

Al Salam Bank B.S.C.

**CONSOLIDATED FINANCIAL
STATEMENTS**

31 DECEMBER 2022

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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Board of Directors' Report to the Shareholders – FY 2022

The Directors of Al Salam Bank B.S.C. "the Bank" are pleased to submit the annual report to the shareholders, accompanied by the consolidated financial statements of the Bank and its subsidiaries "the Group" for the year ended 31 December 2022.

Global markets and supply chains continue to face significant challenges as economies continue to be weighed down by the pressures initially brought on by the COVID-19 pandemic. Many of these challenges have been compounded by geopolitical tensions in Europe, which have exacerbated uncertainty across markets. The US, UK, and several major European markets are expected to enter recessions of varying depths and lengths as factors such as inflation continue to bite. In 2023, global GDP is forecast to climb 1.6%, with US and European growth expected to rise just 0.8% and 0.2%, respectively.

The GCC economy is expected to grow at a pace twice as fast as the global economy due to robust oil prices along with government investment in national development programs. Furthermore, S&P Global Ratings recently revised its outlook for Bahrain to "positive", citing the Government's fiscal reforms and high crude prices. Bahrain's economy grew by 4.8% in 2022 and is expected to grow annually by around 4% until 2025.

The Bank was well positioned to pivot to evolving market trends, meet challenges and capitalize on emerging opportunities in 2022. Implementing our proven strategy and building on our brand refresh from 2021, we continued to grow core banking activities and successfully capture additional market share. During the year, we acquired Ithmaar Bank's consumer banking business, significantly expanding assets, customer deposits, and financing portfolio. The acquisition, which is now complete, cements the Bank's position as Bahrain's largest and the region's fastest growing Islamic financial institution. We are confident in our resilience and our ability to navigate through market volatility in 2023.

Despite the negative impact of several macroeconomic forces, the Bank posted a total operating income of BD 155.4 million (US\$ 412 million), reflecting a 42% increase compared to BD 109.7 million (US\$ 291 million) for the same period in 2021. Owing to inorganic growth as well as the organic expansion of key business lines, the Bank reported a net profit attributable to shareholders of BD 31.6 million (US\$ 83.8 million), compared to BD 21.4 million (US\$ 56.7 million) in 2021, reflecting an increase of 48%.

Following strong organic growth and the acquisition of Ithmaar Bank's consumer banking business, Al Salam Bank's total assets increased by 45% to BD 3.9 billion (US\$ 10.3 billion) on a year-on-year basis. The Bank now has one of the largest distribution network in Bahrain which has been rebranded to reflect Al Salam Bank's brand and values. The Bank recorded growth across verticals, with financing assets increasing by 46% from BD 1.36 billion (US\$ 3.6 billion) in 2021 to BD 2.0 billion (US\$ 5.3 billion) in 2022. The Bank continued enjoying a strong capital adequacy ratio of 21.9% as of 31 December 2022.

As a result of the Bank's robust performance, the Board of Directors recommended a dividend distribution of 10% of the Bank's issued and paid-up share capital (5% cash dividends and 5% stock dividends), aggregating BD 24.8 million (US\$ 65.8 million). The dividend recommendation is subject to AGM and regulatory approval.

2022 was a year of expansion as well as consolidation of the Bank's brand identity. Having launched a new, people-centric brand DNA in 2021, comprising of a new brand promise, our management and employees implemented the Bank's new values in strategies and daily work. In parallel, the Bank continued with the acceleration of its digitalization journey. The Bank launched a new banking application and opened more automated branches with the aim of enhancing profitability, efficiency, and providing more accessible, convenient services enabled by technology. All the Bank's branches are now paperless and fully automated.

As part of Al Salam Bank's acquisition of Ithmaar Bank's consumer banking business, the Bank developed a detailed integration roadmap to ensure a swift and seamless integration. Adopting the Bank's people-first mindset, the integration plan for all assets, employees and services is earmarked to set a new regional benchmark for successful M&As in terms of speed and proficiency. The Bank launched an external microsite to proactively inform clients about key updates and milestones. Additionally, the Bank established an integration hub, 'Al Salam Zone', to help onboard clients and to familiarize them with the Bank's services.

In parallel with our expansion in 2022, the Bank redoubled efforts to create additional value for the communities it serves. We launched several important initiatives, such as a tree planting campaign in the Kingdom through our CSR platform, Helping Hands. In 2023, we remain committed to creating value for the community and environment as well as for our customers.

The Board of Directors wishes to express its sincere appreciation to His Majesty King Hamad bin Isa Al Khalifa and His Royal Highness Prince Salman bin Hamad Al Khalifa, the Crown Prince and Prime Minister for their inspiring leadership. The stability they bring enables prosperity to thrive across the Kingdom, which provides a platform for all banks to grow, further cementing Bahrain's position as a regional banking hub. We would also like to express our heartfelt gratitude to the Ministry of Finance and National Economy, the Ministry of Industry, Commerce and Tourism, the Central Bank of Bahrain, the Bahrain Bourse, Dubai Financial Market, as well as the Group's correspondent banks, customers, shareholders, partners and employees for their continued support and cooperation.

We are pleased to have accomplished what we set out to achieve at the beginning of 2022, and we look forward to continuing our sustainable growth journey in 2023.

Moreover, in line with the Commercial Companies Law No. (21) of 2001 and its amendments, and pursuant to the provisions of Article No. (188) of the Commercial Companies Law and Article No. (125) of the Executive Regulations of Resolution No. (3) for the year 2023, we are pleased to attach the table below that shows the remuneration of members of the Board and the Executive Management for the year ending 31 December 2022.

Disclosure of remuneration of members of the board of directors and the executive management
First: Board of directors' remuneration details:

Name	Fixed remunerations				Variable remunerations				End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
	Remunerations of the chairman and BOD	Total allowance for attending Board and committee	Others*	Total	Remunerations of the chairman and BOD	Incentive plans	Others**	Total			
First: Independent Directors:											
1- Mr. Salim Abdullah Al Awadi	85,000	48,000	-	133,000	-	-	-	-	-	133,000	-
2-Mr. Alhur Mohammed Al Suwaidi	85,000	72,000	-	157,000	-	-	-	-	-	157,000	-
3-Mr. Tariq Abdul Hafidh Al- Aujaili	85,000	56,000	-	141,000	-	-	-	-	-	141,000	-
4-Mr. Khalid Salem Al Halyan	85,000	72,000	-	157,000	-	-	-	-	-	157,000	-
Second: Non-Executive Directors:											
1-H. E. Shaikh Khalid Al Mashani	100,000	78,000	-	178,000	-	-	-	-	-	178,000	-
2-Mr. Matar Mohamed Al Blooshi	85,000	40,000	-	125,000	-	-	-	-	-	125,000	-
3-Mr. Salman Saleh Al Mahmeed	85,000	52,000	-	137,000	-	-	-	-	-	137,000	-
4- Mr. Zayed Ali Al-Amin	85,000	40,000	-	125,000	-	-	-	-	-	125,000	-
5- Mr. Hisham Saleh Al-Saie	85,000	40,000	-	125,000	-	-	-	-	-	125,000	-
Total	780,000	498,000	-	1,278,000	-	-	-	-	-	1,278,000	-

Note: All amounts must be stated in Bahraini Dinars. The Bank does not have any Executive Directors
 Other remunerations:

* No in-kind benefits.

** No share of the profits.

Board remuneration represents allocation of proposed remuneration for 2022, subject to approval of the Annual General Meeting.

Executive management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/ in kind remuneration for 2022	Aggregate Amount
Top 6 remunerations for executives, including CEO* and Senior Financial Officer**	1,727,000	1,302,000	135,650	3,164,650

Note: All amounts must be stated in Bahraini Dinars.

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

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

Notes:

1. Paid salaries and allowances exclude indirect staff expenses such as GOSI contributions, leave and indemnity accruals, medical insurance and air travel reimbursements.
2. Remuneration details include other board remuneration earned by executive management from their role in investee companies or other subsidiaries.
3. In addition to the benefits reported above, during the year, the Bank initiated a long-term share incentive plan (LTIP) that allows employees to participate in a share-ownership plan. Under the terms of the LTIP, employees were allocated 120.45 million treasury shares, that would be vested and acquired by employees over a performance period of 6 years. The non-cash accounting charge for the LTIP is assessed under IFRS 2 - *Share-based payment* and recognized over the vesting period of 5 years. Refer to the Remuneration related disclosures in the Annual Report for a better understanding of the Bank's variable remuneration framework components.

Second: Executive management remuneration details:



H.E. Shaikh Khalid Bin Mustahil Al Mashani
 Chairman
 9 February 2023
 Manama, Kingdom of Bahrain

In the name of Allah, the Beneficent and the Merciful

Praise be to Allah; Prayers and peace be upon the most ennobled messenger, our Prophet Muhammad and his companion

The Report of Shari'a Supervisory Board of Al Salam Bank B.S.C, ("the Board") submitted to the General Assembly on the Bank's activities during the financial year ending 31 December 2022.

First: Memorandum and Articles of Association

Al Salam Bank, B.S.C. operates as an Islamic Bank authorized by the Central Bank of Bahrain. We therefore confirm that the Memorandum and Articles of Association of the Bank are in conformity with the rules and principles of Shari'a.

Second: Activities of the Bank and Board's Guidance

The Board has supervised the activities and transactions of the Bank during the reporting year either directly or through the Sharia Compliance department, it has, therefore, instructed and guided various departments to comply with the rules and principles of Shari'a and fatwas of the Board in relation to such activities and transactions. During the year, the SSB has held four meetings with the senior staff of the Bank, three of which are conducted online, and one was conducted physically. Also, SSB Executive Committee conducted nine meetings

Third: Contracts and Transactions

The Board studied the operational structures that have been presented to it during the year, approved their contracts and documents, and responded to the questions and inquiries that were raised in respect thereof and issued decisions and fatwas in this regard. These fatwas and decisions have been circulated to the concerned departments of the Bank for execution and implementation. It has also reviewed and

studied drafts of the contacts and agreements that were presented to it in respect to sukuks (investment certificates), syndicated financing transactions and investment funds and approved them after its comments were considered.

Fourth: Access to Records

The Management of the Bank has positively cooperated with the Board and, based on its request, allowed it to access the records, information and data of the Bank that are necessary for it to perform the Sharia audit and Sharia supervision.

Fifth: Shari'a Audit

The Board has reviewed Internal Shari'a Audit reports and pointed out its observations on the reports. The Board further reviewed and discussed the external Shari'a Auditor observations and took note of these observations.

Sixth: Training

The Board has taken note of the efforts of the Bank's Management in training its employees and recommended that the Management continues to conduct regular training programmes for its employees in order to raise the level of Shari'a performance and compliance.

Seventh:

During the year 2022, the Board has supervised the entire processes of the Bank's acquisition bid of the Ithmaar Bank's assets. It also supervised the suggested structure for the treatment of BBK shares that form part and parcel of the acquisition deal of the Ithmaar holdings.



Eighth: Balance Sheet

The Board has reviewed the balance sheet, profit and loss accounts, accounting policies for the preparation of the financial statement and the basis of distributing dividends and profits to the shareholders and depositors.

The Board believes that the financial numbers presented in the balance sheet, to the extent of correct presentation and information provided by the Bank's Management and the Bank's compliance with some observations, did not result in non-compliance of the underlying transactions with the rules and principles of Shari'a. The Bank got rid of non-Sharia compliant earnings. The Board, therefore, approved the balance sheet.

Ninth: Zakah

Since the Articles of Association of the Bank do not oblige the Bank to pay Zakah on behalf of shareholders, and on the invested Shareholder's equity, the Board has reviewed the calculation of the Zakah payable by the shareholders in order to be disclosed in the balance sheet. The Zakah calculation was prepared in line with Shari'a Standards on Zakah issued by Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI"). Resultantly, the Board approved the calculation of Zakah and instructed the bank to notify Shareholders of the Zakah for this year as a disclosure in the balance sheet.

Tenth: Charity Fund

The Board has ensured that all non-Sharia compliant income and dividends are channelled to the Bank's Charity Fund, which are noted to be resulted from either the previous transactions due to merger and conversion of conventional banks into Al Salam Bank or any other arising reasons.



Decision of the Board

The Board emphasizes that compliance to the rules and principles of the Shari'a in respect of all the businesses and transactions of the Bank is the responsibility of the Bank's Management. The Board confirms that the transactions executed by the Bank during the year, to the extent of the information and data made available to it by the Bank's Management, do not conflict, in general, with the rules and principles of Shari'a. The Board also confirms that the accuracy of information, data, numbers, and correctness of the profit distribution are the responsibility of the management.

Allah is the guider to the right path.
The Board wishes for the Bank a continuous success and rectitude in doing things that pleases Allah.

Fatwa and Shari'a Supervisory Board

Shaikh Adnan Abdulla AlQattan

Signature: _____

Dr. Fareed Yaqoob AlMeftah

Signature: _____

Dr. Nedham Mohamed Yaqoobi

Signature: _____

Dr. Osama Mohamed Bahar

Signature: _____

Dr. Mohammed Arbouna
Head of Shari'a Compliance
Department



KPMG Fakhro
12th Floor, Fakhro Tower
P O Box 710, Manama
Kingdom of Bahrain

Telephone +973 17 224807
Fax +973 17 227443
Website: home.kpmg/bh
CR No. 6220-2

Independent auditors' report

To the Shareholders of

*Al Salam Bank B.S.C.
Manama
Kingdom of Bahrain*

Opinion

We have audited the accompanying consolidated financial statements of Al Salam Bank B.S.C. (the "Bank"), and its subsidiaries (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statements of income, changes in equity, cash flows, for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

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

Basis for Opinion

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

Key Audit Matters

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



*Independent auditors' report
Al Salam Bank B.S.C. (continued)*

Impairment allowance on financing assets	
Refer to accounting policy in Note 2.4 (d), disclosure on use of estimates and judgment in Note 2.3 and management of credit risk in Note 32.2 to the consolidated financial statements.	
The key audit matter	How the matter was addressed in our audit
<p>We focused on this area because:</p> <ul style="list-style-type: none"> ▪ of the significance of financing assets representing 51% of total assets by volume; ▪ impairment of financing assets involves: <ul style="list-style-type: none"> ➢ complex estimates and judgement over both timing and recognition of impairment including susceptibility to management bias; ➢ use of statistical models and methodologies for determination of expected credit losses. The Group exercises significant judgments and makes a number of assumptions in developing its expected credit loss ('ECL) models which is determined as a function of the assessment of the probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD") associated with the underlying financial assets; and ➢ complex disclosure requirements regarding credit quality of the portfolio including explanation of key judgments and material inputs used in determination of expected credit losses; ▪ the need to measure ECLs on an unbiased forward-looking basis incorporating a range of economic conditions. Significant management judgment is applied in determining the economic scenarios used and the probability weightings applied to them; and ▪ adjustments to the ECL model results are made by management to address known impairment model limitations or emerging trends or risks. 	<p>Our procedures, amongst others, included:</p> <ul style="list-style-type: none"> ▪ Evaluating the appropriateness of the accounting policies adopted based on the requirements of applicable accounting standards, regulatory guidance, our business understanding and industry practice. ▪ Confirming our understanding of management's processes, systems and controls over the ECL calculation process <p>Control testing We performed process walkthroughs to identify the key systems, applications and controls associated with the ECL calculation process. Key aspects of our control testing involved the following:</p> <ul style="list-style-type: none"> ▪ Testing controls over the transfer of data between underlying source systems and the ECL models that the Group operates. ▪ Performing a detailed credit risk assessment for a sample of performing corporate contracts to test controls over the credit rating and monitoring process. ▪ Testing controls over the review and approval of post model adjustments and management overlays and the governance process over such overlays. ▪ Testing controls over the modelling process, including governance over model monitoring, validation and approval. <p>Tests of details Key aspects of our testing involved:</p> <ul style="list-style-type: none"> ▪ Reviewing a sample of credit files for performing accounts and evaluating the financial performance of the borrower, source of repayment and eligible collateral and on this basis assess the appropriateness of credit rating and staging. ▪ Sample testing over key data inputs used in estimating the ECL and assessing the completeness, accuracy and relevance of data used. ▪ Re-performing key elements of the Group's model calculations and assessing performance results for accuracy.

	<ul style="list-style-type: none"> ▪ Sample testing over factors used to determine whether significant increase in credit risk has been appropriately identified. ▪ Selecting a sample of post model adjustments and management overlays in order to assess the reasonableness of the adjustments by challenging key assumptions, testing the underlying calculation and tracing a sample back to source data. ▪ Assessing the adequacy of provisions against individually impaired financing assets (stage 3) in accordance with the applicable FAS. <p>Use of specialists</p> <p>For the relevant portfolios examined, we have involved KPMG specialists to assist us in assessing IT system controls and challenging key management assumptions used in estimating expected credit losses. Key aspects of their involvement included the following:</p> <ul style="list-style-type: none"> ▪ We involved our Information Technology Audit (IT) specialists to test the relevant General IT and Application Controls over key systems used for data extraction as part of the ECL calculation process. ▪ We involved our Financial Risk Management (FRM) specialists in: <ul style="list-style-type: none"> ▪ Evaluating the appropriateness of the Group's ECL methodologies (including the staging criteria used); ▪ On a test check basis, re-performing the calculation of certain components of the ECL model (including the staging criteria); ▪ Evaluating the appropriateness of the Group's methodology for determining the economic scenarios used and the probability weights applied to them; and ▪ Evaluating the overall reasonableness of the management forward-looking estimates by comparing it to external market data and our understanding of the underlying sector and macroeconomic trends. <p>Disclosures</p> <p>We assessed the adequacy of the Group's disclosure in relation to use of significant estimates and judgement and credit quality of financing assets by reference to the requirements of relevant accounting standards.</p>
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Business Combination

Refer to accounting policy in Note 2.2 and disclosure related to the business combination in Note 46 to the consolidated financial statements.

The key audit matter

During the year, the Group acquired the consumer banking business, takaful subsidiary and certain investment assets from Ithmaar Holding Group. This transaction has been accounted for in accordance with IFRS 3 *Business Combinations* ("IFRS 3") using the acquisition method.

We have considered this to be a key audit matter due to:

- significant increase in assets and liabilities acquired as a result of the acquisition;
- the complexity associated with application of acquisition accounting principles, including the recognition of newly identified intangible assets and the resultant goodwill; and
- the subjectivity and judgement in determining the fair value and its allocation to the assets acquired, including purchased or originated credit impaired (POCI) financial assets, and the liabilities assumed.

