associate. Where there has been an income or expense recognised in the other comprehensive income of the associate, the Group recognises its share of any such income or expense, when applicable, in other comprehensive income. Gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of stake in the associate.

The reporting dates of the associates and the Group are identical and their accounting policies conform to those used by the Group for like transactions and events in similar circumstances. In case of any difference in the associates' accounting policies, their results are adjusted to bring them in line with the Group accounting policies.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.11 Premises and equipment

Premises and equipment are stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value, if any.

Depreciation is calculated using the straight-line method to write down the cost of premises and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

	Years
Premises	20
Hardware, software and equipment	3 - 7
Motor vehicles and office furniture	5 - 7

An item of premises and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the consolidated statement of income in the year the asset is derecognised.

4.12 Impairment of non-financial assets

The Group assesses at each reporting date or more frequently whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. Impairment losses relating to goodwill cannot be reversed for subsequent increase in its recoverable amount in future periods.

4.13 Financial guarantees

In the ordinary course of business, the Group provides financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recorded in the consolidated statement of financial position at fair value in “other liabilities” being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the unamortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recognised in the consolidated statement of income. The premium received is recognised in the consolidated statement of income on a straight line basis over the life of the guarantee.

4.14 Allowance for impairment and credit losses

Allowance for impairment and credit losses are also 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.15 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). CODM is a person or group that allocates resources to and assesses the performance of the operating segments of the Bank. The Bank has determined the Managing Director and Chief Executive Officer as its CODM.

4.16 Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with banks and the Central Bank of Bahrain (excluding mandatory reserve) and due from banks with original maturity of 90 days or less.

4.17 Employees' end of service benefits

Provision is made for leaving indemnity payable under the Bahraini Labor Law applicable to non-Bahraini employees' accumulated periods of service at the consolidated statement of financial position date.

Bahraini employees of the Group are covered by contributions made to the Social Insurance Organisation ("SIO") as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due. For Bahrainis with basic salaries above a certain threshold, the Bank recognises leaving indemnity in line with the requirements of Bahrain Labour Law.

4.18 Off-balance sheet equity of investment account holders

Off-balance sheet equity of investment account holders represents funds received by the Bank on the basis of mudaraba to be invested in specified products as directed by the investment account holders. The assets funded by these funds are managed in a fiduciary capacity by the Bank for which the Bank earns mudarib share which is disclosed as part of "income from financing contracts". These assets are not included in the consolidated statement of financial position as the Group does not have the right to use or dispose off them except within the conditions laid down in the underlying mudaraba contract. Off-balance sheet equity of investment account holders is included in a separate statement in the consolidated financial statements of the Group.

4.19 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 transferred to charity.

4.20 Inventories

Inventories are carried at the lower of cost and net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and an allowance applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

4.21 Repossessed assets

Repossessed assets are real estate assets acquired in settlement of financing contracts with customers. These assets are carried at the lower of carrying amount and fair value less costs to sell and reported within "receivables and other assets" in the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.22 Fair value of financial instruments

The Group measures financial instruments and non-financial assets such as investment in real estate, at fair value at the reporting date. Fair values of financial instruments are disclosed in note 31.

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

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Observable data used along with the Group's approach to determining fair values of financial instruments and quantitative disclosure are disclosed in note 31.

4.23 Taxation

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on overseas operations is provided for in accordance with the fiscal regulations of the respective countries in which the Group operates and is included in the accompanying consolidated statement of income under "other operating expenses".

4.24 Zakah

In accordance with the instructions of the Shari'a Supervisory Board of the Bank, payment of Zakah is the responsibility of the shareholders of the Bank. Accordingly, no Zakah has been charged to these consolidated financial statements.

4.25 Cross currency swap

Cross currency swap ("Islamic derivative financial instruments") are used to mitigate foreign currency risk. They are initially recognised and subsequently measured in the consolidated statement of financial position at fair value. The fair value of this instrument include unrealized gain or loss from marking to market the instrument using prevailing market rates or internal pricing models. The instrument with positive market value (unrealised gain) is included in other assets and the instrument with negative market value (unrealised loss) is included in other liabilities in the consolidated statement of financial position. Any gain or loss arising from changes in the fair value of this instrument is taken directly to the consolidated statement of income.

4.26 Provision for onerous contract or commitment to acquire an asset

The Group will recognize provision when the Group is obligated to acquire an asset under a future commitment or contracts permissible to be entered in the future, and it is expected that the obligation under the contract or commitment is higher than the economic benefits expected to flow through acquisition of such asset. In such situation, the Group will create a provision on this account reflecting the expected losses arising on such transaction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

5 CLASSIFICATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

The Group's financial instruments have been classified in accordance with their measurement basis as follows:

	Financial assets at fair value through statement of income BD 000	Financial assets at fair value through equity BD 000	Financial assets at amortised cost BD 000	Financial liabilities at at amortised cost BD 000	Total BD 000
At 31 December 2022					
ASSETS					
Cash and balances with banks and Central Bank of Bahrain	-	-	**78,648**	-	**78,648**
Due from banks	-	-	**45,028**	-	**45,028**
Financing contracts	-	-	**999,251**	-	**999,251**
Investments	-	**3,419**	-	-	**3,419**
Investment in sukuk	-	-	**290,034**	-	**290,034**
Receivables and other assets	-	-	**90,993**	-	**90,993**
	-	**3,419**	**1,503,954**	-	**1,507,373**
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS					
Customers' current accounts	-	-	-	**137,461**	**137,461**
Due to banks	-	-	-	**17,339**	**17,339**
Due to non-banks	-	-	-	**108,784**	**108,784**
Other liabilities	-	-	-	**18,588**	**18,588**
Equity of investment account holders	-	-	-	**1,096,440**	**1,096,440**
	-	-	-	**1,378,612**	**1,378,612**
At 31 December 2021					
ASSETS					
Cash and balances with banks and Central Bank of Bahrain	-	-	113,407	-	113,407
Due from banks	-	-	98,015	-	98,015
Financing contracts	-	-	1,057,975	-	1,057,975
Investments		7,071	-	-	7,071
Investment in sukuk	-	-	355,042	-	355,042
Receivables and other assets	-	-	148,921	-	148,921
		7,071	1,773,360	-	1,780,431
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS					
Customers' current accounts	-	-	-	137,769	137,769
Due to banks	-	-	-	4,433	4,433
Due to non-banks	-	-	-	348,455	348,455
Other liabilities	157	-	-	17,011	17,168
Equity of investment account holders	-	-	-	1,145,484	1,145,484
	157	-	-	1,653,152	1,653,309

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

6 CASH AND BALANCES WITH BANKS AND CENTRAL BANK OF BAHRAIN

	Note	2022 BD 000	2021 BD 000
Cash		**11,422**	10,903
Balances with banks		**7,524**	10,231
Balance with CBB		**10,403**	58,686
CBB mandatory reserve	6.1	**49,300**	33,588
		78,649	113,408
Less: allowance for credit losses		**(1)**	(1)
	.	**78,648**	113,407

6.1 This mandatory reserve is not available for use in the Group's day to day operations.

7 DUE FROM BANKS

	2022 BD 000	2021 BD 000
Murabaha	**12,369**	45,784
Wakala	**32,808**	52,681
	45,177	98,465
Less: allowance for credit losses	**(149)**	(450)
	45,028	98,015

7.1 Under the above wakala arrangement, the agent pays the Bank a profit, when realised, equivalent to the expected profit rate stated in the respective wakala offer and anything beyond this rate goes to the agent as an incentive.

7.2 Due from banks carry profit rates ranging from 0.70% to 5.48% per annum (2021: 0.15% to 1.20% per annum).

8 FINANCING CONTRACTS

The table below shows the financing contracts by stage and type of facility:

	31 December 2022		
	Murabaha BD 000	Ijarah Muntahia Bittamleek BD 000	Total BD 000
Stage 1: 12-month ECL	**365,464**	**506,863**	**872,327**
Stage 2: Lifetime ECL not credit-impaired	**20,447**	**110,393**	**130,840**
Stage 3: Lifetime ECL credit-impaired	**8,840**	**5,528**	**14,368**
	394,751	**622,784**	**1,017,535**
Less: allowance for impairment and credit losses	**(9,597)**	**(8,687)**	**(18,284)**
	385,154	**614,097**	**999,251**

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8 FINANCING CONTRACTS (continued)

	31 December 2021		
	Murabaha BD 000	Ijarah Muntahia Bittamleek BD 000	Total BD 000
Stage 1: 12-month ECL	436,946	482,259	919,205
Stage 2: Lifetime ECL not credit-impaired	18,374	126,197	144,571
Stage 3: Lifetime ECL credit-impaired	11,323	3,278	14,601
	466,643	611,734	1,078,377
Less: allowance for impairment and credit losses	(12,053)	(8,349)	(20,402)
	454,590	603,385	1,057,975

The table below shows the days past due for the financing contracts. The amounts presented are gross of impairment allowances.