How the matter was addressed in our audit

Our procedures, amongst others, included:

- involving our valuation specialist to review the appropriateness of fair value adjustment recognized by management on the acquired assets and liabilities to ascertain that they are in accordance with the requirements of IFRS 3;
- challenging management's basis and assumptions used in determining initial classification of the acquired assets and liabilities and identification of intangible assets;
- evaluating the accounting policy adopted by management for the identification of POCI financial assets and assessed the appropriateness of fair value adjustments made on initial recognition;
- reviewing the appropriateness of the useful lives assigned to the identified intangible assets;
- testing the process and controls put in place over consolidation of the financial position and results of the subsidiary from the date of acquisition, including assessing consistency of accounting policies used; and

Disclosures

evaluating the appropriateness and adequacy of disclosures in relation to the business combination by reference to the relevant accounting standards.

Other Information

The board of directors is responsible for the other information. The other information comprises the annual report but does not include the consolidated financial statements and our auditors' report thereon. Prior to the date of this auditors' report, we obtained the board of directors' report and other sections which forms part of the annual report.

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

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



*Independent auditors' report
Al Salam Bank B.S.C. (continued)*

Responsibilities of Board of Directors for the Consolidated Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with ASIFIs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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



*Independent auditors' report
Al Salam Bank B.S.C. (continued)*

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

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

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

Report on Other Regulatory Requirements

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

The engagement partner on the audit resulting in this independent auditors' report is Mahesh Balasubramanian.

KPMG Fakhro
Partner Registration Number 137
9 February 2023

Al Salam Bank B.S.C.

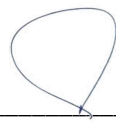
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

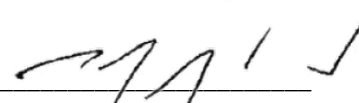
	Note	2022 BD '000	2021 BD '000
ASSETS			
Cash and balances with banks and central bank	4	367,747	309,149
Placements with financial institutions	5	113,096	133,860
Investment in sukuk	6	837,381	639,688
Financing assets	7	1,986,465	1,364,452
Non-trading investments	9	106,796	91,591
Takaful and related assets	10	51,690	-
Investment in real estate	11	62,462	60,904
Investment in associates	12	254,006	14,533
Other assets	13	67,720	44,423
Goodwill and other intangible assets	14	51,998	25,971
TOTAL ASSETS		3,899,361	2,684,571
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, OWNERS' EQUITY AND NON-CONTROLLING INTEREST			
LIABILITIES			
Placements from financial institutions and customers	5	187,724	126,891
Customers' current accounts		550,281	482,739
Murabaha term financing	15	320,989	100,216
Takaful and related liabilities	10	91,741	-
Other liabilities	16	78,798	53,789
TOTAL LIABILITIES		1,229,533	763,635
EQUITY OF INVESTMENT ACCOUNTHOLDERS			
Wakala from financial institutions	17	319,339	299,607
Wakala and mudaraba from customers	17	2,013,134	1,324,570
TOTAL EQUITY OF INVESTMENT ACCOUNTHOLDERS		2,332,473	1,624,177
OWNERS' EQUITY			
Share capital	18	249,231	241,972
Treasury shares	18	(12,021)	(12,473)
Share premium		209	209
Retained earnings		31,691	19,531
Reserves		34,141	47,012
Total owners' equity		303,251	296,251
Non-controlling interest		34,104	508
TOTAL EQUITY		337,355	296,759
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, OWNERS' EQUITY AND NON-CONTROLLING INTEREST		3,899,361	2,684,571



H.E. Shaikh Khalid bin Mustahil Al Mashani
Chairman



Matar Mohamed Al Blooshi
Deputy Chairman



Rafik Nayed
Group Chief Executive Officer

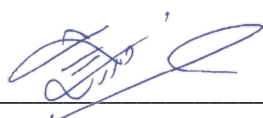
The attached notes 1 to 47 form part of these consolidated financial statements.

Al Salam Bank B.S.C.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2022

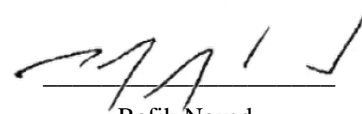
	Note	2022 BD '000	2021 BD '000
OPERATING INCOME			
Finance income	21	95,158	76,357
Income from sukuk		34,778	22,421
Income from non-trading investments, net	22	2,720	370
(Loss) / income from properties, net	23	(222)	56
Fees and commission, net	24	7,828	7,381
Share of profit from associates, net	12	9,329	2,697
Income from Takaful operations, net	25	3,773	-
Other income	26	2,024	462
Total operating income		155,388	109,744
Finance expense on placements from financial institutions		(4,955)	(4,154)
Finance expense on murabaha term financing		(6,046)	(2,876)
Return on equity of investment accountholders before Group's share as a mudarib and wakil		(110,403)	(71,664)
Group's share as a mudarib and wakil		62,412	35,687
Share of profit of investment accountholders	17	(47,991)	(35,977)
Net operating income		96,396	66,737
OPERATING EXPENSES			
Staff cost	27	23,564	17,033
Premises cost		1,987	1,866
Depreciation and amortization		2,293	1,283
Other operating expenses	28	22,799	12,817
Total operating expenses		50,643	32,999
PROFIT BEFORE IMPAIRMENT ALLOWANCES		45,753	33,738
Net impairment charge on financing assets and investment	8	(12,683)	(12,514)
NET PROFIT FOR THE YEAR		33,070	21,224
ATTRIBUTABLE TO:			
- Shareholders of the bank		31,593	21,367
- Non-controlling interest		1,477	(143)
		33,070	21,224
Basic and diluted earnings per share (fils)	20	13.5	8.8



H.E. Shaikh Khalid bin Mustahil Al Mashani
Chairman



Matar Mohamed Al Blooshi
Deputy Chairman



Rafik Nayed
Group Chief Executive Officer

The attached notes 1 to 47 form part of these consolidated financial statements.

Al Salam Bank B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2022

Amounts in BD '000s

	<i>Attributable to shareholders of the bank</i>												
	<i>Reserves</i>									<i>Total owners' equity</i>	<i>Non-controlling interest</i>	<i>Total equity</i>	
	<i>Share capital</i>	<i>Treasury stock</i>	<i>Share premium</i>	<i>Retained earnings</i>	<i>Statutory reserve</i>	<i>Share grant scheme</i>	<i>Investment fair value reserve</i>	<i>Real estate fair value reserve</i>	<i>Foreign exchange translation reserve</i>				<i>Total reserves</i>
Balance as of 1 January 2022	241,972	(12,473)	209	19,531	18,600	-	9,532	22,865	(3,985)	47,012	296,251	508	296,759
Net profit for the year	-	-	-	31,593	-	-	-	-	-	-	31,593	1,477	33,070
Movement in fair value, net	-	-	-	-	-	-	(6,137)	(66)	-	(6,203)	(6,203)	-	(6,203)
Reclassified to amortized cost	-	-	-	-	-	-	(4,627)	-	-	(4,627)	(4,627)	-	(4,627)
Associate share of changes	-	-	-	-	-	-	(7,411)	-	-	(7,411)	(7,411)	-	(7,411)
Foreign currency re-translation	-	-	-	-	-	-	-	-	277	277	277	-	277
Total recognised income and expense	-	-	-	31,593	-	-	(18,175)	(66)	277	(17,964)	13,629	1,477	15,106
Bonus shares issued	7,259	-	-	(7,259)	-	-	-	-	-	-	-	-	-
Cash dividend for the year 2021	-	-	-	(9,121)	-	-	-	-	-	-	(9,121)	-	(9,121)
Share grant scheme	-	-	-	-	-	1,934	-	-	-	1,934	1,934	-	1,934
Transfer to statutory reserve	-	-	-	(3,159)	3,159	-	-	-	-	3,159	-	-	-
Movement of treasury shares, net	-	452	-	106	-	-	-	-	-	-	558	-	558
Movements in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	32,119	32,119
Balance at 31 December 2022	249,231	(12,021)	209	31,691	21,759	1,934	(8,643)	22,799	(3,708)	34,141	303,251	34,104	337,355
Balance as of 1 January 2021	230,450	(7,530)	12,209	(5,549)	21,778	-	9,844	23,348	(3,784)	51,186	280,766	401	281,167
Impact of adopting FAS 32	-	-	-	57	-	-	-	-	-	-	57	-	57
Balance as at 1 January 2021 (restated)	230,450	(7,530)	12,209	(5,492)	21,778	-	9,844	23,348	(3,784)	51,186	280,823	401	281,224
Net profit for the year	-	-	-	21,367	-	-	-	-	-	-	21,367	(143)	21,224
Movement in fair value, net	-	-	-	-	-	-	(312)	-	-	(312)	(312)	-	(312)
Movement from reserve to income statement	-	-	-	-	-	-	-	(483)	-	(483)	(483)	-	(483)
Foreign currency re-translation	-	-	-	-	-	-	-	-	(201)	(201)	(201)	-	(201)
Total recognised income and expense	-	-	-	21,367	-	-	(312)	(483)	(201)	(996)	20,371	(143)	20,228
Bonus shares issued	11,522	-	-	(11,522)	-	-	-	-	-	-	-	-	-
Transfer to retained earnings (note 18.2)	-	-	(12,000)	17,315	(5,315)	-	-	-	-	(5,315)	-	-	-
Transfer to statutory reserve	-	-	-	(2,137)	2,137	-	-	-	-	2,137	-	-	-
Purchase of treasury shares	-	(4,943)	-	-	-	-	-	-	-	-	(4,943)	-	(4,943)
Movements in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	250	250
Balance at 31 December 2021	241,972	(12,473)	209	19,531	18,600	-	9,532	22,865	(3,985)	47,012	296,251	508	296,759

The attached notes 1 to 47 form part of these consolidated financial statements.

Al Salam Bank B.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2022

	2022 BD '000	2021 BD '000
OPERATING ACTIVITIES		
Net profit for the year	33,070	21,224
Adjustments:		
Depreciation	2,293	1,283
Amortisation of premium on sukuk - net	1,333	1,016
Loss from non-trading investments and properties	929	155
Net impairment charge	12,683	12,514
Share of results from associates	(9,329)	(2,697)
Operating income before changes in operating assets and liabilities	<u>40,979</u>	<u>33,495</u>
Changes in operating assets and liabilities:		
Mandatory reserve with central bank	(57,129)	(10,530)
Murabaha and Wakala receivables from banks with original maturities of 90 days or more	-	(2,019)
Financing assets	(161,698)	(88,095)
Takaful and related assets	12,713	-
Other assets	(28,139)	(9,415)
Placements from financial institutions and customers	46,465	10,100
Customers' current accounts	32,270	118,769
Takaful and related liabilities	55,402	-
Other liabilities	57,128	2,864
Equity of investment accountholders	(46,359)	398,797
Net cash (used in) / from operating activities	<u>(48,368)</u>	<u>453,966</u>
INVESTING ACTIVITIES		
Acquisition of sukuk	(209,888)	(231,391)
Cash acquired as part of business combination	71,711	-
Disposal of non-trading investments and real estate	(21,010)	12,079
Purchase of premises and equipment	(17,070)	(2,815)
Net cash used in investing activities	<u>(176,257)</u>	<u>(222,127)</u>
FINANCING ACTIVITIES		
Drawdown / (repayment) of murabaha term financing	220,773	(121,455)
Dividends paid	(9,121)	(1,139)
Purchase of treasury shares	558	(4,943)
Net cash from / (used in) financing activities	<u>212,210</u>	<u>(127,537)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>(12,415)</u>	<u>104,302</u>
Cash and cash equivalents at 1 January	<u>395,947</u>	<u>291,645</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	<u><u>383,532</u></u>	<u><u>395,947</u></u>
Cash and cash equivalents comprise of:*		
Cash and other balances with central bank	91,728	79,458
Balances with other banks **	178,634	184,648
Placements with financial institutions with original maturities of less than 90 days	113,170	131,841
	<u><u>383,532</u></u>	<u><u>395,947</u></u>

* Cash and cash equivalents is gross of the expected credit loss of BD 207 thousand (2021: BD 87 thousand).

** Balances with other banks is net of restricted cash of BD 5,013 thousand which is not available for day to day operations (2021: BD 9,746 thousand).

The attached notes 1 to 47 form part of these consolidated financial statements.

31 December 2022

1 REPORTING ENTITY

Al Salam Bank B.S.C. ("the Bank") was incorporated in the Kingdom of Bahrain under the Bahrain Commercial Companies Law No. 21/2001 and registered with Ministry of Industry and Commerce ("MOIC") under Commercial Registration number 59308 on 19 January 2006. The Bank is regulated and supervised by the Central Bank of Bahrain ("the CBB") and has an Islamic retail banking license and operates under Islamic principles in accordance with all relevant regulatory guidelines for Islamic banks issued by the Central Bank of Bahrain ("CBB").

The Bank's registered office is at Building 935, Road 1015, Block 410, Sanabis, Kingdom of Bahrain. The Bank's ordinary shares are listed in Bahrain Bourse and Dubai Financial Market.

In the first quarter of 2022, the Bank entered into definitive discussions in relation to the acquisition of certain group of assets from Ithmaar Holding's group of companies consisting of the consumer banking business of Ithmaar Bank, 26.19% shareholding in Bank of Bahrain and Kuwait B.S.C. (BBK) and 55.91% holding in Solidarity Group Holding, subject to the requisite approvals and signing of definitive agreements. The acquisition was completed on 7 July 2022 after obtaining required regulatory and corporate approvals.

The Bank's effective holding in below principal subsidiaries are as follows:

Name of entity	Country of incorporation	Principal activities	% Holding	
			2022	2021
Al Salam Bank- Seychelles (ASBS)	Seychelles	Provide Banking services	70%	70%
Solidarity Group Holding BSC (c)	Bahrain	Holding Company	55.91%	-

The Bank operates through 23 branches (2021: 9 branches) in the Kingdom of Bahrain and the subsidiary has 1 branch (2021: 1 branch) in Seychelles, which offer a full range of Shari'a-compliant banking services and products. The activities of the Bank includes managing profit sharing investment accounts, offering Islamic financing contracts, dealing in Shari'a-compliant financial contracts as principal / agent, managing Shari'a-compliant financial contracts and other activities permitted for under the CBB's Regulated Islamic Banking Services as defined in the licensing framework.

These consolidated financial statements have been authorised for issue in accordance with a resolution of the Board of Directors dated 9 February 2023.

2 ACCOUNTING POLICIES**2.1 BASIS OF PREPARATION AND PRESENTATION**

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries together ("the Group") as at 31 December 2022 and are prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Islamic Sharia' rules and Principles as determined by the Sharia' Supervisory Board of the Bank and in conformity with the Bahrain Commercial Companies Law and the guidelines of CBB and Financial Institutions Law.

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

The consolidated financial statements of the Group are prepared on a historical cost basis, except for certain investment in sovereign and corporate sukuk, non-trading investments, investments properties and certain tahawwut financial instruments, which are carried at fair value.

These consolidated financial statements are presented in Bahraini Dinars, being the functional and presentation currency of the Bank, rounded to the nearest thousand [BD '000], except where otherwise indicated.

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

31 December 2022

2 ACCOUNTING POLICIES (continued)

2.2 BASIS OF CONSOLIDATION

(i) Business combinations

Business combinations are accounted for using the acquisition method when the acquired set of activities meets the definition of a business. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets.

In a business combination achieved in stages, the Group remeasures its previously held equity interest in the acquiree at its acquisition date fair value and recognises the resulting gain or loss, if any, in the consolidated income statement.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

In a business combination in which the Bank and the acquiree exchange only equity interests, the acquisition-date fair value of the acquiree's equity interests is used to determine the amount of goodwill.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see 2.4 (q)). Any gain on a bargain purchase is recognised in consolidated income statement immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in consolidated income statement.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in consolidated income statement.

Investments acquired that do not meet the definition of business combination are recorded as assets acquisitions e.g. financial assets or investment in properties as appropriate. When such investments are acquired, the Group allocates the cost of acquisition between the individual identifiable assets and liabilities based on their relative fair values at the date of acquisition. Cost of such assets is the sum of all consideration given and any non-controlling interest recognised. If the non-controlling interest has a present ownership interest and is entitled to a proportionate share of net assets upon liquidation, the Group recognises the non-controlling interest at its proportionate share of net assets.

(ii) Subsidiaries

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2022. The financial statements of the subsidiaries are prepared for the same reporting year. All subsidiaries are using consistent accounting policies of the Bank.

Subsidiaries are those enterprises (including special purpose entities) controlled by the Bank. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases. Control is presumed to exist when the Bank owns majority of the voting rights in the investee.

2 ACCOUNTING POLICIES (continued)

2.2 BASIS OF CONSOLIDATION (continued)

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific financing or investment transaction and usually voting rights are not relevant for the operating of such entities. An investor that has decision-making power over an investee and exposure to variability of returns determines whether it acts as a principal or as an agent to determine whether there is a linkage between power and returns. When the decision maker is an agent, the link between power and returns is absent and the decision maker's delegated power does not lead to a control conclusion. Where the Group's voluntary actions, such as finance amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and an SPE, the Group performs a reassessment of control over the SPE.

The financial statements of SPE are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's fiduciary assets under management is set out in note 37.

(iii) Non-controlling interests

Non-controlling interests (NCI) are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Profits or losses attributable to non-controlling interests are reported in the consolidated income statement as income attributable to non-controlling interests. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group.

(iv) Loss of control

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in the consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in equity in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other equity are reclassified to the consolidated income statement.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Intra-group gains on transactions between the Group and its equity accounted associates are eliminated to the extent of the Group's profit in the investees. Unrealised losses are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Accounting policies of the subsidiaries and associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(vi) Foreign currency

(a) Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Bahraini Dinars, which is the Bank's functional and presentation currency.

(b) Foreign currencies

Foreign currency transactions are recorded at rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies at the consolidated statement of financial position date are retranslated at market rates of exchange prevailing at that date. Gains and losses arising on translation are recognised in the consolidated income statement. Non-monetary assets that are measured in terms of historical cost in foreign currencies are recorded at rates of exchange prevailing at the value dates of the transactions. Translation gains or losses on non-monetary items classified as "fair value through equity" are included in consolidated statement of changes in equity until the related assets are sold or derecognised at which time they are recognised in the consolidated income statement. Translation gains on non-monetary assets classified as "fair value through consolidated income statement" are directly recognised in the consolidated income statement as part of fair value changes.

(c) Translation of foreign operations

Assets and liabilities of foreign subsidiaries and associates whose functional currency is not Bahraini Dinars are translated into Bahraini Dinars at the rates of exchange prevailing at the reporting date. Income and expense items are translated at average exchange rates prevailing for the reporting year. Any exchange differences arising on translation are included in foreign exchange translation reserve forming part of equity except to the extent that the translation difference is allocated to the non-controlling interest. On disposal of foreign operations, exchange differences relating thereto and previously recognised in foreign exchange translation reserve are recognised in the consolidated statement of changes in equity.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the consolidated financial statements requires management to make judgments and estimates that affect the reported amount of financial assets and liabilities and disclosure of contingent liabilities. These judgments and estimates also affect the revenues and expenses and the resultant allowance for losses as well as fair value changes reported in equity.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimating uncertainty at the date of the consolidated statement of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment assessment of financial contracts subject to credit risk

In determining expected credit losses ('ECL') on financial contracts subject to credit risk, significant estimates are made in determination of inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information. Refer to notes 2.4 (d) and 32.2 for further details.