	31 December 2022			
	Stage 1: 12-month ECL BD 000	**Stage 2: Lifetime ECL not credit-impaired BD 000**	**Stage 3: Lifetime ECL credit-impaired BD 000**	**Total BD 000**
Not past due	**831,086**	**105,288**	**1,781**	**938,155**
1 to 89 days past due	**41,241**	**25,552**	**211**	**67,004**
90 days or more past due	**-**	**-**	**12,376**	**12,376**
	872,327	**130,840**	**14,368**	**1,017,535**
Less: allowance for impairment and credit losses	**(8,240)**	**(8,463)**	**(1,581)**	**(18,284)**
	864,087	**122,377**	**12,787**	**999,251**

	31 December 2021			
	Stage 1: 12-month ECL BD 000	Stage 2: Lifetime ECL not credit-impaired BD 000	Stage 3: Lifetime ECL credit-impaired BD 000	Total BD 000
Not past due	913,481	141,809	554	1,055,844
1 to 89 days past due	5,724	2,762	17	8,503
90 days or more past due	-	-	14,030	14,030
	919,205	144,571	14,601	1,078,377
Less: allowance for impairment and credit losses	(13,248)	(4,358)	(2,796)	(20,402)
	905,957	140,213	11,805	1,057,975

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

8 FINANCING CONTRACTS (continued)

The movement in allowance for credit losses on financing contracts during the year is as follows:

	Stage 1: 12-month ECL BD 000	Stage 2: Lifetime ECL not credit-impaired BD 000	Stage 3: Lifetime ECL credit-impaired BD 000	Total BD 000
Balance at 1 January 2022	13,248	4,358	2,796	20,402
- transferred to Stage 1: 12-month ECL	256	(214)	(42)	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(19)	34	(15)	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(7)	(59)	66	-
Net remeasurement of loss allowance	(5,238)	4,344	1,528	634
Allowance for credit losses	(5,008)	4,105	1,537	634
Amounts written off during the year	-	-	(2,752)	(2,752)
Balance at 31 December 2022	8,240	8,463	1,581	18,284

	Stage 1: 12-month ECL BD 000	Stage 2: Lifetime ECL not credit-impaired BD 000	Stage 3: Lifetime ECL credit-impaired BD 000	Total BD 000
Balance at 1 January 2021	6,799	9,957	2,144	18,900
- transferred to Stage 1: 12-month ECL	7,468	(7,096)	(372)	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(115)	115	-	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(1)	(2)	3	-
Net remeasurement of loss allowance	(903)	1,384	1,144	1,625
Allowance for credit losses	6,449	(5,599)	775	1,625
Amounts written off during the year	-	-	(123)	(123)
Balance at 31 December 2021	13,248	4,358	2,796	20,402

8.1 The movement in deferred profit from murabaha contracts during the year is as follows:

	2022 BD 000	2021 BD 000
Deferred profit at the beginning of the year	44,700	38,913
Murabaha Sales revenue during the year	1,228,527	1,117,569
Murabaha Cost of Sales	1,156,864	1,049,500
	71,663	68,069
Deferred profit collected during the year	(39,784)	(19,470)
Deferred profit settled during the year	(33,742)	(42,812)
Deferred profit at the end of the year	42,837	44,700

8.2 Ijarah Muntahia Bittamleek mainly comprise of land and building. The breakup of the balance is as follows:

	2022 BD 000	2021 BD 000
Ijarah Muntahia Bittamleek - cost	704,016	682,522
Less: accumulated depreciation	(89,831)	(83,764)
Ijarah Muntahia Bittamleek- net assets	614,185	598,758
Ijarah Muntahia Bittamleek- receivables	8,599	12,976
	622,784	611,734
Less: allowance for impairment and credit losses	(8,687)	(8,349)
	614,097	603,385

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8 FINANCING CONTRACTS (continued)

8.3 During the year, properties amounting to BD 1,767 thousand were repossessed as part of financing settlement (2021 : Nil). These were classified as repossessed assets in the receivables and other assets.

8.4 During the year, the Bank entered into a securitisation arrangement as a result of which the Bank derecognised BD 10,000 thousand of its financing portfolio (2021: BD 4,650 thousand).The Bank continues to manage such portfolio for a fee which is being recognised in the consolidated statement of income. As at 31 December 2022, financing portfolio outstanding under the securitisation program being managed by the Bank amounted to BD 20,000 thousand (31 December 2021: BD 10,000 thousand).

9 INVESTMENTS IN EQUITY

	2022 BD 000	2021 BD 000
Fair value through equity investments		
Quoted equity securities	-	2,423
Unquoted equity securities	3,419	4,648
	3,419	7,071

The movement of investments carried at fair value through equity during the year is as follows:

	2022 BD 000	2021 BD 000
At 1 January	7,071	6,861
Disposals / capital repayments during the year	(2,858)	(622)
Fair value changes	(794)	832
At 31 December	3,419	7,071

The industry composition of the Group's investment portfolio is as shown in the table below. All of these investments are in the Middle East.

	2022 BD 000	2021 BD 000
Banking and financial services	1,030	4,206
Others	2,389	2,865
	3,419	7,071

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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10 INVESTMENTS IN SUKUK

	Note	2022 BD 000	2021 BD 000
Quoted sukuk			
Government		**211,206**	210,903
Unquoted sukuk			
Government		**75,043**	140,344
Others		**3,798**	3,798
		290,047	355,045
Less: allowance for credit losses		**(13)**	(3)
	10.1	**290,034**	355,042

10.1 Fair value of investments in sukuk as at 31 December 2022 amounted to BD 284,852 thousand (2021: BD 363,861 thousand).

10.2 All sukuk investments are classified as debt-type instruments.

11 FUNDS UNDER WAKALA ARRANGEMENT

The Group has the below Wakala funds which are received from different fund providers and are reinvested by the Group in it's capacity as Wakeel under multi-level investment arrangements into unrestricted investment accounts with the Group. Under those Wakala agreements, the Group agrees a target rate with the fund providers and any rate beyond that is considered as incentive fee for the Group. Currently, all the below Wakala arrangements are reinvested and maintained under Unrestricted Investment Account. All expenses incurred with relation to Wakala funds are borne by the fund providers. The Group does not charge mudarib fee on these funds.

	2022 BD 000	2021 BD 000
Banks	**264,155**	105,866
Parent - subordinated wakala	**-**	95,185
Individuals	**558,844**	637,440
	822,999	838,491

The movement of Wakala funds during the year is as follows:

	2022 BD 000	2021 BD 000
At 1 January	**838,491**	656,161
Additions during the year	**418,342**	379,984
Income during the year	**40,754**	36,080
Less: expenses charged during the year	**(13,112)**	(10,883)
Less: incentive fee	**(5,580)**	(9,165)
Distributions to wakala holders	**(22,062)**	(16,032)
Withdrawals	**(411,772)**	(181,622)
At 31 December	**822,999**	838,491

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

12 RECEIVABLES AND OTHER ASSETS

	Note	2022 BD 000	2021 BD 000
Land and development cost		**20,119**	19,710
Fees receivable		**1,159**	490
Project expenses receivable		**83**	83
Mudarib share receivable		**187**	248
Repossessed assets		**30,813**	31,806
Trade receivables of subsidiaries		**274**	753
Prepaid expenses		**1,005**	1,403
Receivables relating to disposal of investments	12.2	**87,223**	144,905
Receivables from corporate customers		**1,299**	1,761
Other assets		**3,668**	2,801
		145,830	203,960
Allowance for impairment and credit losses	12.1	**(837)**	(460)
		144,993	203,500

12.1 The movement in allowance for impairment and credit losses on receivables and other assets is as follows:

	Note	2022 BD 000	2021 BD 000
At 1 January		**460**	404
Charge for the year	24	**377**	56
At 31 December		**837**	460

12.2 This represents a receivable of BD 86,570 thousand (2021: BD 144,905 thousand) due from a related party. This receivable is expected to be settled through the realisation of underlying assets and dividend payouts from the Bank. The Ultimate Parent has provided a letter of guarantee for settlement of the receivable.

13 DUE TO BANKS

	2022 BD 000	2021 BD 000
Murabaha payables	**16,994**	3,770
Current accounts	**345**	663
	17,339	4,433

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

14 ASSETS UNDER MANAGEMENT

	Note	2022 BD 000	2021 BD 000
Investment entities	14.1	**543,097**	533,649
Sukuk		**162,890**	117,090
Securitised financing	8.4	**20,000**	10,000
		725,987	660,739

14.1 These represents entities being managed under an asset management agreement with a related party. Management fee in this regard is included in the fee income in note 22.

15 OTHER LIABILITIES

	Note	2022 BD 000	2021 BD 000
Pay orders issued but not presented		**3,282**	2,493
Payable on account of financing contracts		**1,483**	1,016
Staff related accruals		**4,280**	4,015
Trade payables of subsidiaries		**44**	104
Obligation on account of right to use assets	15.1	**438**	1,060
Fixed assets related payables		**2,190**	1,751
Unearned fees		**1,372**	1,895
Accrued expenses and other liabilities		**6,871**	6,729
		19,960	19,063

15.1 The breakup of the balance is as follows:

	Note	2022 BD 000	2021 BD 000
Gross obligation		**452**	1,088
Less: deferred cost		**(14)**	(28)
		438	1,060

In respect of obligation on account of right to use assets, BD 194 thousand (2021: BD 88 thousand) are due within one year, BD 244 thousand (2021: BD 808 thousand) are due in one to five years and the remaining over five years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

16 EQUITY OF INVESTMENT ACCOUNT HOLDERS - NON-BANKS AND INDIVIDUALS

The mudarib share on investment accounts ranges from 30% to 85% (2021: 30% to 85%) depending on the investment period and in the case of saving accounts, where there is no restriction on cash withdrawal, the mudarib share ranges from 85% to 95% (2021: 85% to 95%). No mudarib share is charged on the URIA collected as per the wakala arrangement with customers in accordance with the multi-level arrangement (refer note 11). The following table includes the funds received from the Non- Banks and individuals under the wakala arrangement and does not include URIA balances received from Banks under this arrangement. The rate of return to investment account holders, as at 31 December 2022 and 2021, for various types of investment accounts, denominated in BD and USD, is as follows:

Investment accounts (mudaraba) - denominated in BD & USD	2022 Rate of return %	2021 Rate of return %
Saving accounts	**0.16**	0.16
VIP saving accounts	**0.31 - 0.47**	0.32 - 0.48
One month investment accounts	**0.94 - 1.25**	0.95 - 1.27
Three months investment accounts	**1.25 - 1.56**	1.27 - 1.59
Six months investment accounts	**1.56 - 1.88**	1.59 - 1.91
One year investment accounts	**1.88 - 2.19**	1.91 - 2.23

Investment accounts (wakala) - denominated in BD & USD	2022 Rate of return %	2021 Rate of return %
Saving call accounts	**2.00 - 2.75**	1.00 - 2.00
One month investment accounts	**3.40 - 4.00**	0.70 - 1.30
Three months investment accounts	**4.23 - 5.20**	1.00 - 1.90
Six months investment accounts	**4.65 - 5.60**	1.20 - 2.10
Nine months investment accounts	**5.00 - 5.60**	1.30 - 2.30
One year investment accounts	**4.94 - 5.70**	1.50 - 2.60
Two year investment accounts	**5.10 - 5.70**	2.50 - 2.90
Three year investment accounts	**5.10 - 5.70**	2.80 - 3.00
Five year investment accounts	**5.10 - 5.70**	3.00 - 3.10

16.1 Quasi Equity - by type and maturity

Investment accounts (mudaraba and wakala) - denominated in BD	2022 BD 000	2021 BD 000
Saving accounts - on demand	**301,924**	448,985
VIP saving accounts - on demand	**9,824**	20,568
One month investment accounts - on a contractual basis	**37,715**	27,190
Three months investment accounts - on a contractual basis	**102,720**	77,779
Six months investment accounts - on a contractual basis	**110,431**	58,344
Nine months investment accounts - on a contractual basis	**1,714**	1,808
One year investment accounts - on a contractual basis	**227,460**	265,410
Two year investment accounts - on a contractual basis	**20,873**	25,340
Three year investment accounts - on a contractual basis	**12,652**	13,064
Five year investment accounts - on a contractual basis	**6,972**	5,945
	832,285	944,433

In case of investment accounts on contractual basis, these can be withdrawn subject to deduction of profit upon management discretion.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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17 SHARE CAPITAL AND RESERVES

Share Capital

	2022 BD 000	2021 BD 000
Authorised:		
3,500,000 thousand (2021 : 3,500,000 thousand) ordinary shares of BD 0.1 each	**350,000**	350,000
Issued and fully paid up:		
As at the beginning and end of the year 1,325,187 thousand (2021 : 1,325,187 thousand) ordinary shares of BD 0.1 each	**132,519**	132,519

Nature and purpose of reserves

Statutory reserve

As required by Bahrain Commercial Companies Law ("BCCL") and the Bank's articles of association, 10% of the net income for the year has been transferred to the statutory reserve. However, as allowed under BCCL the Bank may resolve to discontinue such annual transfers when the reserve totals 50% of paid up share capital. The reserve is not distributable except in such circumstances as stipulated in the BCCL and following the approval of the CBB.

Fair value through equity reserve

Unrealised gains and losses resulting from investments carried at fair value through equity, if not determined to be impaired is recorded in the fair value through equity reserve and is not available for distribution. Upon disposal of related assets, the related cumulative gains or losses are transferred to profit or loss.

Retained earnings

Retained earnings is the cumulative amount of annual earnings not paid out as dividends.

Dividend

Proposed dividend is shown separately within equity till it is approved by the Annual General Meeting. The Board of Directors of the Bank have proposed BD 22,172 thousand dividend for the year ended 31 December 2022 (2021: BD 21,767). Further, during the year, the Bank has paid dividend of BD 21,767 thousand (2021: Nil) which is used to settle the receivable due from a related party (refer 12.2).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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18 TOTAL COMPREHENSIVE INCOME

	2022 BD 000	2021 BD 000
Net income for the year	**24,635**	23,027
Other comprehensive income		
Changes to fair value relating to fair value through equity investments	**(794)**	832
Transfer from fair value through equity reserve on disposal	**(1,056)**	-
Total other comprehensive income for the year	**(1,850)**	832
	22,785	23,859

	2022 BD 000	2021 BD 000
Attributable to:		
Shareholders of the Parent	**22,785**	23,852
Non-controlling shareholders	**-**	7
	22,785	23,859

19 CONTINGENT LIABILITIES AND COMMITMENTS

	Note	2022 BD 000	2021 BD 000
Contingent liabilities			
Letters of credit		**3,987**	2,805
Guarantees		**6,678**	8,243
		10,665	11,048
Irrevocable commitments to extend credit (original term to maturity of one year or less)		**45,213**	46,926
Securitisation related commitment	19.2	**1,250**	1,250
		57,128	59,224

19.1 The Group is carrying an allowance for credit losses of BD 35 thousand (2021: BD 34 thousand) against the contingent liabilities and commitments which is classified in other liabilities.

19.2 As a market maker for the securitization arrangement (see note 8.4), the Bank is committed to buy back up to BD 1,250 thousand of Series 2 securitized assets from the investors who would like to redeem their certificates, in case the Bank is not able to find the other investors to replace them.

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20 CROSS CURRENCY SWAP

The Bank enters into cross currency swap with the Parent ("Islamic derivative financial instruments") to mitigate foreign currency risk. Cross currency swap is based on Wa'ad (promise) structure between two parties to buy a specified Shari'a compliant commodity at an agreed price on the relevant date in future. It is a conditional promise to purchase a commodity through unilateral purchase undertaking. For cross currency swaps, fixed or floating payments as well as notional amounts are exchanged in different currencies.

The table below shows the positive and negative fair value of these instruments, which are equivalent to the market value, together with the notional amounts. The notional amount is the amount of currency swap instruments' underlying asset, reference rate or index and is the basis upon which changes in the value of this instrument is measured. The notional amounts indicate the volume of transactions outstanding at the period end and are not indicative of the credit risk.

	Currency Swap		
	Positive fair value BD 000	Negative fair value BD 000	Notional amount BD 000
31 December 2022	**-**	**-**	**77,700**
31 December 2021	-	157	189,505

In respect of cross currency swaps, the notional amount represents the gross cash flows. However, the amounts may be settled net. The following table shows the net cash flows:

	31 December 2022			
	Notional amount BD 000	Within 3 months BD 000	3 to 12 months BD 000	More than 12 months BD 000
Cash inflows	**77,700**	**-**	**77,700**	**-**
Cash outflows	**(77,700)**	**-**	**(77,700)**	**-**
	-	**-**	**-**	**-**

	31 December 2021			
	Notional amount BD 000	Within 3 months BD 000	3 to 12 months BD 000	More than 12 months BD 000
Cash inflows	189,505	-	189,505	-
Cash outflows	(189,505)	-	(189,505)	-
	-	-	-	-

21 INCOME FROM FINANCING CONTRACTS

	Note	2022 BD 000	2021 BD 000
Murabaha		**22,431**	23,667
Ijarah Muntahia Bittamleek	21.1	**33,466**	33,808
	21.2	**55,897**	57,475
Mudarib share from off balance sheet equity of investment account holders		**1,479**	1,833
Fees and commission income		**952**	906
		58,328	60,214

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21 INCOME FROM FINANCING CONTRACTS (continued)

21.1 This rent revenue is presented net of depreciation on Ijarah Muntahia Bittamleek assets amounting to BD 28,758 thousand (2021: BD 17,121 thousand).