Impairment of goodwill

Impairment exists when carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

The recoverable amount of the cash-generating unit's goodwill is based on value-in-use calculations using cash flow projections from financial budgets approved by the Board of Directors, extrapolated for three years projection using nominal projected growth rate. The determination of projected growth rate and discount rate involves judgment whereas, preparation of cash flow projections requires various management assumptions.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates based on the actual loss experience. Refer note 14 for further details.

Impairment of fair value through equity investments

The Group determines that investments carried at fair value through equity are impaired when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgment. In the case of quoted equity securities in active markets, the Group generally considers a decline in value below cost of 30%, or a decline that persists for more than 9 months as an indicator of impairment. In the case where markets for the investment are assessed to be inactive, the Group determines impairment based on its assessment of fair value and the investee companies' financial health, industry and sector performance.

Fair value of unquoted equity

The Group determines fair value of equity investments that are not quoted in active markets by using valuation techniques such as discounted cash flows, income approaches and market approaches. Fair value estimates are made at a specific point in time, based on market conditions and information about the investee companies. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events (such as continued operating profits and financial strengths). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments. In case where discounted cash flow models have been used to estimate fair values, the future cash flows have been estimated by the management based on information from and discussions with representatives of investee companies and based on the latest available audited and un-audited financial statements. The basis of valuation has been reviewed by the Management in terms of the appropriateness of the methodology, soundness of assumptions and correctness of calculations and have been approved by the Board of Directors for inclusion in the consolidated financial statements.

Valuation of investments in private equity and joint ventures in real estate measured at fair value through profit and loss involve judgment and is normally based on one of the following:

- valuation by independent external valuers for underlying properties / projects;
- recent arm's length market transactions;
- current fair value of another contract that is substantially similar;
- present value of expected cash flows at current rates applicable for items with similar terms and risk characteristics; or
- application of other valuation models.

Estimating fair value of investment property and net realisable value of development property

Investment properties are carried at their fair values. Development property is stated at lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated selling expenses.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

The Group appoints experienced external valuers under A category approved by Real Estate Regulatory Authority to determine the market value of the investment and development properties at the statement of financial position date. For large development projects, a residual value approach is adopted which forecasts future cost to completion and use of the expected development. The management has forecasted the cost of completion of development property and has engaged independent valuers to estimate the residual value of the development property based on estimated / forecasted market selling prices for similar properties. Net realisable value estimates are made at a specific point in time, based on market conditions and information about the expected use of development property.

The Group calibrates the valuation techniques yearly and tests these for validity using either prices from observable current market transactions in the same contract or other available observable market data.

Judgments

Going concern

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

Control over special purpose entities

The Group sponsors the formation of special purpose entities (SPE's) primarily for the purpose of allowing clients to hold investments. The Group provides corporate administration, investment management and advisory services to these SPE's, which involve the Group making decisions on behalf of such entities. The Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. The Group does not consolidate SPE's that it does not have the power to control directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. In determining whether the Group has the power to control an SPE, judgements are made about the objectives of the SPE's activities, its exposure to the risks and rewards, as well as about the Group's intention and ability to make operational decisions for the SPE and whether the Group derives benefits from such decisions.

Investment classification

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as investments carried at fair value through income statement or investments carried at fair value through equity or investments carried at amortised cost. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification.

Significant judgement is involved in assessment of the business model within which the investments are managed and assessment of whether the contractual terms of the investment represents either a debt-type instrument or other investment instrument having reasonably determinable effective yield.

Impairment on equity-type investments classified as fair value through equity

In the case of equity-type investments classified as fair value through equity and measured at fair value, a significant or prolonged decline in the fair value of an investment below its cost is considered in determining whether the investments are impaired. If any such evidence exists for equity-type investments classified as fair value through equity, the cumulative loss previously recognised in the consolidated statement of changes in equity is removed from equity and recognised in the consolidated statement of income. Impairment losses recognised in the consolidated statement of income on equity-type investments are subsequently reversed through equity.

In the extra-ordinary market conditions, for the purpose of determination of what constitutes significant or prolonged decline in fair value of investments, the management takes into account the following additional factors:

- Their intention relating to the respective holding years of such investments i.e. for trading purposes, or with intention for strategic investment, or for long-term dividends and capital gains etc.;
- As to whether the decline in value of investment is in line with the overall trend of decline in the relevant or local market corresponding to the uncertain economic condition;
- Forecasts of expected recovery of market values within the expected holding years; and/ or
- Forecasts of the expected recovery of the core business of the investee entity within the expected holding years and consequential cash flows to the institution.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES

a) Financial instruments

Financial assets consist of balances with banks and the Central Bank, Sovereign Sukuk, Corporate Sukuk, placements with financial institutions, Murabaha financing (net of deferred profits), Mudaraba financing, Musharaka financing, receivable under finance lease assets contracts, asset under conversion, non-trading investments in equity securities, tahawwut used for risk management and other receivables.

Financial liabilities contracts consist of placement from financial institutions, placements from customers, customers' current accounts, murabaha term financing and other payables.

Except for sukuks carried at FVTE, non-trading investments and tahawwut used for risk management instruments, all financial assets and financial liabilities are carried at amortised cost.

A financial asset or financial liability is measured initially at fair value plus, for an item not at Fair Value Through Profit and Loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

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

The Group segregates its investment into following categories:

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

i) *Debt-type instruments:*

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

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

i) *Other investment instruments*

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

b) Trade and settlement date accounting

The Group recognises financing, investments, deposits and equity of investment accountholders on the date on which they are originated. Purchases and sale of all other financial assets and liabilities are recognised on the trade date, i.e. the date that the Group contracts to purchase or sell the asset or liability.

c) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

Financial liabilities are derecognised when the obligation specified in the contract is legally discharged, cancelled, or expired.

d) Impairment assessment

Impairment of financial assets and commitments

The Group applies three-stage approach to measure ECL on financial assets carried at amortised cost which include assets migrated 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.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (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 provisions 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 and assets acquired for leasing

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

Evidence that a financial asset and finance lease asset is credit-impaired includes the following observable data:

- significant financial difficulty of the customer or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the customer will enter bankruptcy or other financial re-organization; or
- the disappearance of an active market for a security because of financial difficulties.

Write-offs

Financial assets 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 customer 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 credit losses in the consolidated statement of financial position

Allowance for 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;
- financing commitments and financial guarantee contracts: generally as a provision under other liabilities; and
- where a financial contract includes both a drawn and undrawn component, and the Group has identified the ECL on the financing commitments / off-balance sheet component separately from those on the drawn component, the Group presents allowance for credit losses for drawn components. The amount is presented as a deduction from the gross carrying amount of the drawn component. Allowance for credit losses for the undrawn component is presented as a provision in other liabilities.

e) Cash and cash equivalents

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

f) Financing assets

Financing assets comprise of Sharia'a compliant financing contracts with fixed or determinable payments. These include financing provided through Murabaha, Musharaka, Mudaraba contracts and credit card-based receivables. Financing assets are recognised on the date they are originated and are carried at their amortised cost less allowance for expected credit losses, if any.

Modification of financing assets

If the terms of the financing asset are modified, then the Group evaluates whether the cashflows of the modified asset are substantially different. If the cashflows are substantially different, then the contractual rights to cashflows from the original financing asset are deemed to have expired. In this case, the original financing asset is derecognised and a new financing asset is recognised at fair value plus any eligible transaction cost.

If the modification of a financing asset measured at amortized cost does not result in the derecognition of the financing asset, then the Group first recalculates the gross carrying amount of the financing asset using the original effective profit rate of the asset and recognises the resulting adjustment as a modification gain or loss in consolidated income statement.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Financing assets (continued)

All Sharia compliant contracts are interpreted for accounting purposes in its entirety and all linked -contracts or promissory note arrangements are considered together with the main financing contract to reflect the single economic outcome and purpose of the contracts.

f-i) Murabaha financing

Murabaha is a contract whereby one party ("Seller") sells an asset to the other party ("Purchaser") at cost plus profit and on a deferred payment basis, after the Seller has purchased the asset based on the Purchaser's promise to purchase the same on such Murabaha basis. The sale price comprises the cost of the asset and an agreed profit margin. The sale price (cost plus the profit amount) is paid by the Purchaser to the Seller on installment basis over the agreed finance tenure. Under the Murabaha contract, the Group may act either as a Seller or a Purchaser, as the case may be.

The Group considers the promise to purchase made by the Purchaser in a Murabaha transaction in favor of the Seller to be binding.

f-ii) Mudaraba financing

Mudaraba is a contract between two parties whereby one party is a fund provider (Rab Al Mal) who would provide certain amount of funds (Mudaraba Capital), to the other party (Mudarib). Mudarib would then invest the Mudaraba Capital in a specific enterprise or activity deploying its experience and expertise for a specific pre-agreed share in the resultant profit. The Rab Al Mal is not involved in the management of the Mudaraba activity. The Mudarib would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Mudaraba contract; otherwise the loss would be borne by the Rab Al Mal. Under the Mudaraba contract, the Group may act either as Mudarib or as Rab Al Mal, as the case may be.

f-iii) Musharaka

Musharaka is used to provide venture or project finance. The Group and customer contribute towards the capital of the Musharaka. Profits are shared according to a pre-agreed profit distribution ratio, but losses are borne by the partners according to the capital contributions of each partner. Capital contributions may be in cash or in kind, as valued at the time of entering into the Musharaka.

f-iv) POCI financial assets

Purchased or Originated Credit Impaired (POCI) financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL are incorporated into the calculation of the effective profit rate on initial recognition. Consequently, POCI assets do not carry an impairment allowance on initial recognition. The amount recognized as a loss allowance subsequent to initial recognition is equal to the changes in lifetime ECL since initial recognition of the asset.

g) Finance lease assets

Finance lease assets (also called Ijarah Mutahia Bitamleek contracts) is an agreement with the customers whereby the Group ("Lessor") leases an asset to the customer ("Lessee") after purchasing / acquiring a specified asset, either from a third-party seller or from the customer, according to the customer's request and promise to lease against certain rental payments for a specific lease term / years, payable on fixed and / or variable rental basis.

The finance lease agreement specifies the leased asset, duration of the lease term, as well as the basis for rental calculation, the timing of rental payment and responsibilities of both parties during the lease term. The Lessee provides the Lessor with an undertaking to renew the lease years and pay the relevant rental payment amounts as per the agreed schedule throughout the lease term.

The Lessor retains the ownership of the assets throughout the lease term. At the end of the lease term, upon fulfillment of all the obligations by the Lessee under the finance lease agreement, the Lessor will sell the leased asset to the Lessee for a nominal value based on sale undertaking given by the Lessor. Leased assets are usually in the type of residential properties and commercial real estate.

Depreciation is provided on a systematic basis on all Finance lease assets other than land (which is deemed to have an indefinite useful life), at rates calculated to write off the cost of each asset over the shorter of either the lease term or economic life of the asset.

The Group measures at each reporting date whether there is objective evidence that finance lease assets are impaired. Impairment loss is recognised when the carrying amount of assets exceeds its recoverable amount. The estimates of future cashflows, when dependent on a single customer, takes into consideration the credit evaluation of the customer in addition to other factors. Impairment losses, if any, are recognised in the income statement.

Modification of finance lease assets

If the terms of the finance lease assets are modified, then the Group evaluates whether the cashflows of the modified asset are substantially different. If the cashflows are substantially different, then the contractual rights to cashflows from the original finance lease assets are deemed to have expired. In this case, the original finance lease assets is derecognised and a new finance lease assets is recognised at fair value plus any eligible transaction cost.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Finance lease assets (continued)

If the modification of a finance lease assets measured at amortized cost does not result in the derecognition of the finance lease assets then the Group first recalculates the gross carrying amount of the finance lease assets using the original effective profit rate of the asset and recognises the resulting adjustment as a modification gain or loss in consolidated income statement.

h) Placements with financial institutions

Placements with financial institutions comprise of short-term treasury contracts with financial institutions in the form of Commodity Murabaha receivables and Wakala investments. These placements are stated at amortised cost net of deferred profits and allowance for credit losses, if any.

i) Sovereign Sukuk and Corporate Sukuk

These investments are in the nature of debt-type instruments that provide fixed or determinable payments of profits and capital. Sukuk that are assessed under two distinct business models:

- Held-to-collect business model – This portfolio includes short-term and long-term Sukuk and treasury instruments that are held to meet core liquidity requirements and consist of high-quality liquid assets that are typically held to their contractual maturity. Assets under this model are classified and measured at amortised cost. Although management considers fair value information, it does so from a liquidity perspective, and the main focus of its review of financial information under this business model is on the credit quality and contractual returns.

- Both held-to-collect and for sale business model: The remaining treasury portfolio will be held under active treasury management to collect both contract cash flows and for sale. The key management personnel consider both of these activities as integral in achieving the objectives set for the Treasury business unit. This portfolio, while generating returns primarily through yield, is also held to meet expected or unexpected commitments, or to fund anticipated acquisitions or growth in other business units. Assets under this model are classified and measured at fair value through equity.

j) Assets and liabilities under conversion

Assets under conversion:

Loans and advances

At amortised cost less any amounts written off and allowance for credit losses, if any.

Non-trading investments

These are classified as fair value through equity investments and are fair valued based on criteria set out in note 2.4 (k).

k) Non-trading investments

Equity-type investments

Equity-type instruments are investments that do not exhibit features of debt-type instruments and include instruments that evidence a residual profit in the assets of an entity after deducting all its liabilities. Investments in equity type instruments are classified in the following categories: 1) at fair value through income statement ('FVTPL') or 2) at fair value through equity ('FVTE'), consistent with its investment strategy.

Recognition and de-recognition

Investment securities are recognised at the trade date i.e. the date that the Group contracts to purchase or sell the asset, at which date the Group becomes party to the contractual provisions of the instrument. Investment securities are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership.

Measurement

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

Subsequent to initial recognition, equity-type investments carried at FVTPL and FVTE are re-measured to fair value. Gains and losses arising from a change in the fair value of instruments carried at FVTPL are recognised in the income statement in the year which they arise. Gains and losses arising from a change in the fair value of investments carried at FVTE are recognised in the consolidated statement of changes in equity and presented in a separate fair value reserve within equity. When the investments carried at FVTE are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in equity is transferred to the consolidated income statement.

2 ACCOUNTING POLICIES (continued)**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)****l) Investments in associates and joint ventures**

The Group's investments in associates and joint ventures, that are acquired for strategic purposes, are accounted for under the equity method of accounting. Other equity investments in associates and joint ventures (note 2.4 (k)) are accounted for as fair value through consolidated income statement by availing the scope exemption under FAS 24, Investments in Associates. An associate is an entity over which the Group has significant influence, and which is neither a subsidiary nor a joint venture. An entity is considered as an associate if the Group has more than 20% ownership of the entity or the Group has significant influence through any other manner. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Under the equity method, investment in 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 associates. Losses in excess of the cost of the investment in associates are recognised when the Group has incurred obligations on its behalf. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The consolidated income statement reflects the Group's share of results of operations of the associates. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

The reporting dates of the Group's associates are identical with the Group and the associates accounting policy conform to those used by the Group for like transactions and events in similar transactions.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in associates. The Group determines at each reporting date whether there is any objective evidence that the investment in associates are 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 income statement.

Profit and losses resulting from transactions between the Group and the associates are eliminated to the extent of the profit in associates.

Foreign exchange translation gains / losses arising out of the translation of net assets of investment in associates are included in the consolidated statement of changes in equity.

m) Investment properties

Properties held for rental, or for capital appreciation purposes, or both, are classified as investments in real estate. The investment in real estate is initially recognised at cost and subsequently measured based on intention whether the investments in real estate is held-for-use or held-for-sale. The Group has adopted the fair value model for its investments in real estate. Under the fair value model, any unrealized gains are recognised directly in owners' equity under the Real Estate Fair Value Reserve. Any unrealized losses are adjusted in equity to the extent of the available credit balance. Where unrealized losses exceed the available balance in owners' equity, these are recognised in the consolidated income statement. In case there are unrealized losses relating to investments in real estate that have been recognised in the consolidated income statement in a previous financial year, the unrealized gains relating to the current financial year is recognised to the extent of crediting back such previous losses in the consolidated income statement. Investments in real estate held-for-sale is carried at lower of its carrying value and expected fair value less costs to sell. Investments in real estate carried at fair value shall continue to be measured at fair value.

n) Development properties

Properties acquired exclusively for development are classified as development properties and are measured at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimates costs of completion and the estimated costs necessary to make the sale.

o) Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation and any impairment in value. Depreciation is charged on a straight-line basis over the estimated useful lives of all premises and equipment, other than freehold land and capital work-in-progress.

- Computer hardware	3 to 5 years
- Computer software	3 to 5 years
- Furniture and office equipment	3 to 5 years
- Motor vehicle	4 to 5 years
- Leasehold improvements	Over the lease year

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

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Subsidiaries acquired with a view to sell

A subsidiary acquired with a view to subsequent disposal within twelve months is classified as "held-for-sale" when the sale is highly probable. Related assets and liabilities of the subsidiary are shown separately on the consolidated statement of financial position as "assets held-for-sale" and "liabilities relating to assets classified as held-for-sale" respectively. Assets that are classified as held-for-sale are measured at the lower of carrying amount and fair value less costs to sell. Any resulting impairment loss reduces the carrying amount of the assets. Assets that are classified as held-for-sale are not depreciated.

q) Goodwill and other intangible assets

(a) Goodwill

In a business combination in which the Bank and the acquiree exchange only equity interests, the acquisition-date fair value of the acquiree's equity interests is used to determine the amount of goodwill. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment at least annually. Any impairment is recognised immediately in the consolidated income statement. Goodwill is allocated to each of the Group's cash-generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Impairment exists when carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

Impairment of goodwill is determined by assessing the recoverable amount of the CGU (or group of CGUs), to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount, an impairment loss is recognised immediately in the consolidated income statement.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGU, or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is / are not larger than a segment based on either the Group's primary or the Group's geographic segment reporting format.

(b) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of the intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in consolidated income statement in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. All acquired intangible assets carried on the reporting date have a finite useful life such as the Core Deposits ("CD") and the Purchased Customer Relationships ("PCR") will be amortized over a period of 7 to 15 years.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income in the expense category that is consistent with the function of the intangible assets.

An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income

r) Offsetting

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

s) Customers' current accounts

Customers' current accounts balances are in non-investment accounts and are recognised when received by the Bank. The transaction is measured at the cash equivalent amount received by the Bank at the time of contracting. At the end of the accounting year, the accounts are measured at their book value, which represents the settlement value to the customers.

t) Equity of investment accountholders

Equity of investment accountholders ("IAH") are funds held by the Group in one common pool of unrestricted investment account, which is invested by the Group's ('Mudarib') in its own discretion. These include funds raised under Mudaraba contracts and Wakala contracts under multi-level investment arrangements. The funds received under the Wakala arrangement is invested in the Mudaraba investment pool and is considered as investment made by an investment account holder. Under both the Mudaraba and a comingled Wakala arrangement, the investment accountholder authorizes the Group to invest the accountholder's funds in a manner which the Group deems appropriate without laying down any restrictions as to the purpose the funds should be invested. The Group charges management fee (Mudarib fees) to investment accountholders. The allocation of income is determined by the management of the Group within the allowed profit sharing limits as per the terms agreed with IAH. Administrative expenses incurred in connection with the management of the fund are borne directly by the Group and are not charged to investment accounts. Only profits earned on pool of assets funded from IAH are allocated between the owners' equity and IAH. All equity of investment accountholders are carried at cost plus profit and related reserves less amounts settled.

The basis applied by the Group in arriving at the equity of investment accountholder's share of income is total investment income less shareholders' income. In case of Wakala contracts, the Bank does not act as both an investment agent and Mudarib of the same fund at one time. Therefore, in case of comingling of Wakala investment funds with the Mudaraba pool, the investment agent will only charge Wakala Fee and will not share profits from the Mudaraba investment pool in the capacity of Mudarib.

Under FAS 30, ECL is allocated to the assets invested using funds from unrestricted investment accounts.

u) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

v) Employees' end-of-service benefits

Short term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Post employment benefits

Pensions and other social benefits for Bahraini employees are covered by the Social Insurance Organisation scheme, which is a "defined contribution scheme" in nature, and to which employees and employers contribute monthly on a fixed-percentage of salaries basis. Contributions by the Bank are recognised as an expense in income statement when they are due.

Eligible employees on fixed contracts are entitled to leaving indemnities payable under the Bahraini Labour Law, based on length of service and final remuneration. Provision for this unfunded commitment has been made by calculating the notional liability had all employees left at the reporting date.

Share based payment

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

Deferred share-based annual incentives

In line with its variable remuneration policy, the Group awards a component of its annual bonuses for certain covered employees (material risk-takers and approved persons) in the form of deferred incentives that are released proportionately over a period of three years. The deferred incentives include a cash component and a share component. The share component is converted to phantom shares of the Bank based on the book value per share at the award date. The deferred incentives are cash-settled on each release date based on the most recent book value per share of the Bank. The deferred incentive liability is carried at their settlement amounts at each reporting date and any changes in the carrying value of the liability is recognized as an expense or release in the income statement of the reporting period. All deferred incentives are subject to malus and clawback provisions.

w) Revenue recognition

Financing assets

As the income is quantifiable and contractually determined at the commencement of the contract, income is recognised on effective yield basis over the contract term. Recognition of income is suspended when the Group believes that the recovery of these amounts may be doubtful or when the payments of installments are overdue by 90 days, whichever is earlier.

Sukuk

Income on debt-type sukuk is recognised on a time-proportionate basis based on underlying rate of return of the respective type of Sukuk.

Income on equity-type sukuk is recognized when the group's right to receive dividends is established.

Dividend

Dividend income is recognised when the Group's right to receive the dividend is established.

Finance lease assets

Finance lease income is recognised on a time-proportionate basis over the lease term. Income related to non-performing finance lease is suspended. Accrual of income is suspended when the Group believes that the recovery of these amounts may be doubtful or normally when the rental payments are overdue by 90 days, whichever is earlier.

Fees and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following main categories:

- Fee income on financing transactions: Fee earned on financing transactions including up-front fees and early settlement fees are recognised when earned. To the extent the fees are deemed yield enhancement they are recognised over the year of the financing contracts.
- Fee income from transaction services: Fee arising from corporate finance, corporate advisory, arranging the sale of assets and wealth management are recognised when earned or on a time proportionate basis when the fee is linked to delivery of services over the term of the contract.
- Other fee income: This is recognised when services are rendered.

x) Fair value of financial assets

For investments that are actively traded in organised financial markets, fair value is determined by reference to the prevailing market bid price on the reporting date.

For investments where there is no quoted market price, a reasonable estimate of fair value is determined by reference to valuation by independent external valuers or based on recent arm's length market transactions. Alternatively, the estimate would also be based on current market value of another contract, which is substantially the same, or is based on the assessment of future cash flows. The cash equivalent values are determined by the Group by calculating the present value of future cash flows at current profit rates for contracts with similar terms and risk characteristics.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

x) Fair value of financial assets (continued)

For assets having fixed or determinable payments, fair value is based on available active broker quotes or the net present value of estimated future cash flows determined by the Group using current market profit rates for contracts with similar terms and risk characteristics.

y) Fiduciary assets

Assets held in a fiduciary capacity are not treated as assets of the Group and are accordingly not included in the consolidated statement of financial position. These include assets under management and custodial assets.

z) Dividend on ordinary shares

Dividend payable on ordinary issued and fully paid shares of the Bank is recognised as a liability and deducted from equity when it is approved by the Group's shareholders.

aa) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised from the date of its issue. The liability arising from a financial guarantee contract is recognised at the present value of any expected payment, when a payment under the guarantee has become probable.

ab) Treasury shares

Own equity contracts that are re-acquired, are recognised at cost and deducted from equity. No gain or loss is recognised in consolidated income statement on the purchase, sale, issue or cancellation of the Bank's own equity contracts. Any difference between the carrying amount and the consideration, if re-issued, is recognised in share premium in consolidated statement of changes in equity.

ac) Zakah

Zakah is calculated on the Zakah base of the Group in accordance with FAS 9 Zakah using the net assets method. Zakah is calculated based on the eligible reserve and retained earnings balances at the end of the year. The Bank calculates and notifies the shareholders of their pro-rata share of the Zakah payable annually. The calculation of Zakah is approved by the Sharia'a Supervisory Board. Payment of Zakah on the unrestricted investment and other accounts is the responsibility of the investment accountholders.

ad) Repossessed assets

In certain circumstances, properties are repossessed following the foreclosure of financial facilities that are in default. Repossessed properties that are held for immediate sale, are measured at the lower of the carrying value on closure and fair value less cost to sell. Other repossessed properties are classified as investment property.

ae) Earnings prohibited by Shari'a

The Group is committed to contributing to charity any income generated from non-Shari'a sources. Accordingly, any earning prohibited by Shari'a is credited to charity funds to be used for social welfare purposes.

af) Takaful and retakaful contracts

Takaful contracts

As an Islamic insurance provider, the Group issues contracts that are based on cooperative activity by risk sharing. The Group classifies all its contracts individually as takaful contracts.

Takaful contracts are those contracts where the takaful operator accepts significant takaful risk from the participant by agreeing to compensate the participant if a specified uncertain future event adversely affects the participant. Such contracts may also transfer financial risk. As a general guideline, the Group defines significant takaful risk as the possibility of having to pay benefits on the occurrence of a takaful event. Takaful risk is risk other than financial risk that is transferred from the holder of a contract to the issuer.

Financial risk is the risk of a possible future change in one or more of a security price, index of prices or rates or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Takaful risk is significant if, and only if, a takaful event could cause the Group to pay significant additional benefits. Once a contract is classified as a takaful contract it remains classified as a takaful contract until all rights and obligations are extinguished or expired.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

af)Takaful and retakaful contracts (continued)

Retakaful contracts

Retakaful contracts are contracts entered into by the Group with retakaful operators for the purpose of limiting its net loss potential through the diversification of its risks, under which the Group is compensated for losses on takaful contracts issued.

Assets, liabilities, income and expense arising under ceded retakaful contracts are presented separately from the assets, liabilities, income and expense from the related takaful contracts because the retakaful arrangements do not relieve the Group from its direct obligations to its participants.

The benefits to which the Group is entitled under its retakaful contracts held are recognised as retakaful assets. These assets consist of balances due from retakaful operators on settlement of claims and other receivables such as profit commissions and retakaful operator's share of outstanding claims that are dependent on the expected claims and benefits arising under the takaful contracts covered under retakaful contracts. Amounts recoverable from or due to retakaful operators are recognised consistently with the amounts associated with the underlying takaful contracts and in accordance with the terms of each retakaful contract. Retakaful liabilities are primarily contributions payable for retakaful contracts and are recognised as an expense when due.

The participants' takaful funds comprises of general takaful and family takaful fund which represent the accumulated undistributed surplus or deficit in respect of contracts in force at the reporting date. It also includes fair value reserves of investments at fair value through equity.

Gross contributions

Gross contributions comprise the total contributions receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy incepts. Contributions include any adjustments arising in the accounting period for contributions receivable in respect of business written in prior accounting periods. Contributions collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience and are included in contributions written. The unexpired portion of such contributions is included under "Unearned contributions" in the statement of financial position. The earned proportion of contributions is recognised as revenue in the participants' statement of revenues and expenses.

Retakaful contributions

Retakaful contributions are amounts paid to retakaful operators in accordance with the retakaful contracts of the Group. In respect of proportional and non-proportional retakaful contracts, the amounts are recognised in the participants' statement of revenues and expenses as per the terms of these contracts.

Unearned contributions

Unearned contributions represent contributions under takaful contracts which are to be earned in the following or subsequent financial periods, for the unexpired period of takaful content as at the reporting date.

Gross claims

Gross claims are recognised in the participants' statement of revenues and expenses when the claim amount payable to participants and third parties is determined as per the terms of the takaful contracts. Gross claims include all claims occurring during the year, whether reported or not, related claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Claims recovered

Claims recovered include amounts recovered from retakaful operators and other insurance companies in respect of the gross claims paid by the Group, in accordance with the retakaful contracts held by the Group and also includes salvage and other claims recoveries. Claims recovered from retakaful and other parties are recognised when the related gross claims settled are recognised according to the terms of the relevant contracts.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

af) Takaful and retakaful contracts (continued)

Outstanding claims

Outstanding claims are based on the estimated ultimate cost of all claims incurred but not settled at the statement of financial position date, whether reported or not, together with the related claims handling costs and reduction for salvage and other recoveries. Provisions for outstanding claims reported is based on estimates of the loss, which will eventually be payable on each unpaid claim, established by management based on currently available information and past experience modified for changes reflected in current conditions, increased exposure, rising claims costs and the severity and frequency of recent claims, as appropriate. Outstanding claims are not discounted for time value of money. The methods used, and the estimates made, are reviewed regularly.

The provision for claims incurred but not reported ('IBNR') is made per the actuarial valuation which is updated on the basis of the latest valuation reports.

Any difference between the provisions for outstanding claims at the statement of financial position date and settlements and provisions for the following year is included in the participants' statement of revenues and expenses for that year.

Takaful and insurance receivables

Takaful and insurance receivables are recognised when due and are measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of takaful and insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of income.

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

1) FAS 38 Wa'ad, Khiyar and Tahawwut

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

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

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

Further, the standard prescribes accounting for constructive obligations and constructive rights arising from the stand-alone Wa'ad and Khiyar products and accounting for Tahawwut (hedging) arrangements based on a series of Wa'ad and Khiyar contracts.

The Group does not expect any significant impact on adoption this standard.

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

2) FAS 39 Financial Reporting for Zakah

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

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

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

2) FAS 39 Financial Reporting for Zakah (continued)

This standard does not prescribe the method for determining the Zakah base and measuring Zakah due for a period. An institution shall refer to relevant authoritative guidance for determination of Zakah base and to measure Zakah due for the period. (for example: AAOIFI Shari'a standard 35 Zakah, regulatory requirements or guidance from Shari'a supervisory board, as applicable).

The Group does not expect any significant impact on adoption of this standard.

3) FAS 1 General Presentation and Disclosures in the Financial Statements

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

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

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

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

The Group is assessing the impact of adoption of this standard and expects changes in certain presentation and disclosures in its consolidated financial statement in line with the wider market practice.

4) FAS 41 Interim financial reporting

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

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

5) FAS 42 Presentation and Disclosures in the Financial Statements of Takaful Institutions

This standard sets out the principles for the presentation and disclosure in the financial statements of Takaful Institutions and prescribes the set of financial statements that the institutions should periodically publish to satisfy the common information needs of users of financial statements. Further this standard also establishes the general principles of presentation of information and adequately reflecting the rights and obligations of different stakeholders within the Takaful business model. This standard should be read in conjunction with FAS 43 – Accounting for Takaful Recognition and Measurement.

This standard supersedes the existing FAS 12 General presentation and disclosures in the financial statements of Islamic Insurance Companies and introduces following key changes:

- a) the standard is aligned with the AAOIFI Conceptual Framework for Financial Reporting (Revised 2020) and FAS 1 General Presentation and Disclosures in the Financial Statements;
- b) the presentation and disclosure in the standard have been amended to be aligned with the Sharia principles and rules relating to Takaful, whereby the Takaful operator is distinct from the participants' funds (including participants' Takaful fund (PTF) and participants' investment fund (PIF));

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

5) FAS 42 Presentation and Disclosures in the Financial Statements of Takaful Institutions (continued)

- c) the PTF and PIF are considered to be off-balance sheet assets under management, therefore, separate from the Takaful Operator;
- d) statements for the managed PTF and managed PIF have been introduced, including separate statements for financial position and financial activities of the managed PTF;
- e) disclosures of Zakah, Charity and Qard funds have been relocated to the notes to the financial statements in line with FAS 1; and
- f) new definitions of Takaful, Takaful institution, Takaful operator, PIF and PTF have been introduced.

This standard is applicable to all Takaful institutions regardless of their legal form or size, including Takaful window operations and is effective for the financial reporting periods beginning on or after 1 January 2025 with an option to early adopt.

Based on management assessment for the insurance portfolio of the insurance subsidiary, this standard is not expected to have a material impact on the consolidated financial statements of the Group.

6) FAS 43 Accounting for Takaful Recognition and Measurement

This standard supersedes the following FAS; FAS 13 – Disclosure of Bases for Determining and Allocation Surplus or Deficit in Islamic Insurance Companies; FAS 15 – Provisions and Reserves in Islamic Insurance Companies and FAS 19 – Contributions in Islamic Insurance Companies introduces following key changes:

- a) the standard is aligned with the AAOIFI Conceptual Framework for Financial Reporting (Revised 2020) and FAS 1 General Presentation and Disclosures in the Financial Statements;
- b) the principal accounting treatments in respect of Takaful arrangements have been aligned with the globally generally accepted accounting principles and newer regulatory requirements (where applicable);
- c) new accounting treatments have been introduced in respect of matters which were not addressed or superseded standards or were not in line with the global best practices, particularly with regard to the accounting for provisions (or liability, as appropriate) for Takaful arrangements and accounting treatment and presentation for the investment component;
- d) accounting treatments mapped in the standard are mapped to the Sharia principles and rules relating to Takaful, including the rights and obligations of respective stakeholders of Takaful arrangements;
- e) new definitions for the accounting terms in respect of the newly introduced accounting treatments, as well as, improved definitions for earlier used terms, have been incorporated; and
- f) accounting treatments respect to ancillary transactions have been introduced, particularly the transactions and balances between various stakeholders of Takaful institutions, eg. Accounting for Wakala fees and Qard Hassan.

Under the transitional provisions of this standard, following approaches are prescribed upon first time adoption:

- 1) A full retrospective approach – whereby the effects of transition shall be incorporated from the beginning of the earliest period presented in the financial statements; however, the disclosure of the effect of such adoption in each line item and to the basic and diluted earnings per share shall not be mandatory; or
- 2) A modified retrospective approach – whereby effects of transition shall be taken to retained earnings, as well as accumulated surplus or deficit in the respective Takaful funds at the beginning of the current financial period; or
- 3) A fair value option – whereby the Takaful residual margin or loss component of the provision for the remaining entitlement period, at the transition date (beginning of the current period) shall be determined as the difference between fair value of Takaful arrangements at that date and the fair value of the fulfilment cashflows measured at that date, and the corresponding effects shall be adjusted in the retained earnings of Takaful institution, as well as accumulated surplus or deficit in the respective Takaful funds.

This standard shall apply to Takaful institutions (including in their capacity of being Takaful operators) and their managed participants' Takaful fund (PTF) and managed participants investment funds (PIF) in respect of the following, a) Takaful arrangements, including re-Takaful arrangements issued; b) re-Takaful arrangements held; c) investment contracts with or without discretionary features that are issued along with, and part of, the Takaful arrangements; and d) ancillary transactions related to Takaful operations. This standard is effective for the financial reporting periods beginning on or after 1 January 2025 with an option to early adopt.

Based on management assessment for the insurance portfolio of the insurance subsidiary, this standard is not expected to have a material impact on the consolidated financial statements of the Group.

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3 CLASSIFICATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS

	2022			
	<i>At fair value through consolidated income statement</i>	<i>At fair value through equity</i>	<i>At amortised cost / others</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
ASSETS				
Cash and balances with banks and central bank	-	-	367,747	367,747
Placements with financial institutions	-	-	113,096	113,096
Investment in sukuk	-	228,479	608,902	837,381
Financing assets	-	-	1,986,465	1,986,465
Non-trading investments	94,871	11,925	-	106,796
Takaful and related assets	-	-	51,690	51,690
Investment in real estate	-	62,462	-	62,462
Investment in associates	-	-	254,006	254,006
Other assets	1,247	163	66,310	67,720
Goodwill and other intangible assets	-	-	51,998	51,998
	96,118	303,029	3,500,214	3,899,361
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS				
Placements from financial institutions and customers	-	-	187,724	187,724
Customers' current accounts	-	-	550,281	550,281
Murabaha term financing	-	-	320,989	320,989
Takaful and related liabilities	-	-	91,741	91,741
Other liabilities	440	-	78,358	78,798
Equity of investment accountholders	-	-	2,332,473	2,332,473
	440	-	3,561,566	3,562,006
	2021			
	<i>At fair value through consolidated income statement</i>	<i>At fair value through equity</i>	<i>At amortised cost / others</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
ASSETS				
Cash and balances with banks and central bank	-	-	309,149	309,149
Placements with financial institutions	-	-	133,860	133,860
Investment in sukuk	-	639,688	-	639,688
Financing assets	-	-	1,364,452	1,364,452
Non-trading investments	91,241	350	-	91,591
Investment in real estate	-	57,961	2,943	60,904
Investment in associates	-	-	14,533	14,533
Other assets	619	192	43,612	44,423
Goodwill and other intangible assets	-	-	25,971	25,971
	91,860	698,191	1,894,520	2,684,571
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS				
Placements from financial institutions and customers	-	-	126,891	126,891
Customers' current accounts	-	-	482,739	482,739
Murabaha term financing	-	-	100,216	100,216
Other liabilities	402	-	53,387	53,789
Equity of investment accountholders	-	-	1,624,177	1,624,177
	402	-	2,387,410	2,387,812

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4 CASH AND BALANCES WITH BANKS AND CENTRAL BANK

	<u>2022</u>	<u>2021</u>
	<i>BD '000</i>	<i>BD '000</i>
Mandatory reserve with Central Bank*	92,507	35,378
Cash and other balances with Central Bank	91,728	79,458
Balances with other banks**	183,512	194,313
	367,747	309,149

* This balance is not available for use in the day-to-day operations of the Group.