21.2 This excludes profit of BD 215 thousand suspended during the year on account of regulatory requirements (2021: BD 54 thousand was recovered from the previously suspended income).

22 INCOME FROM INVESTMENTS

	2022 BD 000	2021 BD 000
Net gain (loss) on sale of investments	202	(424)
Dividend income	94	-
Fee income	1,864	1,291
Foreign exchange	434	530
Other income	56	2
	2,650	1,399

23 INCOME AND EXPENSE RELATING TO FINANCING CONTRACTS AND SUKUK

	Note	2022 BD 000	2021 BD 000
Income from financing contracts - Murabaha and Ijarah Muntahia Bittamleek contracts	21	55,897	57,475
Income from sukuk		14,275	13,961
Income from due from banks		1,481	966
		71,653	72,402
Less: Profit on due to banks and non-banks	26	4,395	9,824
Less: Return on equity of investment account holders (wakala)		22,062	16,032
Less: Return on equity of investment account holders (mudaraba)		1,236	1,542
		27,693	27,398
		43,960	45,004

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24 (REVERSAL OF) ALLOWANCE FOR IMPAIRMENT AND CREDIT LOSSES – NET

	Note	2022 BD 000	2021 BD 000
Due from banks		(301)	220
Financing contracts	8	634	1,625
Investments carried at fair value through equity		(864)	-
Investments in sukuk	10	10	(2)
Receivables and other assets	21.1	377	56
Financing commitments and financial guarantees		1	(43)
Recoveries from written-off accounts		(30)	(49)
		(173)	1,807

25 OTHER EXPENSES

	2022 BD 000	2021 BD 000
Business development	1,969	1,851
Technology and communication	4,125	3,684
Legal, consulting and outsourcing	580	549
Premises - rentals and maintenance	1,175	1,128
Administration, selling and others	2,483	2,454
	10,332	9,666

26 PROFIT ON DUE TO BANKS AND NON-BANKS

	2022 BD 000	2021 BD 000
Due to banks	317	443
Due to non-banks	4,078	9,381
	4,395	9,824

27 CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the purpose of the consolidated statement of cash flows comprise of the following amounts:

	2022 BD 000	2021 BD 000
Cash	11,422	10,903
Balances with banks	7,524	10,231
Balances with CBB excluding mandatory reserve	10,403	58,686
Due from banks with original maturity of ninety days or less	45,177	98,465
	74,526	178,285

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28 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent associated companies, the parent and its major shareholders, directors and key management personnel of the Bank, the Bank's Shari'a Supervisory Board and entities controlled, jointly controlled or significantly influenced by such parties. Transactions with related parties arise from the ordinary course of business. Pricing policies and terms of these transactions are approved by the Group's management. Outstanding balances at the year end, excluding financing contracts, are unsecured.

The balances with related parties included in the consolidated financial statements as at 31 December 2022 are as follows:

	Note	Parent BD 000	Directors and key management personnel BD 000	Other related parties BD 000	Total BD 000
Balances with Banks		**1,668**	**-**	**178**	**1,846**
Due from banks		**-**	**-**	**7,012**	**7,012**
Financing contracts		**-**	**572**	**-**	**572**
Investment in sukuk		**-**	**-**	**3,798**	**3,798**
Fees receivable		**-**	**-**	**1,159**	**1,159**
Receivables and other assets	12.2	**-**	**-**	**86,570**	**86,570**
Due to banks		**212**	**-**	**11,436**	**11,648**
Customers' current accounts		**-**	**533**	**3,469**	**4,002**
Equity of investment account holders		**170,901**	**2,957**	**27,893**	**201,751**
Off balance sheet equity of restricted investment account holders					
- Funds extended to related parties		**-**	**-**	**122,380**	**122,380**
- Funds received from related parties		**-**	**670**	**-**	**670**
Assets under management		**-**	**-**	**509,544**	**509,544**

The balances with related parties included in the consolidated financial statements as at 31 December 2021 are as follows:

	Note	Parent BD 000	Directors and key management personnel BD 000	Other related parties BD 000	Total BD 000
Balances with Banks		1,473	-	64	1,537
Financing contracts		-	1,058	13,128	14,186
Investment in sukuk		-	-	3,798	3,798
Fees receivable		-	-	490	490
Receivables and other assets	12.2	-	-	144,905	144,905
Due to banks		533	-	97	630
Customers' current accounts		-	495	4,565	5,060
Equity of investment account holders		185,971	2,768	14,403	203,142
Letters of credit		-	-	109	109
Commitments to extend credit		-	-	422	422
Off balance sheet equity of restricted investment account holders					
- Funds extended to related parties		-	-	136,710	136,710
- Funds received from related parties		-	575	-	575
Assets under management		-	-	533,649	533,649

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28 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

The income and expenses in respect of related parties included in the consolidated financial statements for the year ended 31 December 2022 are as follows:

	Parent BD 000	Directors and key management personnel BD 000	Other related parties BD 000	Total BD 000
Income from due from banks	321	-	326	647
Income from financing contracts	-	18	-	18
Income from investment in sukuk	-	-	229	229
Fee income	-	-	661	661
Profit on due to banks	-	-	65	65
Profit on due to non-banks	-	-	13	13
Profit on equity investment account holders	4,872	47	345	5,264
Staff costs	-	4,915	-	4,915
Other expenses	-	-	1,649	1,649
Mudarib share from off-balance sheet equity of restricted investment account holders	-	-	1,479	1,479

The income and expenses in respect of related parties included in the consolidated financial statements for the year ended 31 December 2021 are as follows:

	Parent BD 000	Directors and key management personnel BD 000	Other related parties BD 000	Total BD 000
Income from due from banks	5	-	-	5
Income from financing contracts	-	31	1,924	1,955
Income from investment in sukuk	-	-	558	558
Fee income	-	-	699	699
Allowance for credit losses	-	-	42	42
Profit on due to non-banks	-	-	21	21
Profit on equity investment account holders	2,388	48	172	2,608
Staff costs	-	4,331	-	4,331
Other expenses	-	-	1,499	1,499
Mudarib share from off-balance sheet equity of restricted investment account holders	-	-	1,833	1,833

Compensation of key management personnel, included in the consolidated statement of income, is as follows:

	2022 BD 000	2021 BD 000
Short term employee benefits	4,686	4,278
Long term employee benefits	229	233

Directors' remuneration and attendance fee for the year ended 31 December 2022 amounted to BD 170 thousand and BD 103 thousand respectively (2021: BD 179 thousand and BD 113 thousand respectively).

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29 DISTRIBUTION OF ASSETS AND NET OPERATING INCOME BY OWNERSHIP

The table below shows the distribution of assets between owners' equity finance and joint finance with investment account holders:

		Jointly Financed			
	Owners' equity-financed	Owners' equity	Investment account holders	Total	Grand Total
31 December 2022	**BD 000**	**BD 000**	**BD 000**	**BD 000**	**BD 000**
Cash and balances with banks and Central Bank of Bahrain	**-**	**18,171**	**60,477**	**78,648**	**78,648**
Due from banks	**-**	**8,762**	**36,266**	**45,028**	**45,028**
Financing contracts	**44,256**	**185,834**	**769,161**	**954,995**	**999,251**
Investments in equity	**3,419**	**-**	**-**	**-**	**3,419**
Investments in sukuk	**3,798**	**55,699**	**230,537**	**286,236**	**290,034**
Receivables and other assets	**144,993**	**-**	**-**	**-**	**144,993**
Premises, equipment and right-of-use assets	**3,707**	**-**	**-**	**-**	**3,707**
	200,173	**268,466**	**1,096,441**	**1,364,907**	**1,565,080**