** This balance is net of BD 134 thousand (2021: BD 81 thousand) amount of allowance for credit losses.

5 PLACEMENTS WITH / FROM FINANCIAL INSTITUTIONS AND CUSTOMERS

These represent short-term interbank placements with and from financial institutions and customers in the form of Murabaha and Wakala contracts.

	<u>2022</u>	<u>2021</u>
	<i>BD '000</i>	<i>BD '000</i>
Placements with financial institutions		
Wakala asset	67,018	93,584
Commodity murabaha asset	46,151	40,282
Allowance for credit losses	(73)	(6)
	113,096	133,860
Placements from financial institutions and customers		
Commodity murabaha liability	187,724	126,891
	187,724	126,891

6 INVESTMENT IN SUKUK**Reclassification of Sukuk portfolio**

In anticipation of the short-term and long-term liquidity needs arising from the combined banking business and the wider transaction, during the year, the Bank has re-assessed the objective of its treasury portfolio wherein it would manage the underlying assets under two distinct business models:

- Held-to-collect business model – This portfolio includes short-term and long-term Sukuk and treasury instruments that are held to meet core liquidity requirements and consist of high-quality liquid assets that are typically held to their contractual maturity. Assets under this model are classified and measured at amortised cost. Although management considers fair value information, it does so from a liquidity perspective, and the main focus of its review of financial information under this business model is on the credit quality and contractual returns.

- Both held-to-collect and for sale business model: The remaining treasury portfolio will be held under active treasury management to collect both contract cash flows and for sale. The key management personnel consider both of these activities as integral in achieving the objectives set for the Treasury business unit. This portfolio, while generating returns primarily through yield, is also held to meet expected or unexpected commitments, or to fund anticipated acquisitions or growth in other business units. Assets under this model are classified and measured at fair value through equity.

Until 31 March 2022, the Bank classified its entire Sukuk portfolio as FVTE only under a ‘both held-to-collect and for sale’ business model. The Board of Directors have assessed that the business combination has significantly changed the liquidity profile and strategy within the Bank and the above reclassification of the treasury portfolio best reflects the way the assets will be managed in order to meet the objectives of the new business model and information is provided to management. Due to the above change in the business model, the Bank has reclassified its treasury portfolio as at 1 April 2022 as follows:

	<i>Fair value through equity (FVTE)</i>	<i>Reversal of amounts recognized in investment fair value reserve</i>	<i>Reclassified to Amortised cost</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Assets subject to reclassification			
Sovereign Sukuk	437,040	(4,519)	432,521
Corporate Sukuk	12,032	(108)	11,924

In line with the requirements of FAS 33 ‘Investments in Sukuk, shares and similar instruments’, the investment is reclassified at the reclassification date, considering as if it was always measured at amortised cost. The cumulative gain or loss previously recognized in equity is removed from equity and adjusted against the fair value of the investment at the reclassification date.

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6 INVESTMENT IN SUKUK (continued)

	31 December 2022		
	Corporate		Total
	Sovereign Sukuk	Sukuk	
	BD '000	BD '000	BD '000
Carried at FVTE			
At 1 January 2022	613,403	26,285	639,688
Profit received	(6,489)	(57)	(6,546)
Reclassification to amortised cost	(437,040)	(12,032)	(449,072)
Purchases	127,313	4,055	131,368
Sale/ redemption	(82,177)	(1,884)	(84,061)
Fair value movement	(5,470)	(674)	(6,144)
Profit accrual / Dividend	3,166	80	3,246
Closing balance	212,706	15,773	228,479

This includes sukuk with carrying value of BD 76,360 thousand (2021: BD 169,634 thousand) which are pledged against murabaha term financing.

Carried at Amortised cost

At 1 January 2022	-	-	-
Reclassification from FVTE	437,040	12,032	449,072
Reclassification of cumulative reserve	(4,519)	(108)	(4,627)
Purchases	154,835	42,271	197,106
Acquired through business combination (note 46)	18,817	-	18,817
Transfer/ redemption	(28,245)	(29,898)	(58,143)
Impairment / reversal	207	39	246
Amortisation	(531)	-	(531)
Profit accrual / Dividend	6,867	95	6,962
Closing balance	584,471	24,431	608,902

Investment in sukuk

	2022	2021
	BD '000	BD '000
Sovereign Sukuk	797,177	613,403
Corporate Sukuk	40,204	26,285
Closing balance	837,381	639,688

This includes sukuk with carrying value of BD 332,242 thousand (2021: nil) which are pledged against murabaha term financing.

Sukuk with carrying value of BD 16,182 thousand (2021: BD 6,807 thousand) are treated as equity sukuk.

The rating of corporate sukuk are as follows:

	2022	2021
	BD '000	BD '000
Investment grade (AAA - BBB+)	22,712	10,756
High Yielding (Below BBB-)	840	-
Un-rated Sukuk	16,759	15,543
Allowance for credit losses	(107)	(14)
	40,204	26,285

7 FINANCING ASSETS

a. Financing assets

	2022				
	Stage 2: Lifetime		Stage 3: Lifetime		Total
	Stage 1: 12- month ECL	ECL not credit- impaired	ECL credit- impaired	POCI	
	BD '000	BD '000	BD '000	BD '000	BD '000
Finance lease assets (note b)	703,638	42,296	10,843	4,151	760,928
Murabaha financing	629,700	35,664	18,708	5,774	689,846
Mudaraba financing	507,456	23,699	8,555	-	539,710
Musharaka financing	14,725	14,921	276	-	29,922
Credit cards	13,075	456	1,464	-	14,995
Total financing assets	1,868,594	117,036	39,846	9,925	2,035,401
Allowance for credit losses (note 8)	(17,309)	(12,290)	(19,337)	-	(48,936)
	1,851,285	104,746	20,509	9,925	1,986,465

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7 FINANCING ASSETS (continued)

	2021				Total BD '000
	Stage 1: 12- month ECL BD '000	Stage 2: Lifetime ECL not credit- impaired BD '000	Stage 3: Lifetime ECL credit- impaired BD '000	POCI BD '000	
Finance lease assets	522,917	33,178	9,288	-	565,383
Murabaha financing	359,470	27,008	7,613	-	394,091
Mudaraba financing	382,005	15,525	6,264	-	403,794
Musharaka financing	32,950	-	277	-	33,227
Credit cards	3,566	34	571	-	4,171
Total financing assets	1,300,908	75,745	24,013	-	1,400,666
Allowance for credit losses (note 8)	(15,028)	(7,279)	(13,907)	-	(36,214)
	<u>1,285,880</u>	<u>68,466</u>	<u>10,106</u>	<u>-</u>	<u>1,364,452</u>

The POCI assets are currently carried at 55% compared to their original contractual outstanding amounts. On a cumulative basis, the impaired assets (Stage 3 and POCI) have an effective loss coverage of 55% compared to their original contractual outstanding amounts.

Murabaha financing is reported net of deferred profits of BD 71,281 thousand (2021: BD 29,007 thousand).

During the year, Group acquired financing assets of BD 456,979 thousand through business combination (note 46).

b. Finance lease assets

This represents net investment in assets leased (land and buildings) under a finance lease arrangement with customers of the Bank. Lease documentations states that the lessor undertakes to transfer the leased assets to the lessee at the end of the lease term upon the lessee fulfilling all the obligations under the lease agreement.

	2022	2021
	BD '000	BD '000
Finance lease assets	760,928	565,383
Allowance for impairment	(9,555)	(9,474)
At 31 December	<u>751,373</u>	<u>555,909</u>

The future minimum lease receivable (excluding future profits) in aggregate are as follows:

	2022	2021
	BD '000	BD '000
Due within one year	83,775	54,045
Due in one to five years	147,883	129,023
Due after five years	519,715	372,841
	<u>751,373</u>	<u>555,909</u>

The accumulated depreciation / amortisation netted from finance lease assets amounted to BD 104,513 thousand (2021: BD 75,914 thousand).

31 December 2022

8 MOVEMENT IN NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT

The balance of allowance for credit losses in the below table includes all financial assets, finance lease assets and off-balance sheet exposures.

	2022				
	<i>Stage 1: 12-month ECL</i>	<i>Stage 2: Lifetime ECL not credit-impaired</i>	<i>Stage 3: Lifetime ECL credit-impaired</i>	<i>POCI</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Balance at the beginning of the year	15,627	7,332	21,525	-	44,484
Changes due to receivables recognised in opening balance that have:					
- transferred to Stage 1: 12 month ECL	1,055	(1,050)	(5)	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(1,728)	2,761	(1,033)	-	-
- transferred to Stage 3: Lifetime ECL	(829)	(642)	1,471	-	-
Net remeasurement of loss allowance	5,549	3,926	5,721	(5,478)	9,718
Recoveries / write-backs	-	-	(749)	-	(749)
Allowance for credit losses	4,047	4,995	5,405	(5,478)	8,969
Exchange adjustments and other transfers	(1,417)	-	(3)	(73)	(1,493)
Adjustment on repayment or derecognition	-	-	-	5,551	5,551
Amounts written back during the year - net	-	-	224	-	224
Balance at the end of the year	18,257	12,327	27,151	-	57,735

	2022				
	<i>Stage 1: 12-month ECL</i>	<i>Stage 2: Lifetime ECL not credit-impaired</i>	<i>Stage 3: Lifetime ECL credit-impaired</i>	<i>POCI</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Cash and balances with banks and central bank	134	-	-	-	134
Placements with financial institutions	73	-	-	-	73
Investment in sukuk	246	-	-	-	246
Financing assets	17,309	12,290	19,337	-	48,936
Loans and advances to customers					
- Assets under conversion	1	-	1,646	-	1,647
- Other receivables	359	12	5,855	-	6,226
Financing commitments and financial guarantee contracts	135	25	313	-	473
	18,257	12,327	27,151	-	57,735

Net impairment charge on financing assets and investment

	2022	2021
	<i>BD '000</i>	<i>BD '000</i>
Net impairment charge on investment	(3,714)	(3,351)
- Day 1 expected credit loss ("ECL") on acquired portfolio	(3,000)	-
- Remeasurement of ECL	(5,969)	(9,163)
Net impairment charge on financing assets	(8,969)	(9,163)
	(12,683)	(12,514)

8 MOVEMENT IN NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT (continued)

	2021				
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	POCI	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
Balance at the beginning of the year	14,546	6,035	26,719	-	47,300
Changes due to receivables recognised in opening balance that have:					
- transferred to Stage 1: 12 month ECL	2,420	(2,365)	(55)	-	-
- transferred to Stage 2: Lifetime ECL not	(449)	3,856	(3,407)	-	-
- transferred to Stage 3: Lifetime ECL	(87)	(696)	783	-	-
Net remeasurement of loss allowance	(803)	660	10,866	-	10,723
Recoveries / write-backs	-	(158)	(1,402)	-	(1,560)
Allowance for credit losses	1,081	1,297	6,785	-	9,163
Exchange adjustments and other transfers	-	-	(18)	-	(18)
Amounts written back during the year - net	-	-	(11,961)	-	(11,961)
Balance at the end of the year	15,627	7,332	21,525	-	44,484

	2021				
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	POCI	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
Cash and balances with banks and central bank	81	-	-	-	81
Placements with financial institutions	6	-	-	-	6
Investment in sukuk	157	-	-	-	157
Financing assets	15,028	7,279	13,907	-	36,214
Loans and advances to customers					
- Assets under conversion	1	1	3,896	-	3,898
- Other receivables	63	-	3,443	-	3,506
Financing commitments and financial guarantee contracts	291	52	279	-	622
	15,627	7,332	21,525	-	44,484

9 NON-TRADING INVESTMENTS

	2022	2021
	BD '000	BD '000
At fair value through profit or loss:		
Equity securities	86,618	90,939
Funds	8,253	302
At fair value through equity	11,925	350
Balance at the end of the year	106,796	91,591

The Group has 40% stake (2021: 40%) in Manara Developments Company B.S.C.(c) ("Manara") & Bareeq Al Retaj Real Estate Services WLL ("Bareeq"), incorporated in Bahrain and engaged in the business of property development. The investments are being fair valued through income statement using the fair value scope exemption of FAS 24. As part of restructuring, net assets of Manara will be novated to Bareeq, which is pending legal formalities.

During the year, non-trading investments of BD 19,620 thousand were assumed as part of the business combination (note 46).

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10 TAKAFUL ASSETS AND LIABILITIES

	<u>2022</u>
	<u>BD '000</u>
Retakaful share of outstanding claims	6,837
Retakaful share of unearned contribution	16,275
Takaful and other receivables	28,578
Takaful assets	<u>51,690</u>
Outstanding claims	23,600
Unearned contributions and other reserves	39,614
Unearned commission	636
Takaful and other payable	27,891
Takaful liabilities	<u>91,741</u>

Movement in Retakaful share of outstanding claims

	<u>Gross</u>	<u>Reinsurance</u>	<u>Net</u>
	<u>BD '000</u>	<u>BD '000</u>	<u>BD '000</u>
Reported claims	15,769	(6,410)	9,359
Incurred But Not Reported (IBNR)	9,577	(1,120)	8,457
At 1 July 2022	25,345	(7,531)	17,814
Change in liabilities	(1,795)	694	(1,101)
At 31 December 2022	23,550	(6,837)	16,713
Reported claims	15,115	(5,725)	9,390
IBNR	8,436	(1,112)	7,324
At 31 December 2022	23,550	(6,837)	16,713

Movement in Retakaful, share of unearned contribution

	<u>Gross</u>	<u>Reinsurance</u>	<u>Net</u>
	<u>BD '000</u>	<u>BD '000</u>	<u>BD '000</u>
At 1 January 2022	39,983	(15,727)	24,256
Net movement	(368)	(548)	(916)
At 31 December 2022	39,614	(16,275)	23,339

Takaful related receivables

	<u>2022</u>
	<u>BD '000</u>
Outstanding claims – Gross	23,550
Unearned contributions, commission and other reserves	39,614

11 INVESTMENT IN REAL ESTATE

	<u>2022</u>	<u>2021</u>
	<u>BD '000</u>	<u>BD '000</u>
Land	60,124	57,351
Buildings	2,338	610
Development properties	-	2,943
	<u>62,462</u>	<u>60,904</u>

The movements in investment properties classified in Level 3 of the fair value hierarchy are as follows:

	<i>Fair value measurement using significant unobservable inputs Level 3</i>	
	<u>2022</u>	<u>2021</u>
	<u>BD '000</u>	<u>BD '000</u>
At 1 January	57,961	67,586
Fair value changes through income statement	(200)	(109)
Additions from acquisition of Subsidiary (Refer note 46)	5,982	-
Additions during the year*	-	2,669
Disposals during the year	(1,281)	(12,136)
Others	-	(49)
At 31 December	<u>62,462</u>	<u>57,961</u>

* Additions of investment properties during the year resulted from the Bank obtaining possession of properties held as collateral against financing.

The fair value of the investment properties are derived based on the valuations carried out by independent external valuers using adjusted comparable method.

For sensitivity analysis of the investment properties, an increase of 5% in value of properties will impact equity by BD 787 thousand (2021: BD 533 thousand) and decrease of 5% in value of properties will impact income statement by BD 405 thousand (2021: BD 127 thousand).

Development properties represent properties acquired and held through investment vehicles exclusively for development and sale in the United Kingdom. The carrying amount include land price and related construction costs. The subject investment has been exited during the year.

12 INVESTMENT IN ASSOCIATES, NET

The Group has a 37.43% (2021: 14.42%) stake in Al Salam Bank Algeria ("ASBA"), an Islamic commercial bank incorporated in Algeria. During the year, the Bank has recognised additional equity stake in ASBA, after obtaining necessary regulatory and legal approval.

The Group has a 20.94% (2021: 20.94%) stake in Gulf African Bank ("GAB"), an Islamic commercial bank incorporated as the first Islamic bank in Kenya on August 2006, licensed by the Central Bank of Kenya.

Further, during the year, as part of its acquisition of the retail business of Ithmaar Holding (refer note 1), the Group acquired economic interests in a sharia compliant financing arrangement provided to FINCORP W.L.L (formerly Al Salam International W.L.L. ("ASI")), who is the holder of 26.19% stake in Bank of Bahrain and Kuwait B.S.C. ("BBK"), a retail bank incorporated in Bahrain and licensed by the Central Bank of Bahrain (note 46). FINCORP W.L.L's investment in BBK forms part of a security package assigned to the Bank under a shariah compliant financing structure. The Bank or its investment accountholders do not directly participate in the underlying business activities of FINCORP W.L.L and are not legal owners of its underlying assets. The returns generated by the Bank are to the extent of the profit and the respective repayment, if any, generated from the sharia compliant financing arrangement only. As per the requirements of the financial accounting standards, the effective economic interest of this arrangement is recognized in these financial statements.

12 INVESTMENT IN ASSOCIATES, NET (continued)

The Group applies the equity method for measuring these associates in the consolidated financial statements. The Group uses the most recent available financial statements of the associates in applying the equity method of accounting. In general, for listed and overseas associates that do not prepare financials under the same reporting framework, the Bank uses reported results of associates of the previous quarter for the purpose of its equity accounting.

	2022	2021
	BD '000	BD '000
Balance at the beginning of the year	14,533	12,036
Acquisitions during the year (Refer note 46)	217,820	-
Additional stake acquired during the year	19,897	-
Share of profits	9,329	2,697
Share of other changes in equity	(7,412)	-
Foreign exchange differences	(161)	(200)
Balance at end of the year	254,006	14,533

The following table summarises financial information of the Group's material investment in associates as reported by the respective associates, adjusted for fair value adjustments on acquisition and differences in accounting policies. The table also reconciles the summarised financial information to the carrying amount of the Group's interests.

	Indirect exposure BBK
	BD '000
Financial information as of 30 September 2022	
Group's holding	26.19%
Total assets	3,823,947
Total liabilities	3,242,400
Net assets (100%)	581,547
Group's share of recognised net assets	152,307
Acquisition accounting related adjustments	65,202
Carrying amount of interest in associate	217,509
	BBK
	BD '000
Revenue	97,600
Profit (100%)	28,179
Other change in equity (comprehensive income)	(28,300)
Total comprehensive income (100%)	41,121
Group's share of profits	7,380
Group's share of other changes in equity	-

The market value of listed associates stood at BD 215.8 million as at 31 December 2022. The values for disclosure purposes were determined using market value per share and were not adjusted for any block holdings or unit of account related adjustments.

For other associates based on the summarized financial statements the revenue, profit and Group's share of profit were BD 21,068 thousand, BD 9,831 thousand and BD 1,949 thousand, respectively.

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13 OTHER ASSETS

	<u>2022</u>	<u>2021</u>
	<u>BD '000</u>	<u>BD '000</u>
Assets under conversion (a)		
Loans and advances to customers	234	1,396
Non-trading investments - fair value through equity (b)	163	192
	<u>397</u>	<u>1,588</u>
Other receivables and advances (c)	36,344	32,186
Prepayments	11,616	1,682
Premises and equipment including right of use assets	19,363	3,609
Assets held- for- sale (d)	-	5,358
	<u><u>67,720</u></u>	<u><u>44,423</u></u>

(a) These represent non-Shari'a compliant assets resulting from the acquisition of ASBS, BMI B.S.C. (c) and Bahraini Saudi Bank B.S.C. Income derived from these assets are transferred to charity payable and as such are not recognised as revenue in the consolidated income statement. During the year, Shari'a prohibited income amounting to BD 450 thousand (2021: BD 291 thousand) has been transferred to charity, which has been included under "Accounts payable and accruals" (note 16).

(b) The above fair value through equity investments are classified as Level 3 in the fair value hierarchy. Movements in fair value through equity investments are as follows:

	<i>Fair value measurement using significant unobservable inputs Level 3</i>	
	<u>2022</u>	<u>2021</u>
	<u>BD '000</u>	<u>BD '000</u>
At 1 January	192	900
Sales during the year	-	(708)
Write down during the year	(29)	-
At 31 December	<u>163</u>	<u>192</u>

Loans and advances to customers - Assets under conversion

	<u>2022</u>			
	<i>Stage 1: 12- month ECL</i>	<i>Stage 2: Lifetime ECL not credit- impaired</i>	<i>Stage 3: Lifetime ECL credit- impaired</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Loans and advances to customers	154	-	1,727	1,881
Allowance for credit losses (note 8)	(1)	-	(1,646)	(1,647)
	<u>153</u>	<u>-</u>	<u>81</u>	<u>234</u>
	<u>2021</u>			
	<i>Stage 1: 12- month ECL</i>	<i>Stage 2: Lifetime ECL not credit- impaired</i>	<i>Stage 3: Lifetime ECL credit- impaired</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Loans and advances to customers	427	138	4,729	5,294
Allowance for credit losses (note 8)	(1)	(1)	(3,896)	(3,898)
	<u>426</u>	<u>137</u>	<u>833</u>	<u>1,396</u>

(c) Includes advances towards investment of BD 5,249 thousand (2021: BD 14,647 thousand).

(d) During the year, the Group has sold and exited in full from its investment in subsidiary ASB Biodiesel (Hong Kong) Limited.

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14 GOODWILL AND OTHER INTANGIBLE ASSETS

On 7 July 2022, the Group completed acquisition of portfolio of assets from Ithmaar holding BSC, as result of this transaction BD 19,105 thousand was recognized as intangible assets. Refer note 46.

In 30 March 2014, the Bank acquired 100% of the paid-up capital of BMI. Goodwill of BD 25,971 thousand (2021: BD 25,971 thousand) arose from the business combination and is associated with the banking segment of the Group.

The recoverable amount of goodwill is based on value-in-use, calculated through cash flow projections from financial forecasts approved by the Board of Directors extrapolated for three years projection to arrive at the terminal value. A steady growth rate of 1% and discount rate of 14.4% is applied to the estimated cash flows.

The bank assesses, on annual basis, whether there is an indication, based on either internal or external source of information, that the goodwill may be impaired in accordance to IAS 36 ('impairment of non-financial assets'). As of 31 December 2022, there are no indication of impairment of the CGU associated with the goodwill.

A sensitivity analysis was conducted to assess the impact of recoverable amount as compared to the carrying value of the CGU. Two variable factors are considered in the analysis, an increase of discount rate by 1% and a reduction of earnings by 0.5%, the recoverable amount is greater than the carrying value of goodwill in the sensitivity analysis and did not result in any impairment.

Particulars	Goodwill	Core deposits	Customer Relationship	Total
	BD '000	BD '000	BD '000	BD '000
Opening balance	25,971	-	-	25,971
Acquired during the year	7,558	15,390	3,715	26,663
Amortised during the year	-	(512)	(124)	(636)
Total	33,529	14,878	3,591	51,998

15 MURABAHA TERM FINANCING

These represent short-term to long-term financings obtained from various financial institutions and are collateralised by corporate and sovereign sukuk with total carrying value BD 408,602 thousand (2021: BD 169,634 thousand).

16 OTHER LIABILITIES

	2022	2021
	BD '000	BD '000
Accounts payable	36,854	17,419
Accrued expenses	21,436	11,313
Manager cheques	5,696	5,154
LC margin deposit	8,898	12,643
Project payables	2,817	69
End of service benefits and other employee related accruals	2,624	2,088
Allowance for credit losses relating to financing commitments and financial guarantee contracts	473	622
Liabilities held- for- sale (a)	-	4,481
	78,798	53,789

(a) During the year, the Group has sold and exited in full from its investment in subsidiary ASB Biodiesel (Hong Kong) Limited.

17 EQUITY OF INVESTMENT ACCOUNTHOLDERS (EIAH)

Equity of investment accountholders comprise:

	2022	2021
	BD '000	BD '000
Wakala from financial institutions	319,339	299,607
Wakala and Mudaraba from customers	2,013,134	1,324,570
The Group utilizes the funds from EIAH to finance assets.	2,332,473	1,624,177

The assets in which EIAH funds are invested are as follows:

Assets	2022	2021
	BD '000	BD '000
Mandatory reserve with central bank	92,507	35,378
Cash and other balances with central bank	40,693	154,025
Investment in associate	217,509	-
Placements with financial institutions	113,170	133,866
Financing assets	1,868,594	1,300,908
	2,332,473	1,624,177

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17 EQUITY OF INVESTMENT ACCOUNTHOLDERS (continued)

Equity of investment accountholder's fund is commingled with Group's mudaraba and wakala funds to form one general mudaraba pool. The pooled fund are used to fund and invest in income generating assets including investments in Banking associate, however no priority is granted to any party for the purpose of investments and distribution of profits.

The Group does not allocate non-performing assets to EIAH pool. All the impairment allowances are allocated to owners' equity. Recoveries from non-performing financial assets are also not allocated to IAH accountholders. Only the profits earned on pool of assets funded from IAH are allocated between the owners' equity and IAH. As per the policy of the Group, minimum of 15% of return on assets earned is distributed to investment accountholders and up to 85% is retained by the Group as mudarib share. During the year, the Bank has sacrificed portion of its share of mudarib, in order to maintain a competitive profit distribution to the EIAH. The Group did not charge any administration expenses to investment account holders. The average profit rate attributed to the equity of investment accountholders based on the above ratio for the year ended 31 December 2022 was 2.4% (2021: 2.47%).

18 SHARE CAPITAL

	<u>2022</u>	<u>2021</u>
	<u>BD '000</u>	<u>BD '000</u>
Authorised:		
5,000,000,000 ordinary shares (2021: 2,500,000,000 shares) of BD 0.100 each	<u>500,000</u>	<u>250,000</u>
Issued and fully paid: (BD 0.100 per share)		
Number of shares 2,492,314,429 (2021: 2,419,722,746)	<u>249,231</u>	<u>241,972</u>

Names and nationalities of the major shareholders and the number of equity shares held in which they have an profit of 5% or more of outstanding share as of 31 December 2022 is as follows:

<u>Investor Name</u>	<u>Nationality</u>	<u>No. of Shares</u>	<u>% of the outstanding shares</u>
Bank Muscat (S.A.O.G.)	Omani	367,275,880	14.74
Overseas Investment S.P.C.	Bahraini	238,360,460	9.56
Sayacorp B.S.C (c)	Bahraini	156,440,101	6.28

A distribution schedule of equity shares, setting out the number of holders and the percentages as of 31 December 2022 is presented below:

<u>Categories</u>	<u>No. of Shares</u>	<u>No. of the shareholders</u>	<u>% of the outstanding shares</u>
Less than 1%	965,938,470	22,910	38.75
1% up to less than 5%	619,299,518	9	24.85
5% up to less than 10%	539,800,561	3	21.66
10% up to less than 20%	367,275,880	1	14.74
Total	<u>2,492,314,429</u>	<u>22,923</u>	<u>100</u>

18.1 Appropriation

The Board of Directors proposed a cash dividend of 5 fils per share or 5% (2021: 4%) of the par value of BD 0.100 per share excluding treasury shares and 5% of the paid up capital to be paid by issue of bonus shares (1 share for every 20 shares held). This amounts to BD 24,820 thousand (2021: BD 16,353 thousand).

18.2. This represents partial transfer of share premium and statutory reserves balances to retained earnings in order to offset accumulated losses during 2021.

18.3. Treasury shares

Total number of treasury shares outstanding as of 31 December 2022 was 145,000,000 shares (2021: 146,300,000 shares).

These include 124,615,721 shares granted to employees under a long-term incentive plan that are subject to future service and performance conditions (Refer note 27).

19 STATUTORY RESERVE

As required by Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net profit for the year has been transferred to the statutory reserve. The Group may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital of the Bank. The reserve is not distributable except in such circumstances as stipulated in the Commercial Companies Law and approval of the CBB. Refer note 18.2 on utilisation of statutory reserve.

20 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share (EPS) is calculated by dividing the net profit for the year attributable to shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. There were no dilutive instruments issued by the Bank.

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20 BASIC AND DILUTED EARNINGS PER SHARE (continued)

	<u>2022</u>	<u>2021</u>
Net profit attributable to Shareholders of the Bank (BD '000)	31,593	21,367
Weighted average number of shares (thousand)	2,346,473	2,427,756
Basic and diluted earnings per share (fils)	<u>13.5</u>	<u>8.8</u>

21 FINANCE INCOME

	<u>2022</u>	<u>2021</u>
	<u>BD '000</u>	<u>BD '000</u>
Murabaha financing	28,614	19,305
Mudaraba financing	25,086	23,386
Finance lease income, net*	36,469	30,359
Musharaka	1,867	1,994
Placements with financial institutions	3,122	1,313
	<u>95,158</u>	<u>76,357</u>

* Finance lease income is net of depreciation of BD 17,415 thousand (2021: BD 32,109 thousand).

22 INCOME FROM NON-TRADING INVESTMENTS, NET

	<u>2022</u>	<u>2021</u>
	<u>BD '000</u>	<u>BD '000</u>
Fair value changes on investments	(729)	(46)
Dividend income	213	70
Gain on acquisition and other investment, net	3,236	346
	<u>2,720</u>	<u>370</u>

23 (LOSS) / INCOME FROM PROPERTIES, NET

	<u>2022</u>	<u>2021</u>
	<u>BD '000</u>	<u>BD '000</u>
(Loss) / Gain on sale of investment properties	(22)	165
Fair value loss on investment properties	(200)	(109)
	<u>(222)</u>	<u>56</u>

24 FEES AND COMMISSION, NET

	<u>2022</u>	<u>2021</u>
	<u>BD '000</u>	<u>BD '000</u>
Transaction related fees and income	2,728	2,237
Arrangement fees	1,727	1,524
LC and LG commission	1,206	1,318
Card income and others	2,167	2,302
	<u>7,828</u>	<u>7,381</u>

25 INCOME FROM TAKAFUL OPERATIONS, NET

	<i>1 July to 31 December 2022</i>
	<u>BD '000</u>
Net premium earned	20,782
Net commission earned	1,147
	<u>21,929</u>
Less: Net claims incurred	(14,398)
Less: General and administrative expenses – Takaful operations	(3,758)
Income from Takaful operations, net	<u>3,773</u>

26 OTHER INCOME

	<u>2022</u>	<u>2021</u>
	<u>BD '000</u>	<u>BD '000</u>
Recoveries	2,330	946
Foreign exchange (loss) / gain	(482)	144
Others	176	(628)
	<u>2,024</u>	<u>462</u>

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27 STAFF COST

	<u>2022</u>	<u>2021</u>
	<u>BD '000</u>	<u>BD '000</u>
Salaries and short term benefits	21,748	15,638
Employees' social insurance expenses	1,727	1,289
Other staff expenses	89	106
	<u>23,564</u>	<u>17,033</u>

During the year, under the future performance awards structure of the Bank, an LTIP scheme was introduced where the employees are compensated in form of shares as a percentage on achievement of certain pre-determined performance conditions. The LTIP sets performance and service conditions and has a rateable vesting schedule over a period of five years. Accelerated vesting may occur on exceeding performance conditions leading to true up of share-based payment charges. The issue price is determined based on a defined adjustment to market price on the date of the award. The LTIP shares include financing features and are entitled to dividends, if any, released along with the vested shares.

28 OTHER OPERATING EXPENSES

	<u>2022</u>	<u>2021</u>
	<u>BD '000</u>	<u>BD '000</u>
Business related expenses	5,119	5,186
Information Technology expenses	2,864	2,253
Professional expenses	2,261	1,687
Board of directors related expenses	1,372	1,307
Other expenses	11,183	2,384
	<u>22,799</u>	<u>12,817</u>

29 RELATED PARTY TRANSACTIONS

Related parties comprise major shareholders, Directors of the Bank, senior management, close members of their families, entities owned or controlled by them and companies affiliated by virtue of common ownership with that of the Bank. The transactions with these parties were approved by the Board of Directors.

The balances with related parties at 31 December 2022 and 31 December 2021 were as follows:

	<u>2022</u>				
	<i>Associates and joint ventures</i>	<i>Major shareholders</i>	<i>Directors and related entities</i>	<i>Senior management</i>	<i>Total</i>
	<u>BD '000</u>	<u>BD '000</u>	<u>BD '000</u>	<u>BD '000</u>	<u>BD '000</u>
Assets:					
Cash and balances with banks and central bank	-	120	-	-	120
Financing assets	19,279	8,371	2,079	1,681	31,410
Non-trading investments	71,639	-	-	-	71,639
Investment in associates	254,006	-	-	-	254,006
Other assets	6,789	-	-	-	6,789
Liabilities and equity of investment accountholders:					
Placements from financial institutions	-	1,240	-	-	1,240
Customers' current accounts	2,907	2,208	3,466	865	9,446
Equity of investment accountholders	300	4,913	7,119	2,917	15,249
Other liabilities	19	-	27	12	58
Contingent liabilities and commitments	-	-	148	-	148

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29 RELATED PARTY TRANSACTIONS (continued)

	2021				
	<i>Associates, and joint ventures</i>	<i>Major shareholders</i>	<i>Directors and related entities</i>	<i>Senior management</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Assets:					
Cash and balances with banks and central bank	-	76	-	-	76
Financing assets	12,828	7,413	3,166	1,618	25,025
Non trading investments	74,352	-	612	-	74,964
Investment in associates	14,533	-	-	-	14,533
Other assets	16,187	-	-	-	16,187
Liabilities and equity of investment accountholders:					
Placements from financial institutions	-	6,400	-	-	6,400
Customers' current accounts	2,150	978	2,776	707	6,611
Equity of investment accountholders	4,459	12,660	12,978	2,498	32,595
Other liabilities	10	-	26	8	44
Contingent liabilities and commitments	-	-	151	-	151

Income and expenses in respect of related parties included in the consolidated income statement are as follows:

	2022				
	<i>Associates and joint ventures</i>	<i>Major shareholders</i>	<i>Directors and related entities</i>	<i>Senior management</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Income:					
Finance income	1,066	378	177	190	1,811
Fees and commission, net	18	63	9	8	98
Provision (charge) / release for investments & PPE	(2,713)	-	(612)	-	(3,325)
Loss from properties, net	-	-	-	(12)	(12)
Share of profit from associates	9,329	-	-	-	9,329
Expenses:					
Finance expense on placements from financial institutions	-	147	-	-	147
Share of profits on equity of investment accountholders	13	267	253	65	598
Other operating expenses	-	-	1,320	-	1,320

	2021				
	<i>Associates and joint ventures</i>	<i>Major shareholders</i>	<i>Directors and related entities</i>	<i>Senior management</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Income:					
Finance income	927	217	198	77	1,419
Fees and commission, net	31	49	12	10	102
Provision (charge) / release for investments & PPE	(2,010)	-	(612)	-	(2,622)
Loss from properties, net	-	-	-	-	-
Share of profit from associates	2,697	-	-	-	2,697
Expenses:					
Finance expense on placements from financial institutions	-	232	-	-	232
Share of profits on equity of investment accountholders	140	109	237	66	552
Other operating expenses	-	-	1,215	-	1,215

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29 RELATED PARTY TRANSACTIONS (continued)**Key management personnel compensation**

Board of Directors' remuneration for the year 2022 amounted to BD 780 thousand (2021: BD 690 thousand) and sitting fees for the year 2022 amounted to BD 498 thousand (2021: BD 478 thousand).

Sharia Supervisory Boards' remuneration for the year 2022 amounted to BD 52 thousand (2021: BD 44 thousand).

Key management personnel of the Bank comprise key members of management having authority and responsibility for planning, directing and controlling the activities of the Bank. Compensation of key management personnel for the year 2022 includes salaries and other benefits of BD 4,427 thousand (2021: BD 3,090 thousand).

30 CONTINGENT LIABILITIES AND COMMITMENTS

	<u>2022</u>	<u>2021</u>
	<u>BD '000</u>	<u>BD '000</u>
Contingent liabilities on behalf of customers		
Guarantees	60,217	44,749
Letters of credit	12,611	13,117
Acceptances	1,254	1,862
	74,082	59,728
Unutilised commitments		
Unutilised financing commitments	196,652	121,501
Unutilised non-funded commitments	4,912	7,384
	201,564	128,885

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

Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being utilized, the total contract amounts do not necessarily represent future cash requirements.

31 WA'AD BASED FX TRANSACTIONS FOR RISK MANAGEMENT

The Group entered into Wa'ad based FX transactions to manage its exposures to foreign currency risk. The fair values of FX Wa'ad instruments is as follows;

	<u>2022</u>		<u>2021</u>	
	Notional Amount	Fair Value	Notional Amount	Fair Value
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
FX Wa'ad instruments				
Assets position	62,926	1,247	57,163	619
Liabilities position	14,509	440	19,488	402

32 RISK MANAGEMENT

32.1 Introduction - Risk management of Banking operations

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk appetite limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk, operational risk, information security risk and market risk. It is also subject to early settlement risk.

The Group's risk function is independent of lines of business and the Chief Risk Officer reports to the Audit and Risk Committee with access to the Group Chief Executive Officer.

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

Board of Directors

The Board of Directors is responsible for setting the overall risk management framework and appetite encompassing the risk strategies and policies.

Shari'a Supervisory Board

The Group's Shari'a Supervisory Board is entrusted with the responsibility to ensure the Group's adherence to Shari'a rules and principles in its transactions and activities.