		Jointly Financed			
	Owners' equity-financed	Owners' equity	Investment account holders	Total	Grand Total
31 December 2021	BD 000	BD 000	BD 000	BD 000	BD 000
Cash and balances with banks and Central Bank of Bahrain	-	53,887	59,520	113,407	113,407
Due from banks	-	24,656	73,359	98,015	98,015
Financing contracts	56,280	251,978	749,717	1,001,695	1,057,975
Investments in equity	7,071	-	-	-	7,071
Investments in sukuk	3,798	88,356	262,888	351,244	355,042
Receivables and other assets	203,500	-	-	-	203,500
Premises, equipment and right-of-use assets	4,272	-	-	-	4,272
	274,921	418,877	1,145,484	1,564,361	1,839,282

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At 31 December 2022

29 DISTRIBUTION OF ASSETS AND NET OPERATING INCOME BY OWNERSHIP (continued)

The table below shows the distribution of operating income and operating expenses between owners' equity finance and joint finance with investment account holders:

		Jointly Financed			
	Owners' equity-financed	Owners' equity	Investment account holders	Total	Grand Total
31 December 2022	BD 000	BD 000	BD 000	BD 000	BD 000
Income from financing contracts	3,080	13,004	42,244	55,248	58,328
Income from investments	2,650	-	-	-	2,650
Income from sukuk	248	3,302	10,725	14,027	14,275
Income from due from banks	-	348	1,133	1,481	1,481
OPERATING INCOME	5,978	16,654	54,102	70,756	76,734
OPERATING EXPENSES	901	5,730	17,775	23,505	24,406

		Jointly Financed			
	Owners' equity-financed	Owners' equity	Investment account holders	Total	Grand Total
31 December 2021	BD 000	BD 000	BD 000	BD 000	BD 000
Income from financing contracts	4,135	15,936	40,143	56,079	60,214
Income from investments	1,399	-	-	-	1,399
Income from sukuk	614	3,792	9,555	13,347	13,961
Income from due from banks	-	275	691	966	966
Share of loss from associate	(271)	-	-	-	(271)
OPERATING INCOME	5,877	20,003	50,389	70,392	76,269
OPERATING EXPENSES	1,571	8,868	15,405	24,273	25,844

The above amounts are excluding the impact of profits paid on due to Banks, non-Banks and return on equity of investment account holders.

30 SEGMENT INFORMATION

For management purposes, the Group is organised into the following segments.

Corporate banking	Principally engaged in Shari'a compliant profit sharing investment arrangements, providing Shari'a compliant financing contracts and other facilities to corporate customers.
Retail and private banking	Principally engaged in Shari'a compliant profit sharing investment arrangements, providing Shari'a compliant financing contracts and other facilities to retail and private banking customers.
Investments	Principally engaged in investment banking activities including private equity, managed funds and other investment management activities.
Treasury	Principally engaged in liquidity management, Shari'a compliant financing contracts to treasury customers, investment in Sukuk, investment accounts from non-bank customers and other international banking relationships.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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30 SEGMENT INFORMATION (continued)

Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on segment profit (as reported in internal management reports) which is measured using the same measurement principles as are used in the preparation of these consolidated financial statements.

The following table presents segment wise operating income, net income, total assets and total liabilities and equity of investment account holders of the Group for the year ended and as at 31 December 2022:

	Corporate banking	Retail & Private Banking	Investment	Treasury	Total
	BD 000	BD 000	BD 000	BD 000	BD 000
Operating income	30,112	24,024	1,013	21,585	76,734
Net income for the year	6,513	12,052	1,412	4,658	24,635
Segment assets	516,524	441,539	113,727	493,290	1,565,080
Segment liabilities and equity of investment account holders	42,484	1,047,579	451	289,470	1,379,984

The following table shows the distribution of the Group's operating income and total assets by geographical segments, based on the location in which the transactions and assets are originated, for the year ended and as at 31 December 2022:

	Kingdom of Bahrain	Other countries	Total
	BD 000	BD 000	BD 000
Operating income	74,466	2,268	76,734
Segment assets	1,461,344	103,736	1,565,080

The following table presents segment wise operating income, net income, total assets and total liabilities and equity of investment account holders of the Group for the year ended and as at 31 December 2021:

	Corporate banking	Retail & Private Banking	Investment	Treasury	Total
	BD 000	BD 000	BD 000	BD 000	BD 000
Operating income	33,255	21,973	1,628	19,413	76,269
Net income for the year	11,829	4,247	971	5,980	23,027
Segment assets	545,227	416,507	207,644	669,904	1,839,282
Segment liabilities and equity of investment account holders	45,732	1,218,180	190	391,102	1,655,204

The following table shows the distribution of the Group's operating income and total assets by geographical segments, based on the location in which the transactions and assets are originated, for the year ended and as at 31 December 2021:

	Kingdom of Bahrain	Other countries	Total
	BD 000	BD 000	BD 000
Operating income	74,199	2,070	76,269
Segment assets	1,674,633	164,649	1,839,282

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31 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the value representing the estimate of the amount of cash or cash equivalents that would be received for an asset sold or the amount of cash or cash equivalents paid for a liability extinguished or transferred in an orderly transaction between a willing buyer and a willing seller at the measurement date.

At 31 December 2022 and 2021, the fair value of financial instruments carried at amortised cost approximate their carrying values except for the investments in sukuk. Refer note 10.

Financial instruments recorded at fair value

The Group uses the following hierarchy for determining and disclosing the fair value of 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:

31 December 2022	**Level 1 BD 000**	**Level 2 BD 000**	**Level 3 BD 000**	**Total BD 000**
Investments at fair value through equity				
Unquoted equity securities	-	-	**3,419**	**3,419**
	-	-	**3,419**	**3,419**

31 December 2021	Level 1 BD 000	Level 2 BD 000	Level 3 BD 000	Total BD 000
Investments at fair value through equity				
Quoted equity securities	2,423	-	-	2,423
Unquoted equity securities	-	-	4,648	4,648
	2,423	-	4,648	7,071

During the year ended 31 December 2022, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

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31 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets which are recorded at fair value.

	Unquoted equity securities 2022 BD 000	Unquoted equity securities 2021 BD 000
Balance at 1 January	**4,648**	5,471
Capital repayments during the year	**(1,095)**	(622)
Fair value changes	**(134)**	(201)
Balance at 31 December	**3,419**	4,648

Valuation techniques and assumptions

The fair value of quoted equity securities is derived from quoted market prices in active market. Investments in unquoted securities are fair valued by reference to valuations by independent real estate valuation experts (when significant proportion of the net assets of the investee comprise of real estate assets) or certain other valuation techniques for private equity investments. The determination of the fair value of such assets is based on local market conditions existing at the reporting date.

Impact on fair value of Level 3 financial instruments measured at fair value of changes to key assumptions

	Carrying amount 2022 BD 000	**Effect of reasonably possible alternative assumption 2022 BD 000**	Carrying amount 2021 BD 000	Effect of reasonably possible alternative assumption 2021 BD 000
Investments at fair value through equity				
Unquoted equity securities	**3,419**	**342**	4,648	465
	3,419	**342**	4,648	465

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32 MATURITY ANALYSIS OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS

The table below shows an analysis of assets, liabilities and equity of investment account holders analysed according to when they are expected to be recovered or settled. Group's contractual undiscounted repayment obligations are disclosed in note 33.3 "Risk Management - Liquidity Risk and Funding Management".

		Up to one year			Over one year				
	No Maturity	Up to 3 months	3 to 12 months	Subtotal upto 12 months	1 to 5 years	5 to 10 years	Over 10 years	Subtotal Over 1 year	Total
	2022	2022	2022	2022	2022	2022	2022	2022	2022
	BD 000	BD 000	BD 000	BD 000	BD 000	BD 000	BD 000	BD 000	BD 000
Assets									
Cash and balances with banks and Central Bank of Bahrain	-	16,601	1,390	**17,991**	15,389	15,297	29,971	**60,657**	**78,648**
Due from banks	-	45,028	-	**45,028**	-	-	-	**-**	**45,028**
Financing contracts	-	233,786	93,512	**327,298**	259,769	198,100	214,084	**671,953**	**999,251**
Investments in equity	3,419	-	-	**-**	-	-	-	**-**	**3,419**
Investments in sukuk	-	9,302	-	**9,302**	266,677	14,055	-	**280,732**	**290,034**
Receivables and other assets	-	27,383	31,602	**58,985**	86,008	-	-	**86,008**	**144,993**
Premises, equipment and right of use assets	3,707	-	-	**-**	**-**	**-**	-	**-**	**3,707**
Total	**7,126**	**332,100**	**126,504**	**458,604**	**627,843**	**227,452**	**244,055**	**1,099,350**	**1,565,080**
Liabilities and equity of investment account holders									
Customers' current accounts	-	6,831	674	**7,505**	43,319	43,319	43,318	**129,956**	**137,461**
Due to banks	-	17,339	-	**17,339**	-	-	-	**-**	**17,339**
Due to non-banks	-	9,654	501	**10,155**	34,229	32,200	32,200	**98,629**	**108,784**
Other liabilities	-	12,033	4,128	**16,161**	3,799	-	-	**3,799**	**19,960**
Equity of investment account holders	-	73,259	25,015	**98,274**	465,714	266,226	266,226	**998,166**	**1,096,440**
Total	**-**	**119,116**	**30,318**	**149,434**	**547,061**	**341,745**	**341,744**	**1,230,550**	**1,379,984**
Net	**7,126**	**212,984**	**96,186**	**309,170**	**80,782**	**(114,293)**	**(97,689)**	**(131,200)**	**185,096**

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32 MATURITY ANALYSIS OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS (continued)

		Up to one year			Over one year				
	No Maturity	Up to 3 months	3 to 12 months	Subtotal upto 12 months	1 to 5 years	5 to 10 years	Over 10 years	Subtotal Over 1 year	Total
	2021	2021	2021	2021	2021	2021	2021	2021	2021
	BD 000	BD 000	BD 000	BD 000	BD 000	BD 000	BD 000	BD 000	BD 000
Assets									
Cash and balances with banks and Central Bank of Bahrain	-	40,930	913	41,843	13,222	9,217	49,125	71,564	113,407
Due from banks	-	98,015	-	98,015	-	-	-	-	98,015
Financing contracts	-	208,710	150,969	359,679	271,527	231,578	195,191	698,296	1,057,975
Investments in equity	7,071	-	-	-	-	-	-	-	7,071
Investment in sukuk	-	58,988	15,613	74,601	247,953	32,488	-	280,441	355,042
Receivables and other assets	-	54,431	495	54,926	148,532	42	-	148,574	203,500
Premises and equipment	4,272	-	-	-	-	-	-	-	4,272
Total	11,343	461,074	167,990	629,064	681,234	273,325	244,316	1,198,875	1,839,282
Liabilities and equity of investment account holders									
Customers' current accounts	-	7,219	648	7,867	43,301	43,301	43,300	129,902	137,769
Due to banks	-	4,433	-	4,433	-	-	-	-	4,433
Due to non-banks	-	8,633	11,739	20,372	224,533	51,775	51,775	328,083	348,455
Other liabilities	-	10,456	4,425	14,881	4,182	-	-	4,182	19,063
Equity of investment account holders	-	220,164	12,867	233,031	304,153	304,150	304,150	912,453	1,145,484
Total	-	250,905	29,679	280,584	576,169	399,226	399,225	1,374,620	1,655,204
Net	11,343	210,169	138,311	348,480	105,065	(125,901)	(154,909)	(175,745)	184,078

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33 RISK MANAGEMENT

33.1 Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring of material risks. The Group manages its exposure to risks within the approved risk limits. The process of risk management is critical to the Group's continuing profitability and each business unit within the Group is accountable for the risk exposures relating to its responsibilities. The Group is mainly exposed to credit risk, liquidity risk, profit rate risk and market risk, the latter being subdivided into trading and non-trading risks. The Group is also subject to prepayment risk and operating risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. These are monitored through the Group's strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies, policies and risk appetite of the Bank.

Audit & Compliance Committee (ACC)

The ACC is a Board appointed committee which is comprised of two independent directors and an executive director. The Chairman of the Committee is also an independent director. For audit related matters, the committee assists the Board of Directors in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting, the audit thereof and the soundness of the internal controls of the Bank. For compliance related matters, the committee assists the Board of Directors in the assessment of compliance with law, regulations and other requirements imposed on the Bank from time to time. The committee also overseas and manages the compliance and anti financial crime requirements of the Bank and legal related matters.

Board Risk Committee (BRC)

The BRC is a Board appointed committee which is comprised of two independent directors and one executive director. The Chairman of the Committee is also an independent director. The committee is a reviewing and recommending body appointed by the Board of Directors to assist the Board in discharging its oversight duties relating to:

- Recommendation of the risk charter of the bank to the Board, highlighting the key risks from identified business strategies, the risk appetite, the risk governance models including strategies, policies, processes, roles and responsibilities relating to various departments and various levels of risk management within the Bank; and
- Establishing appropriate policies and procedures to mitigate the applicable risks on the overall operations of the Bank.

Governance Committee (GC)

The GC is a Board appointed committee which is comprised of three independent directors including the Chairman. The committee is a reviewing and recommending body appointed by the Board of Directors to assist the Board in discharging its oversight duties relating to:

- Establishing appropriate Corporate Governance structures, delegation of authority and reporting protocols; and
- Ensuring the Bank's adherence to best corporate governance practices as applicable on Islamic retail banks in Bahrain.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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33 RISK MANAGEMENT (continued)

33.1 Introduction (continued)

Internal Control Systems

The Board is responsible for approving and reviewing the effectiveness of the Bank's system of internal control, for the purpose of ensuring effective and efficient operations, quality of internal and external reporting, internal control, and compliance with laws and regulations. Senior Management is responsible for establishing and maintaining the system of internal control designed to manage the risk of failure to achieve the Bank's objectives. The system of internal control can only provide reasonable but not absolute assurance against the risk of material loss.

The effectiveness of the internal control system is reviewed by the Board and the Audit & Compliance Committee, which also receives review reports undertaken by the Bank's Internal Audit, Compliance and Anti Financial Crime departments. The Audit & Compliance Committee reviews the management letters issued by the external auditors and holds periodic meetings with them to discuss various matters including existing and potential internal control issues.

The regulatory non-compliances, if any, resulting in financial penalties are disclosed in the Annual Public Disclosures of the Bank. The Bank always enhances its internal control environment to avoid recurrence of similar penalties.

Asset and Liability Committee (ALCO) / Risk Management Committee (RMC)

ALCO / RMC is a senior management committee responsible for maintaining oversight of the Bank's risk profile and governance aspects. It helps the Board Risk Committee in establishing the risk policies and strategies and monitors the risk appetite in terms of risk limits and reports. It also controls the risks by appropriate actions. ALCO / RMC establishes policy and objectives for the asset and liability management of the Bank in terms of structure, distribution, risk and return and its impact on profitability. It also monitors the cash flow, cost and yield profiles and tenor of assets and liabilities and evaluates both from profit rate sensitivity and liquidity points of view, makes corrective adjustments based upon perceived trends and market conditions and monitors liquidity, foreign exchange exposures and positions.

Fatwa and Shari'a Supervisory Board

The Bank's Fatwa and Shari'a Supervisory Board is entrusted with the responsibility of ensuring the Bank's adherence to Shari'a rules and principles in its transactions and activities.

Provisioning Committee (PC)

The PC is a senior management committee responsible for ensuring adequate provisions and profit suspensions against all the past due and impaired exposures of the Bank. It reviews past due details and approve the resulting provisioning and profit suspension amounts submitted by the respective departments in line with the approved Provisions & Impairment Policy of the Bank. The PC also reviews credit classification and reclassification requests submitted by Business Units and recommends the provisions and profit suspensions to the Audit & Compliance Committee and Board of Directors for final approval.

Risk management department

The Risk Management Department is responsible for implementing and maintaining risk related procedures to ensure an independent control process. It also helps the ALCO / RMC in establishing risk strategies, policies and limits, across the Bank. The department is also responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This department also ensures the complete capture of the risks in risk measurement and reporting systems and performs stress tests on the various portfolios of the Bank.

Treasury department

The treasury department is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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33 RISK MANAGEMENT (continued)

33.1 Introduction (continued)

Internal audit

Independent, objective activity that reviews the effectiveness of risk management, internal control environment and governance processes. Internal Audit discusses the results of all assessments with the management, and reports its findings and recommendations to the Audit & Compliance Committee.

Compliance department

The Compliance department is responsible for ensuring appropriate implementation of a compliance framework through effective communication, monitoring, reviewing and reporting of compliance matters with regards to applicable laws and regulations. In addition, the Compliance department coordinates with regulators and/or external parties regarding compliance matters as appropriate. Furthermore, updates on compliance matters or findings are reported to the Audit and Compliance Committee on a quarterly basis.

Risk measurement and reporting systems

The Group identifies, measures, controls and monitors its material risks on a periodic basis. The Bank has established relevant risk limit structures to quantify its risk appetite. The Bank conducts stress testing under various scenarios for its material portfolios using statistical methods to assess the impact of such scenarios on its portfolio and regulatory capital.