Credit Risk Committee

Risk Committee exercises its authority to review and approve proposals within its delegated limits. The Committee recommends the risk policies and framework to the Board. The Committee has a primary role in selection and implementation of risk management systems, portfolio monitoring, stress testing, risk reporting to the Board, Board Committees, Regulators and Executive Management. The Committee discharges its authority after adequate due diligence.

Asset and Liability Committee

The Asset and Liability Committee (ALCO) establishes policy and objectives for the asset and liability management of the Group's financial position in terms of ICAAP, Stress Testing, Step-in Risk, Recovery Plan, Risk and Return and its impact on profitability. It also monitors the cash flow, tenor and cost / yield profiles of assets and liabilities and evaluates the Group's financial position both from profit rate sensitivity and liquidity points of view, making corrective adjustments based upon perceived trends and market conditions, monitoring liquidity, monitoring foreign exchange exposures and positions.

Operational Risk Committee

The Operational Risk Committee establishes the Bank's Operational Risk Policies which must be consistent with the corporate values and strategy of the Bank. The Committee shall be responsible for the design, implementation and supervision of the Operational Risk framework of the Bank.

Information Security Committee

Information Security Committee is an advisory committee appointed by the Management Executive Committee of the Bank to develop, review and execute a comprehensive Information Security Management System for the Bank. The Committee will regularly review the information security risk exposure of the Bank.

Audit and Risk Committee

The Audit and Risk Committee is appointed by the Board of Directors who are non-executive directors of the Group. The Audit and Risk Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting, the audit thereof, the soundness of the internal controls of the Group, reviewing and monitoring the overall risk framework and profile of the Group as well as its adherence to stipulated policies and limits, and the methods for monitoring compliance with laws, regulations and supervisory and internal policies.

The Audit and Risk Committee reviews Group's accounting and financial practices, risk management reports, integrity of the Group's financial and internal controls and consolidated financial statements. It also reviews the Group's compliance with legal requirements, recommends the appointment, compensation and oversight of the Group's external and internal auditors. The Committee has the responsibility to review and recommend to the Board for approval the overall risk process and policies within the Bank.

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32 RISK MANAGEMENT (continued)

32.1 Introduction (continued)

Internal Audit

Risk management processes throughout the Group are audited by the internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit and Risk Committee.

Risk measurement and reporting systems

The Group's risk management policies aim to identify, measure, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. The Group's risk management department is also responsible for identifying risk characteristics inherent in new and existing products, activities and setting exposure limits to mitigate these risks.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across respective risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, the Audit and Risk Committee, Credit Risk Management Committee, Operational Risk Management Committee, Information Security Committee and ALCO, whenever required. The reports include aggregate credit quality and exposures, market risk exposures, operational risk metrics, Information Security updates, limit exceptions, liquidity ratios, stress testing, and risk profile changes. A detailed report is produced on a quarterly basis with simplified reports produced on a monthly basis. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Audit and Risk Committee of the Board receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess the risks of the Group.

For all levels throughout the Group, specifically 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. Briefing is given to all relevant members of the Group on the utilization of market limits, proprietary investments and liquidity, plus any other risk developments.

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 Group's performance to developments affecting a particular industry or geographical location.

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

32.2 Credit risk

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, setting limits for transactions with counterparties, and continually assessing the creditworthiness of counterparties.

In addition to monitoring credit limits, the Group manages the credit exposures by entering into collateral arrangements with counterparties in appropriate circumstances and by limiting the duration of the exposure.

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32 RISK MANAGEMENT (continued)**32.2 Credit risk (continued)****Maximum exposure to credit risk without taking account of any collateral and other credit enhancements***Credit risk grades*

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of customer. Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates. Each exposure is allocated to a credit risk grade at initial recognition based on available information about the customer. Exposures are subject to ongoing monitoring which may result in an exposure being moved to a different credit risk grade.

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 provision, before the effect of mitigation through the use of master netting and collateral agreements.

	<i>Gross maximum exposure 2022 BD '000</i>	<i>Gross maximum exposure 2021 BD '000</i>
ASSETS		
Balances with other banks	183,646	194,394
Placements with financial institutions	113,169	133,866
Corporate Sukuk	40,311	26,299
Financing assets	2,035,401	1,400,666
Financing contracts under other assets	1,881	5,294
Total	2,374,408	1,760,519
Contingent liabilities and commitments	275,646	188,613
Total credit risk exposure	2,650,054	1,949,132

Where financial contracts are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Type of credit risk

Various contracts entered into by the Group comprise Murabaha financing, Mudaraba financing, Musharaka, Credit card receivables, Corporate Sukuk and finance lease contracts. Murabaha contracts cover financing of land, buildings, commodities, motor vehicles and others non-financial assets. Mudaraba financing consist of financing transactions entered through other Islamic banks and financial institutions. Mudaraba is a partnership agreement in which the Islamic bank acts as the provider of funds (the Rabalmal) while the recipient of the funds (the Mudarib or the manager) provides the professional, managerial and technical know-how towards carrying out the venture, trade or service with an aim of earning profit.

The Group follows an internal rating mechanism for grading relationships for financial assets. All financial assets are assigned a rating in accordance with the defined criteria. The Group utilises a scale ranging from 1 to 10 for credit relationships, with 1 to 7 denoting performing grades and 8 to 10 denoting non-performing grades. Ratings 1 to 4 represent good credit grade, 5 to 7 represents a satisfactory credit grade and 8 to 10 represents default grade.

For externally rated exposures, credit risk ratings of an authorised Credit Rating Agency such as S&P, etc, are converted into internal ratings which are calibrated with the risk appetite of the Bank. Conversion of an external credit risk rating to an internal risk rating is done to ensure consistency across publicly rated and unrated entities.

The Group endeavors continuously to improve upon the internal credit risk rating methodologies and credit risk management policies and practices to reflect the true underlying credit risk of the portfolio and the credit culture in the Group.

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32 RISK MANAGEMENT (continued)

32.2 Credit risk (continued)

Measurement of ECL

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective profit rate of the financial asset.

The key parameters 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, historical and projected data. These are further adjusted to reflect forward-looking scenarios as described below.

Definition of default

The Group considers a financial asset to be in default when the customer is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as liquidating collateral; or the customer is past due more than 90 days on any credit obligation to the Group. In assessing whether a customer is in default, the Group considers both qualitative factors such as breaches of covenants and quantitative factors such as overdue status and non-payment on another obligation of the same issuer to the Group.

Probability of default

PDs estimates are estimated at a certain date, which are calculated based on the Bank's default experience, and assessed using rating tools tailored to the segment of counterparties and exposures. These estimations are based on internally compiled data comprising both quantitative and qualitative factors. In case of lack of default history, market data may also be used to derive the PD for selected segment of counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD.

Generating the term structure PD

Credit risk grades are a primary parameters into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by credit risk grading for corporate and days-past-due for retail portfolio. The Group employs credit risk estimation 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.

Incorporation of forward - looking information

The Group uses industry recognized models to estimate impact of macro-economic factors on historical observed default rates. In case the results of forecasted PDs are significantly different from the expected default rates that may be observed for the forecasted economic conditions, conservative and discretionary overlays shall be used by the management after analyzing the portfolio and impact. The key macro-economic indicators include gross domestic product (GDP) growth and oil prices. The key macro-economic indicators include gross domestic product (GDP) growth and oil prices.

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32 RISK MANAGEMENT (continued)

32.2 Credit risk (continued)

Incorporating forward-looking information requires continuous assessment 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 yearly.

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, based on historical data using both internal and external factors. The LGD is estimated using below factors:

Cure Rate: Defined as the ratio of accounts which have fallen to default and have managed to move backward to the performing accounts.

Recovery Rate: Defined as the ratio of liquidation value to market value of the underlying collateral at the time of default would also account for expected recovery rate from a general claim on the individual's assets for the unsecured portion of the exposure.

In case of non-availability of recovery data, the Bank uses LGD estimate based on market practice.

Discounting Rate: Defined as the opportunity cost of the recovery value not being realized on the day of default adjusted for time value. Where the Group does not have stable or adequate internal loss or recovery experience, an expert judgement measure using market benchmarks as inputs is considered.

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. The EAD of a financial asset is its gross carrying amount. For financing commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

Significant Increase in Credit Risk

A SICR occurs when there has been a significant increase in the risk of a default occurring over the expected life of a financial instrument. In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a financing facility, which would result in the financial asset moving from 'stage 1' to 'stage 2'.

When determining whether the risk of default on financial contracts 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, restructured status and relative migration in risk rating. Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk grade deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 4 and 5.

The Group continues to assess customer for other indicators of unlikelihood to pay, taking into consideration the underlying cause of any financial difficulty and whether it is likely to be temporary as a result of Covid-19 or longer term.

During the year, in accordance with CBB instructions the Group has granted payment holidays to its eligible/impacted customers by deferring up to six months instalments (2021: deferrals up to twelve months). These deferrals are considered as market-wide short-term liquidity relief to address customer cash flow issues and not necessarily indicative of deterioration in credit risk. The Group believes that the extension of these payment reliefs does not automatically trigger a SICR and a stage migration for the purposes of calculating ECL, as these are being made available to assist customer affected by the Covid-19 outbreak to resume regular payments. Accordingly, the Group has made risk based assessments on the affected portfolio to determine a range of possible outcomes for its ECL determination process.

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32 RISK MANAGEMENT (continued)**32.2 Credit risk (continued)**

Management overlays are applied to the model outputs consistent with the objective of identifying a significant increase in credit risk.

Renegotiated financial assets

The contractual terms of a financing 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. When the terms of a financial asset are modified and the modification does not result in a derecognition, the determination of whether the asset's credit risk has increased significantly reflects a comparison of its remaining lifetime PD at the reporting date based on modified terms, with the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Group renegotiates financing to customers in financial difficulties to maximize collection opportunities and minimize the risk of default. This may involve extending the payment arrangements and documenting the agreement of new conditions for providing finance. Management continuously reviews renegotiated facilities to ensure that all criteria are met and that future payments are likely to occur.

The accounts which are performing prior to restructuring but restructured due to financial difficulty are categorised under stage 2. The accounts that are non-performing or meet any criteria for classifying as non-performing (prior to restructuring), then such restructured accounts are categorized under stage 3.

The Group believes that the extension of payment holidays due to COVID-19 related concessionary measures of CBB did not automatically trigger a SICR and a stage migration for the purposes of calculating ECL.

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). However, movement across stages are not immediate once SICR indicators are no longer triggered. Once such indicators are no longer triggered, movement back to Stage 1 or Stage 2 has to be calibrated and cannot be automatic or immediate. Certain criteria like cooling off year, SICR indicators and payment history are considered for migrating customers to Stage 2 or Stage 1.

Credit Conversion Factor

The estimation of EAD takes into account any unexpected changes in the exposure after the assessment date, including expected drawdowns on committed facilities through the application of a credit conversion factor (CCF). The EAD is estimated using the outstanding exposure adjusted by CCF times for undrawn portion of the facilities.

The outstanding exposure is calculated as principal plus profit less expected prepayments. The undrawn portion refers to the portion of the unutilized credit limit. CCF applied to the facilities would be the higher of average behavioral utilization over the last five years or the CCF considered for capital charge.

The Bank applies regulatory CCF as defined by the Central Bank of Bahrain.

Expected credit Losses

During 2021, The economic uncertainties caused by COVID-19, required the Group to update the inputs and assumptions used for the determination of expected credit losses ("ECLs") considering that the regulatory has relaxed the concessions from 30 Jun 2022 onwards, accordingly the assumption were updated for the year of 31 December 2022. ECLs were estimated based on a range of forecast economic conditions as at that date the Group has considered the impact of volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECL determination.

The following table summarizes the key judgements and assumptions in relation to the model inputs and the interdependencies between those inputs during the current year.

Key model inputs	Model assumptions
Probability of default (PD's)	Point-in-time PD's updated using latest available macro-economic forecasts by using historical correlation to Volume of imports of goods and services; Inflation average consumer prices; Domestic credit growth (%); Unemployment rate and Gross national savings as percentage of GDP

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32 RISK MANAGEMENT (continued)

32.2 Credit risk (continued)

Key model inputs	Model assumptions
Probability weighted outcomes	Probability weights - Base 65, Stressed 25, Improved 10
Loss Given Default (LGD)	Unsecured LGD is 65% and it is consistent with those used in 2021.

The Group had also stressed financing exposures with regards to specific industries which were expected to be most impacted due to Covid-19 and considered for ECL in its probability weighted scenarios. However, the staging of these exposures reported in the tables below reflect their account position on the reporting date. The Group continues to individually assess significant corporate exposures to adequately safeguard against any adverse movements due to Covid-19.

The Group has previously performed historical analysis and identified key economic variables impacting credit risk and ECL for each portfolio and expert judgement has also been applied in this process. These economic variables and their associated impact on PD, EAD and LGD vary by financial instrument.

Judgement is involved in determining which forward looking information variables are relevant for particular financing portfolios and for determining the sensitivity of the parameters to movements in these forward-looking variables. As with any economic forecasts, the projections and likelihoods of the occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

a) The credit quality of balances with banks and placements with financial institutions subject to credit risk is as follows:

	2022			Total BD '000
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit- impaired BD '000	Stage 3: Lifetime ECL credit- impaired BD '000	
Good (R1-R4)	238,035	-	-	238,035
Satisfactory (R5-R7)	58,780	-	-	58,780
Allowance for credit losses	(207)	-	-	(207)
	296,608	-	-	296,608

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31 December 2022

32 RISK MANAGEMENT (continued)

32.2 Credit risk (continued)

	2021			Total BD '000
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	
Good (R1-R4)	230,380	-	-	230,380
Satisfactory (R5-R7)	97,880	-	-	97,880
Allowance for credit losses	(87)	-	-	(87)
	<u>328,173</u>	<u>-</u>	<u>-</u>	<u>328,173</u>

b) The following tables sets out information about the credit quality of financial assets. For financing commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed.

i) Corporate Sukuk

	2022			Total BD '000
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	
Good (R1-R4)	26,876	-	-	26,876
Satisfactory (R5-R7)	13,435	-	-	13,435
Allowance for credit losses	(107)	-	-	(107)
	<u>40,204</u>	<u>-</u>	<u>-</u>	<u>40,204</u>

	2021			Total BD '000
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	
Good (R1-R4)	10,759	-	-	10,759
Satisfactory (R5-R7)	15,540	-	-	15,540
Allowance for credit losses	(14)	-	-	(14)
	<u>26,285</u>	<u>-</u>	<u>-</u>	<u>26,285</u>

ii) Financing assets

	2022			Total BD '000
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	
Good (R1-R4)	1,804,731	38,538	-	1,843,269
Satisfactory (R5-R7)	63,863	78,498	-	142,361
Default (D8-D10)	-	-	49,771	49,771
Allowance for credit losses and impairment	(17,309)	(12,290)	(19,337)	(48,936)
	<u>1,851,285</u>	<u>104,746</u>	<u>30,434</u>	<u>1,986,465</u>

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32 RISK MANAGEMENT (continued)**32.2 Credit risk (continued)****ii) Financing assets (continued)**

	2021			Total BD '000
	Stage 1: 12- month ECL BD '000	Stage 2:		
		Lifetime ECL not credit- impaired BD '000	Stage 3: Lifetime ECL credit- impaired BD '000	
Good (R1-R4)	1,223,636	37,622	-	1,261,258
Satisfactory (R5-R7)	77,272	38,123	-	115,395
Default (D8-D10)	-	-	24,013	24,013
Allowance for credit losses and impairment	(15,028)	(7,279)	(13,907)	(36,214)
	<u>1,285,880</u>	<u>68,466</u>	<u>10,106</u>	<u>1,364,452</u>

As 31 December 2022, profit in suspense amounted to BD 43,333 thousand (2021: 41,799 thousand).

iv) Financial contracts under other assets

	2022			Total BD '000
	Stage 1: 12- month ECL BD '000	Stage 2:		
		Lifetime ECL not credit- impaired BD '000	Stage 3: Lifetime ECL credit- impaired BD '000	
Good (R1-R4)	154	-	-	154
Satisfactory (R5-R7)	-	-	-	-
Default (D8-D10)	-	-	1,727	1,727
Allowance for credit losses	(1)	-	(1,646)	(1,647)
	<u>153</u>	<u>-</u>	<u>81</u>	<u>234</u>

	2021			Total BD '000
	Stage 1: 12- month ECL BD '000	Stage 2:		
		Lifetime ECL not credit- impaired BD '000	Stage 3: Lifetime ECL credit- impaired BD '000	
Good (R1-R4)	407	138	-	545
Satisfactory (R5-R7)	20	-	-	20
Default (D8-D10)	-	-	4,729	4,729
Allowance for credit losses	(1)	(1)	(3,896)	(3,898)
	<u>426</u>	<u>137</u>	<u>833</u>	<u>1,396</u>

v) Financing commitments and financial guarantee contracts

	2022			Total BD '000
	Stage 1: 12- month ECL BD '000	Stage 2:		
		Lifetime ECL not credit- impaired BD '000	Stage 3: Lifetime ECL credit- impaired BD '000	
Good (R1-R4)	262,631	7,192	752	270,575
Satisfactory (R5-R7)	260	2,713	2,098	5,071
Default (D8-D10)	-	-	-	-
Allowance for credit losses	(135)	(25)	(313)	(473)
	<u>262,756</u>	<u>9,880</u>	<u>2,537</u>	<u>275,173</u>

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32 RISK MANAGEMENT (continued)**32.2 Credit risk (continued)****v) Financing commitments and financial guarantee contracts (continued)**

	2021				
	Stage 1: 12- month ECL <i>BD '000</i>	Stage 2:		Stage 3: Lifetime ECL credit- impaired <i>BD '000</i>	Total <i>BD '000</i>
		Lifetime			
		ECL not credit- impaired <i>BD '000</i>	Lifetime ECL credit- impaired <i>BD '000</i>		
Good (R1-R4)	169,063	1	-	169,064	
Satisfactory (R5-R7)	14,910	1,946	-	16,856	
Default (D8-D10)	-	-	2,693	2,693	
Allowance for credit losses	(291)	(52)	(279)	(622)	
	<u>183,682</u>	<u>1,895</u>	<u>2,414</u>	<u>187,991</u>	

The aging analysis of Financing Assets:

	2022				
	Stage 1 <i>BD '000</i>	Stage 2 <i>BD '000</i>	Stage 3 /		Total <i>BD '000</i>
			POCI		
			<i>BD '000</i>	<i>BD '000</i>	
Current	1,744,892	92,147	16,520	1,853,559	
< 30 days	122,667	3,773	1,796	128,236	
30 to 90 Days	1,189	21,116	28,710	51,015	
> 90 days	-	-	4,472	4,472	
	<u>1,868,748</u>	<u>117,036</u>	<u>51,498</u>	<u>2,037,282</u>	

	2021				
	Stage 1 <i>BD '000</i>	Stage 2 <i>BD '000</i>	Stage 3		Total <i>BD '000</i>
			POCI		
			<i>BD '000</i>	<i>BD '000</i>	
Current	1,261,656	73,462	1,938	1,337,056	
< 30 days	36,336	542	-	36,878	
30 to 90 Days	3,343	1,879	111	5,333	
> 90 days	-	-	26,693	26,693	
	<u>1,301,335</u>	<u>75,883</u>	<u>28,742</u>	<u>1,405,960</u>	

The maximum credit risk, without taking into account the fair value of any collateral and Shari'a-compliant netting agreements, is limited to the amounts on the consolidated statement of financial position plus commitments to customers disclosed in note 30 except capital commitments.