Established risk limits reflect the business strategy and market environment in which the Bank operates as well as the level of risk that the Bank is willing to accept. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposures across its material risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify risks at an early stage. This information is presented and explained to the Board of Directors, the Board Risk Committee and senior management. The report includes aggregate credit exposures, concentration limits, investment limits, foreign exchange exposures, profit rate limits, liquidity gaps and ratios and changes in Group's risk profile. On a periodic basis, detailed reporting of industry, customer and geographic risk takes place. Senior management assesses the appropriateness of the general allowance for credit losses on a quarterly basis. The Board of Directors receive the risk management report once in a quarter or when needed which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

As part of the Risk Management's reporting framework, tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information. Periodic briefing is given to the Managing Director and Chief Executive Officer and all other relevant members of the Bank on the utilisation of market limits, proprietary investments and liquidity and any other risk developments.

33.2 Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties fail to discharge their contractual obligations. The Bank manages and controls its credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established with the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings for corporate customers are subject to revision at the time of renewal of the corporate facility. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

The Bank adopts FAS 30 where impairment is based on a forward-looking Expected Credit Loss (ECL) model. ECL would be measured taking into account the projected cash flows, Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD). The amount of ECLs recognised as a loss allowance or provision depends on the extent of credit deterioration since initial recognition. Refer accounting policy for further details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

33 RISK MANAGEMENT (continued)

33.2 Credit risk (continued)

Credit-related commitments risk

The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to risks similar to financing contracts and these are mitigated by the same control processes and policies.

Risk concentrations of the maximum exposure to credit risk without taking collateral

Concentrations 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 indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

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

The maximum credit exposure to any client or counterparty as of 31 December 2022 was BD 315,785 thousand (2021: BD 438,774 thousand).

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown net of expected credit loss, before the effect of mitigation through the use of master netting and collateral agreements.

	Gross maximum exposure 2022 BD 000	Gross maximum exposure 2021 BD 000
Balances with banks and Central Bank of Bahrain	**67,226**	102,504
Due from banks	**45,028**	98,015
Financing contracts	**999,251**	1,057,975
Investment in sukuk	**290,034**	355,042
Receivables and other assets	**90,993**	148,921
Contingent liabilities and commitments	**57,128**	59,224
	1,549,660	1,821,681

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33 RISK MANAGEMENT (continued)

33.2 Credit risk (continued)

Risk concentrations of the maximum exposure to credit risk

The Group financial assets having credit risk, before taking into account any collateral held can be analysed by the following geographical regions:

	Bahrain 2022 BD 000	Other GCC countries 2022 BD 000	North America and Other 2022 BD 000	Total 2022 BD 000
Balances with banks and Central Bank of Bahrain	**59,714**	**2,964**	**4,548**	**67,226**
Due from banks	**39,671**	**-**	**5,357**	**45,028**
Financing contracts	**984,266**	**14,985**	**-**	**999,251**
Investment in sukuk	**290,034**	**-**	**-**	**290,034**
Receivables and other assets	**2,544**	**88,449**	**-**	**90,993**
Contingent liabilities and commitments	**57,128**	**-**	**-**	**57,128**
	1,433,357	**106,398**	**9,905**	**1,549,660**

	Bahrain 2021 BD 000	Other GCC countries 2021 BD 000	North America and Other 2021 BD 000	Total 2021 BD 000
Balances with banks and Central Bank of Bahrain	92,286	3,767	6,451	102,504
Due from banks	95,225	2,036	754	98,015
Financing contracts	1,041,029	16,946	-	1,057,975
Investment in sukuk	355,042	-	-	355,042
Receivables and other assets	2,585	146,336	-	148,921
Contingent liabilities and commitments	59,224	-	-	59,224
	1,645,391	169,085	7,205	1,821,681

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

33 RISK MANAGEMENT (continued)

33.2 Credit risk (continued)

Risk concentrations of the maximum exposure to credit risk (continued)

An industry sector analysis of the Group's financial assets having credit risk, before taking into account collateral held or other credit enhancements, is as follows:

	Trading and manufacturing 2022 BD 000	Banking and financial institutions 2022 BD 000	Construction and real estate 2022 BD 000	Others 2022 BD 000	Total 2022 BD 000
Balances with banks and Central Bank of Bahrain	-	67,226	-	-	67,226
Due from banks	-	45,028	-	-	45,028
Financing contracts	108,510	29,167	512,964	348,610	999,251
Investment in sukuk	-	286,239	3,795	-	290,034
Receivables and other assets	-	87,405	2,218	1,370	90,993
Contingent liabilities and commitments	4,146	-	6,328	46,654	57,128
	112,656	515,065	525,305	396,634	1,549,660

	Trading and manufacturing 2021 BD 000	Banking and financial institutions 2021 BD 000	Construction and real estate 2021 BD 000	Others 2021 BD 000	Total 2021 BD 000
Balances with banks and Central Bank of Bahrain	-	102,504	-	-	102,504
Due from banks	-	98,015	-	-	98,015
Financing contracts	120,612	3,734	541,940	391,689	1,057,975
Investment in sukuk	-	351,247	3,795	-	355,042
Receivables and other assets	-	145,421	2,297	1,203	148,921
Contingent liabilities and commitments	5,993	-	6,799	46,432	59,224
	126,605	700,921	554,831	439,324	1,821,681

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained by the Bank are as follows:

- For commercial financing, lien over investment accounts, charges over real estate properties, inventory, trade receivables and unlisted equities; and
- For retail and consumer financing, lien over investment accounts, and mortgages over the related assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

33 RISK MANAGEMENT (continued)

33.2 Credit risk (continued)

Collateral and other credit enhancements (continued)

The Bank also obtains personal guarantees from company owners for commercial financing obtained. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained periodically during its review of the allowance for expected credit losses.

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

	Gross Exposures 2022	Allowance for impairment and credit losses 2022	Carrying Amount 2022	Fair Value of Collateral Held 2022
	BD 000	BD 000	BD 000	BD 000
Murabaha	8,840	778	8,062	47,765
Ijarah Muntahia Bittamleek	5,528	803	4,725	10,817
	14,368	1,581	12,787	58,582

	Gross Exposures 2021	Allowance for impairment and credit losses 2021	Carrying Amount 2021	Fair Value of Collateral Held 2021
	BD 000	BD 000	BD 000	BD 000
Murabaha	11,323	2,311	9,012	52,985
Ijarah Muntahia Bittamleek	3,278	485	2,793	9,143
	14,601	2,796	11,805	62,128

33.3 Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management arranges diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

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At 31 December 2022

33 RISK MANAGEMENT (continued)

33.3 Liquidity risk and funding management (continued)

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains a mandatory reserve with the Central Bank of Bahrain equal to 5% of customer deposits denominated in Bahraini Dinars, excluding deposits from resident subsidiaries. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The most important of these is to maintain limits on the ratio of high quality liquid assets ("HQLA") to customer deposits. HQLA comprise of cash, balances with Central Bank of Bahrain, investment in quoted securities and liquid sukuk in line with the Liquidity Risk Module of the CBB. Customer deposits comprise of customers' current accounts, unrestricted investment accounts and murabaha due to non-banks. The ratios during the year were as follows:

HQLA to Customer Deposits Ratio	2022 %	2021 %
31 December	**34.61%**	35.59%
During the year:		
Average	**34.45%**	30.25%
Highest	**38.32%**	35.59%
Lowest	**31.68%**	27.36%

Analysis of financial liabilities and equity of investment account holders by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities and equity of investment account holders at 31 December 2022 and 2021 based on contractual undiscounted repayment obligations. Maturity analysis of assets, liabilities and equity of investment account holders by expected maturities is disclosed in Note 32. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

At 31 December 2022	On demand BD 000	Less than 3 months BD 000	3 to 12 months BD 000	1 to 5 years BD 000	Total BD 000
Due to banks	**345**	**17,023**	**-**	**-**	**17,368**
Due to non-banks	**-**	**32,203**	**67,084**	**12,331**	**111,618**
Customers' current accounts	**137,461**	**-**	**-**	**-**	**137,461**
Other liabilities	**-**	**12,010**	**4,128**	**3,822**	**19,960**
Equity of investment account holders	**311,747**	**426,437**	**311,232**	**64,204**	**1,113,620**
	449,553	**487,673**	**382,444**	**80,357**	**1,400,027**

At 31 December 2021	On demand BD 000	Less than 3 months BD 000	3 to 12 months BD 000	1 to 5 years BD 000	Total BD 000
Due to banks	663	3,771	-	-	4,434
Due to non-banks	-	159,248	177,783	14,354	351,385
Customers' current accounts	137,769	-	-	-	137,769
Other liabilities	-	10,435	4,426	4,202	19,063
Equity of investment account holders	469,731	399,625	253,425	29,783	1,152,564
	608,163	573,079	435,634	48,339	1,665,215

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

33 RISK MANAGEMENT (continued)

33.3 Liquidity risk and funding management (continued)

Contingent liabilities and commitments

These include commitments to enter into contracts which are designed to meet the requirements of the Group's customers. Commitments represent contractual commitments under murabaha and ijarah muntahia bittamleek contracts. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being exercised, the total contract amounts do not necessarily represent future cash flow requirements.

Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract.

The table below shows the contractual expiry by maturity of the Group's credit commitments and contingent items.

At 31 December 2022	On demand BD 000	Less than 3 months BD 000	3 to 12 months BD 000	1 to 5 years BD 000	Total BD 000
Letters of credit	266	883	-	2,838	3,987
Guarantees	5,554	-	73	1,051	6,678
Irrevocable commitments to extend credit	-	3,515	19,896	21,802	45,213
Securitisation related commitment	1,250	-	-	-	1,250
	7,070	4,398	19,969	25,691	57,128

At 31 December 2021	On demand BD 000	Less than 3 months BD 000	3 to 12 months BD 000	1 to 5 years BD 000	Total BD 000
Letters of credit	230	-	59	2,516	2,805
Guarantees	6,478	-	275	1,490	8,243
Irrevocable commitments to extend credit	-	5,220	16,489	25,217	46,926
Securitisation related commitment	1,250	-	-	-	1,250
	7,958	5,220	16,823	29,223	59,224

33.4 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as profit rates, foreign exchange rates, and equity prices. The Group manages and monitors the positions using sensitivity analysis.

Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Bank measures the profit rate risk by measuring and managing the repricing gaps. It also performs sensitivity analysis.

The following table demonstrates the sensitivity to reasonably possible change in profit rates, with all other variables held constant of the Group's consolidated statement of income. The sensitivity of the consolidated statement of income is the effect of the assumed changes in profit rates on the consolidated net income for the year, based on the non-trading financial assets and financial liabilities held as at the date of statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

33 RISK MANAGEMENT (continued)

33.4 Market risk (continued)

Profit rate risk (continued)

The effect of decrease in basis points is expected to be equal and opposite to the effect of the increase shown.

	2022 BD 000	Change in basis points BD 000	Effect on net income for the year BD 000
ASSETS			
Due from banks	**45,028**	**+25**	**113**
Financing contracts	**880,954**	**+25**	**2,202**
Investment in sukuk	**290,034**	**+25**	**725**
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS			
Due to banks	**17,339**	**+25**	**(43)**
Due to non-banks	**108,784**	**+25**	**(272)**
Equity of investment account holders	**1,096,440**	**+25**	**(2,741)**
			(16)

	2021 BD 000	Change in basis points BD 000	Effect on net income for the year BD 000
ASSETS			
Due from banks	98,015	+25	245
Financing contracts	888,557	+25	2,221
Investment in sukuk	355,042	+25	888
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS			
Due to banks	4,433	+25	(11)
Due to non-banks	348,455	+25	(871)
Equity of investment account holders	1,145,484	+25	(2,864)
			(392)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank has established Value at Risk limit for foreign currency exposures. This limit is monitored on a regular basis by the risk management department and reported to the ALCO / RMC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

33 RISK MANAGEMENT (continued)

33.4 Market risk (continued)

Currency risk (continued)

The Group had the following significant net exposures denominated in foreign currencies as of 31 December:

	Equivalent long (short) 2022 BD 000	Equivalent long (short) 2021 BD 000
Currency		
GBP	(283)	49
KWD	(2,692)	963
EUR	(1,306)	(79)

The table below indicates the currencies to which the Group had significant exposure at 31 December on all its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Bahraini Dinar, with all other variables held constant, on the consolidated statement of income.

The effect of decreases in currency rate is expected to be equal and opposite to the effect of the increases shown.

	Change in currency rate %	Effect on profit 2022 BD 000	Change in currency rate %	Effect on profit 2021 BD 000
GBP	+20	(57)	+20	10
KWD	+20	(538)	+20	193
EUR	+20	(261)	+20	(16)
Total		(856)		187

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment portfolio.

The effect on income and equity (as a result of a change in the fair value of equity instruments) due to a reasonably possible change (i.e. +10%) in the value of individual investments, with all other variables held constant, is nil and BD 342 thousand (2021: nil and BD 707 thousand) respectively, except in cases where impairment loss occurred which will result in decrease being taken to the consolidated statement of income.

The effect of decrease in the value of individual investments is expected to be equal and opposite to the effect of the increase shown.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

33 RISK MANAGEMENT (continued)

33.5 Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected. The Group is not exposed to significant prepayment risk.

33.6 Operational risk

Operational risk is the risk of loss arising from systems 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 Bank is managing them. The Bank has implemented Risks Controls and Self Assessment process (RCSA) whereby each of the units identifies risks in processes, key risk indicators and implemented controls. The key risk indicators values and actual incidents to the operational risk unit are reported to senior management for action. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

34 CAPITAL MANAGEMENT

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the Central Bank of Bahrain in supervising the Group. The Bank has also implemented the Internal Capital Adequacy and Assessment Plan (ICAAP) as per the CBB guidelines based on Pillar II recommendations of the Basel Committee. The Bank had identified the capital requirement for future three years based on the Bank's projected financials and the risk charges required for its significant risks including credit risk, market risk, profit rate risk, liquidity risk, investments risks and operational risks. The Board of Directors, on an annual basis, review and approve the ICAAP plan for both normal and stress conditions.

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No significant changes were made in the objectives, policies and processes from the previous years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

34 CAPITAL MANAGEMENT (continued)

Regulatory capital and risk-weighted assets

The regulatory capital and risk-weighted assets have been calculated in accordance with Basel III as adopted by the CBB.

	Note	2022 BD 000	2021 BD 000
Common equity Tier 1 capital	34.1	**195,995**	200,444
Tier 2 capital	34.2	**7,323**	17,003
Total capital		**203,318**	217,447
Credit risk-weighted assets		**585,841**	606,271
Market risk-weighted assets		**24,165**	24,218
Operational risk-weighted assets		**126,823**	122,363
Total risk weighted assets		**736,830**	752,852
Capital adequacy ratio		**27.6%**	28.9%
Minimum requirement		**12.5%**	12.5%

34.1 Common equity Tier 1 capital comprises of share capital, share premium, general reserve, statutory reserve and retained earnings, less unrealised loss arising from fair valuing equities.

34.2 Tier 2 capital comprises of subordinated wakala payable under unrestricted investment account holder and provisions against stage 1 and stage 2 exposures.

35 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

The Group did not receive any significant income or incur significant expenses which were prohibited by the Shari'a.

36 SOCIAL RESPONSIBILITY

The Bank discharges its social responsibilities through donations to charitable causes and organisations approved by Shari'a Supervisory Board.

37 COMPARATIVE FIGURES

Certain of the prior year figures have been reclassified to conform to the presentation adopted in the current year. Such reclassification does not affect previously reported net income or owners' equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

38 NSFR REQUIREMENTS AND CALCULATION METHODOLOGY

The Net Stable Funding Ratio ('NSFR') is calculated in accordance with the Liquidity Risk Management Module guidelines, issued by the CBB. The minimum NSFR ratio as per CBB is 100%. The Group's consolidated NSFR ratio as of 31 December 2022 is as follows:

	Unweighted Values (i.e. before applying relevant factors)					
Item	No specified maturity BD 000	Less than 6 months BD 000	More than 6 months and less than one year BD 000	Over one year BD 000	31 December 2022 Total weighted value BD 000	31 December 2021 Total weighted value BD 000
Available Stable Funding (ASF):						
Regulatory Capital	193,816	-	-	6,608	**200,423**	210,077
Stable deposits	-	-	-	-	**-**	-
Less stable deposits	-	570,925	93,874	31,009	**629,329**	654,383
Other wholesale funding	-	584,790	40,178	34,053	**198,278**	289,761
Other liabilities not included in the above categories	-	25,120	-	-	**-**	-
Total ASF	193,816	1,180,835	134,052	71,670	**1,028,030**	1,154,223
Required Stable Funding (RSF):						
Total NSFR high-quality liquid assets (HQLA)	337,843	35,421	-	-	**13,856**	17,764
Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	27,683	-	-	**4,152**	8,708
Performing financing to non-financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	141,166	57,814	472,583	**501,186**	529,314
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	103,206	**67,084**	93,688
Performing residential mortgages, of which:						
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	226,959	**147,524**	137,234
Securities/sukuk that are not in default and do not qualify as HQLA, including exchange- traded equities	-	-	-	3,798	**3,229**	3,229
All other assets not included in the above categories	156,199	-	-	-	**156,199**	218,212
OBS items	57,128	-	-	-	**2,856**	1,033
Total RSF	551,169	204,270	57,814	806,547	**896,086**	1,009,181
NSFR (%)					**114.72%**	114.37%