During the year BD 25,630 thousand (2021: BD 41,889 thousand) of financing facilities were renegotiated. Most of the renegotiated facilities are performing and are secured.

Write-off policy

The Group writes off an asset/security balance (net of any related allowances for impairment losses) when it determines that the asset/security are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the counterparty's financial position such that they can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. During the year, the Group has written back net financing facilities amounting to BD 224 thousand (2021: BD 11,961 thousand) which were fully impaired.

Collateral held and other credit enhancements

The Group accepts the following type of collateral, as defined in CBB rule book. The collateral can be in Bahraini Dinars or other Foreign Currencies-in such cases, haircut as appropriate as per the credit risk policy shall be effected.

- Cash Margin and deposits
- Sukuk-Long Term – rated & unrated
- Equities listed and not listed in main index
- Units in collective investment schemes
- Other physical assets including real estate

The Group holds collateral and other credit enhancements against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

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32 RISK MANAGEMENT (continued)**32.2 Credit risk (continued)**

<i>Type of credit exposure</i>	<i>Principal type of collateral held</i>	2022	2021
		<i>BD '000</i>	<i>BD '000</i>
Financing assets to corporates	Cash, Property, Shares and Sukuk	1,380,953	986,300
Financing assets to retail customers	Cash, Property, Shares and Sukuk	1,181,410	785,478

FTV ratio

Financing to value (FTV) is calculated as the ratio of the gross amount of the financing or the amount committed for financing commitments to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral.

	2022	2021
	<i>BD '000</i>	<i>BD '000</i>
Less than 50%	990,692	613,792
51-70%	229,424	165,835
71-90%	273,392	217,989
91-100%	160,682	118,983
More than 100%	383,092	289,361
	<u>2,037,282</u>	<u>1,405,960</u>

Key drivers of credit risk and credit losses

Credit risk arises from all transactions that give rise to actual, contingent or potential claims against any counterparty, obligor or client (which is referred to collectively as “counterparties”). This is the most frequent and substantial risk faced by any financing Bank.

Credit risk may have the following consequences leading to credit losses:

- Delayed fulfilment of a payment obligation
- Partial loss of the credit exposure
- Complete loss of the credit exposure

The various types of credit risk are defined as follows:

- Default Risk
- Country Risk
- Settlement Risk
- Replacement cost-risk
- Concentration risk
- Residual risk (e.g. legal risk, documentation risk, or liquidity risk)

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used included the key indicators for Bahrain such as the oil price, net financing, population, GDP growth and government expenditure.

32.3 Legal risk and claims

Legal risk is the risk arising from the potential that unenforceable contracts, lawsuits or adverse judgments can disrupt or otherwise negatively affect the operations of the Group. The Group has developed controls and procedures to identify legal risks and believes that losses will be minimised.

As at 31 December 2022, legal suits amounting to BD 1,302 thousand (2021: BD 3,203 thousand) were pending against the Group. Based on the opinion of the Group’s legal counsel, the total estimated liability arising from these cases is not considered to be material to the Group’s consolidated financial position as the Group has also filed counter cases against these parties.

32 RISK MANAGEMENT (continued)

32.4 Operational risk management

During the year, the Group has acquired retail banking portfolio from Ithmaar Holding BSC (refer note 1 and note 46), this transaction was completed effective 7 July 2022. The Group is going through the process of migration and integration of rewards and transactions and this process has increased the operational risk of the Group. The Group has formed a committee to oversee this migration and integration. Subsequent to the year end system migration was completed.

The BCP was thoroughly tested during the year, including the implemented measures like working from the BCP site and from home. The measures continued to work satisfactorily.

As of 31 December 2022, the Group did not have any significant issues relating to operational risks.

32.5 Risk Management for Takaful operations of the Group

The activity of Solidarity Group Holding BSC (c), one of the principal subsidiaries of the Group is to issue takaful contracts of its personal and corporate clients. The risk under Takaful contract is the possibility that on event occurs and the uncertainty of the amount payable under the Takaful contract resulting from such occurrence referred to as the claim. By the very nature of takaful contract, this risk is fortuitous, random and therefore unpredictable. The principal risks that the Group faces in writing a portfolio of takaful contracts are the frequency of occurrence of the events and the severity of resulting claims. The Group's risk profile is improved by having sufficient large numbers, diversification by nature of risk and geographical spread of these risks. This reduces the vulnerability of the Group's financial position and profits to large losses or a high frequency as there will be a larger income to sustain such impacts. The exposure of high frequency and severe large losses are also protected contract provides by a comprehensive retakaful program placed with highly reputable international retakaful contract provider.

(i) Underwriting Policy

The Group principally issues takaful contracts marine (cargo and hull), motor (own damage and third-party liability), property (material damage and business interruption), liability and general accident. These policies usually cover twelve months duration. For the above general takaful contracts, the most significant risks arise from accidents including motor or other incidents causing fire and accidental damage, negligence resulting in accidents or liabilities against third parties, natural disasters and other activities causing damage by riots, civil commotion and terrorist acts. The level of risks vary in relation to the location of the risk covered and type of risk covered and by industry.

(i) Retakaful Policy

As part of the underwriting process the next risk control measure in respect of the takaful risk is the transfer of the risks to third parties through a retakaful contract or facility. The Group has in place proportional facilities, referred to as treaties, which are used to transfer a proportion of the risks automatically subject to pre-agreed conditions with the retakaful contracts provider. The portion of the risk retained by the Group is also guided by a strict retention policy adopted by the Group. Any claim will be recovered in the same proportion. Furthermore, the Group also has in place non-proportional treaties which pay a proportion of losses above a pre-agreed priority level for each loss or an aggregation of losses arising out of one event. The placements of retakaful contracts are diversified with a panel of internationally reputed reinsurers so that the Group is not dependent on a single retakaful contracts provider or a retakaful contract. The Group also transfers risk on a case-by-case basis referred to as facultative retakaful. This is used in cases when the risk under consideration is either too large for the treaty capacities or else has risks which are excluded from the treaties. In this case the Group seeks internationally rated retakaful contracts providers but also places some small shares in the local markets as exchange of business.

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33 CONCENTRATIONS

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 Group's performance to developments affecting a particular industry or geographic location. The Group manages its exposure through diversification of financing activities to avoid undue concentrations of risks with customers in specific locations or businesses.

The distribution of assets, liabilities and equity of investment accountholders by geographic region and industry sector was as follows:

	2022			2021		
		<i>Liabilities and equity of investment account holders</i>	<i>Contingent liabilities and Commitments</i>	<i>Assets</i>	<i>Liabilities, and equity of investment account holders</i>	<i>Contingent liabilities and Commitments</i>
	<i>Assets BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Geographic region						
GCC	3,652,878	3,071,611	266,346	2,524,872	2,092,615	178,700
Middle East and North Africa	80,126	216,848	7,504	17,423	154,736	9,129
Europe	65,514	196,728	18	33,045	84,018	45
Asia	8,794	32,140	738	8,509	28,846	739
America	81,480	20,492	1,040	82,420	6,980	-
Others	10,569	24,187	-	18,302	20,617	-
	3,899,361	3,562,006	275,646	2,684,571	2,387,812	188,613
	2022			2021		
	<i>Assets BD '000</i>	<i>Liabilities and equity of investment account holders BD '000</i>	<i>Contingent liabilities and Commitments BD '000</i>	<i>Assets BD '000</i>	<i>Liabilities, and equity of investment account holders BD '000</i>	<i>Contingent liabilities and Commitments BD '000</i>
Industry sector						
Government and public sector	1,273,552	301,168	41,390	620,052	136,382	17,603
Banks and financial institutions	102,058	690,306	61,071	719,341	689,120	14,018
Real estate	394,200	101,511	48,096	350,537	165,382	42,395
Trading and manufacturing	131,925	109,239	64,208	296,316	320,734	102,159
Individuals	1,370,883	1,595,041	32,867	629,780	718,962	6,752
Others	626,743	764,741	28,014	68,545	357,232	5,686
	3,899,361	3,562,006	275,646	2,684,571	2,387,812	188,613

34 MARKET RISK

Market risk arises from fluctuations in global yields on financial contracts and foreign exchange rates that could have an indirect effect on the Group's assets value and equity prices. The Board has set limits on the risk that may be accepted. This is monitored on a regular basis by the Audit and Risk Committee as well as ALCO of the Group.

34.1 Equity price risk

Equity price risk arises from fluctuations in equity prices. The Board has set limits on the overall investment exposure of the Bank. This is monitored on an ongoing basis by the Group's Investment Committee and Risk Management.

The effect on income (as a result of changes in the fair values of non-trading investments held at fair value through profit or loss and fair value through equity investments) solely due to reasonably possible changes in equity indexes, is as follows:

	2022			
	10% increase		10% decrease	
	<i>Effect on net profit BD '000</i>	<i>Effect on equity BD '000</i>	<i>Effect on net profit BD '000</i>	<i>Effect on equity BD '000</i>
Quoted investment	1,189	888	(1,189)	(888)

	2021			
	10% increase		10% decrease	
	<i>Effect on net profit BD '000</i>	<i>Effect on equity BD '000</i>	<i>Effect on net profit BD '000</i>	<i>Effect on equity BD '000</i>
Quoted investment	412	-	(412)	-

34.2 Profit return risk

Profit rate risk arises from the possibility that changes in profit rates will affect the future profitability or the fair values of financial assets. The Board has set limits on the risk that may be accepted. This is monitored on a regular basis by the Audit and Risk Committee as well as ALCO of the Group.

The Group manages exposures to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows.

The effect on income solely due to reasonably possible immediate and sustained changes in profit return rates, affecting both floating rate assets and liabilities and fixed rate assets and liabilities with maturities less than one year are as follows:

	2022			
	Change in rate %	Effect on net profit BD '000	Change in rate %	Effect on net profit BD '000
	Bahraini dinars	0.10	(10,725)	(0.10)

	2021			
	Change in rate %	Effect on net profit BD '000	Change in rate %	Effect on net profit BD '000
	Bahraini dinars	0.10	(9,254)	(0.10)

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34 MARKET RISK (continued)**34.2 Profit return risk (continued)****Profit rate benchmark reform (PBOR)**

The Group has implemented a tool to enable it to adopt the recommendations of the Alternative Reference Rate Committee, The Central Bank, ISDA IIFM regarding the new conventions for profit rate accrual for new exposures and/or legacy contracts in line with the market practice.

34.3 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency. Positions are monitored on a yearly basis by the Audit and Risk Committee as well as ALCO to ensure positions are maintained within established limits.

Substantial portion of the Group's assets and liabilities are denominated in Bahraini Dinars, US Dollars or Saudi Riyals. As the Bahraini Dinar and Saudi Riyals are pegged to the US Dollars, positions in these currencies are not considered to represent significant currency risk as of 31 December 2022 and 2021.

The Group's net exposure for denominated in foreign currencies as at 31 December for its financial instruments are as follows:

	<i>Long (short)</i> 2022 <i>BD '000</i>	<i>Long (short)</i> 2021 <i>BD '000</i>
Sterling Pounds	(19)	(33)
Euro	(46,827)	(36,175)
Algerian Dinar	-	14,647
Others	1,897	199

Standard scenarios that are considered include a 10% increase or decrease in exchange rates other than GCC pegged currencies. An analysis of the Group's sensitivity to an increase or decrease in foreign exchange rates (assuming all other variables primarily profit rates, remain constant) is as follows:

	<i>Change in currency rate</i> %	<i>Effect on profit 2022</i> <i>BD '000</i>	<i>Effect on equity 2022</i> <i>BD '000</i>	<i>Change in currency rate</i> %	<i>Effect on profit 2021</i> <i>BD '000</i>	<i>Effect on equity 2021</i> <i>BD '000</i>
Sterling Pounds	10	(2)	-	10	(3)	-
Euro	10	(4,683)	-	10	(3,618)	-
Algerian Dinar	10	-	-	10	-	1,465
Others	10	190	-	10	20	-
Total		(4,495)	-		(3,601)	1,465

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35 LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its liabilities as they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may impact certain sources of funding. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining an adequate balance of cash, cash equivalents and readily convertible marketable securities. Liquidity position is monitored on an ongoing basis by the Risk and Audit Committee as well as ALCO of the Group.

The Bank has computed the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) as per the requirements of the CBB rulebook. The LCR at the Group level as at 31 December 2022 is 165.30% and the simple average of the daily consolidated LCRs of the last three months is 251.40%. The NSFR as at 31 December 2022 is 108.33%.

The maturity profile of sukuk, placements with or from financial institutions, financing assets and murabaha term financing has been presented using the contractual maturity year. For other balances, maturity profile is based on expected cash flows / settlement profile of the respective assets and liabilities.

The management of the Group has enhanced its monitoring of the liquidity and funding requirements. ALCO meetings are convened more frequently in order to carryout granular assessment of funding requirements with the objective to explore available sources of funding and to drawdown the existing funding sources as and when necessary to maintain enough liquidity at a reasonable cost of funding.

As at the reporting date the liquidity and funding position of the Group remains strong and is well placed to absorb and manage the impacts of this disruption. Further information on the regulatory liquidity and capital ratios as at 31 December 2022 have been disclosed in note 45 to the consolidated financial statement.

	<i>2022</i>				<i>Total BD '000</i>
	<i>Up to 3 months BD '000</i>	<i>3 months to 1 year BD '000</i>	<i>1 to 5 years BD '000</i>	<i>Over 5 years BD '000</i>	
ASSETS					
Cash and balances with banks and central bank	367,747	-	-	-	367,747
Placements with financial institutions	84,488	28,608	-	-	113,096
Investment in sukuk	37,793	58,238	467,328	274,022	837,381
Financing assets	208,458	271,127	674,069	832,811	1,986,465
Non-trading investments	-	-	-	106,796	106,796
Takaful and related assets	-	51,690	-	-	51,690
Investment in real estate	-	-	-	62,462	62,462
Investment in associates	-	-	-	254,006	254,006
Other assets	35,436	10,494	2,083	19,707	67,720
Goodwill and other intangible assets	-	-	-	51,998	51,998
	733,922	420,157	1,143,480	1,601,802	3,899,361

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35 LIQUIDITY RISK (continued)

	2022				Total BD '000
	Up to 3 months BD '000	3 months to 1 year BD '000	1 to 5 years BD '000	Over 5 years BD '000	
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS					
Placements from financial institutions and customers	145,111	42,613	-	-	187,724
Customers' current accounts	550,281	-	-	-	550,281
Murabaha term financing	203,651	89,399	22,557	5,382	320,989
Takaful and related liabilities	-	91,741	-	-	91,741
Other liabilities	38,321	2,249	512	37,716	78,798
Equity of investment accountholders	1,109,264	822,348	310,064	90,797	2,332,473
	2,046,628	1,048,350	333,133	133,895	3,562,006
	2021				Total BD '000
	Up to 3 months BD '000	3 months to 1 year BD '000	1 to 5 years BD '000	Over 5 years BD '000	
ASSETS					
Cash and balances with banks and central bank	309,149	-	-	-	309,149
Placements with financial institutions	129,189	4,671	-	-	133,860
Investment in sukuk	23,980	68,600	307,479	239,629	639,688
Financing assets	179,648	217,492	501,788	465,524	1,364,452
Non-trading investments	-	-	-	91,591	91,591
Takaful and related assets	-	-	-	-	-
Investment in real estate	-	-	-	60,904	60,904
Investment in associates	-	-	-	14,533	14,533
Other assets	10,145	135	535	33,608	44,423
Goodwill and other intangible assets	-	-	-	25,971	25,971
	652,111	290,898	809,802	931,760	2,684,571
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS					
Placements from financial institutions	69,763	56,726	402	-	126,891
Customers' current accounts	482,739	-	-	-	482,739
Murabaha term financing	55,240	27,518	2,211	15,247	100,216
Other liabilities	24,976	-	-	28,813	53,789
Equity of investment accountholders	977,655	538,919	101,411	6,192	1,624,177
	1,610,373	623,163	104,024	50,252	2,387,812

31 December 2022

35 LIQUIDITY RISK (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2022 and 2021 based on contractual undiscounted payment obligation:

	<i>2022</i>					<i>Total</i>
	<i>On</i>	<i>Up to</i>	<i>3 months</i>	<i>1 to 5</i>	<i>Over 5</i>	
	<i>demand</i>	<i>3 months</i>	<i>to 1 year</i>	<i>years</i>	<i>years</i>	
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	
Placements from financial institutions	-	145,802	43,690	-	-	189,492
Customers' current accounts	550,281	-	-	-	-	550,281
Murabaha term financing	-	204,807	90,281	22,557	5,382	323,027
Equity of investment accountholders	247,908	861,623	838,363	322,813	90,886	2,361,593
Contingent liabilities and commitments	-	67,199	114,109	70,827	23,511	275,646
Other financial liabilities	20,863	-	-	-	-	20,863
	819,052	1,279,431	1,086,443	416,197	119,779	3,720,902

**LIABILITIES, EQUITY OF INVESTMENT
ACCONTHOLDERS, COMMITMENTS
AND CONTINGENT LIABILITIES**

	<i>2021</i>					<i>Total</i>
	<i>On</i>	<i>Up to</i>	<i>3 months</i>	<i>1 to 5</i>	<i>Over 5</i>	
	<i>demand</i>	<i>3 months</i>	<i>to 1 year</i>	<i>years</i>	<i>years</i>	
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	
Placements from financial institutions	-	69,955	57,552	419	-	127,926
Customers' current accounts	482,739	-	-	-	-	482,739
Murabaha term financing	-	55,722	28,136	3,685	15,418	102,961
Equity of investment accountholders	435,663	543,223	546,893	109,188	7,476	1,642,443
Contingent liabilities and commitments	-	35,431	58,904	13,113	81,165	188,613
Other financial liabilities	13,654	-	-	-	-	13,654
	932,056	704,331	691,485	126,405	104,059	2,558,336

**LIABILITIES, EQUITY OF INVESTMENT
ACCONTHOLDERS, COMMITMENTS
AND CONTINGENT LIABILITIES**

31 December 2022

36 SEGMENT INFORMATION**Primary segment information**

For management purposes, after completion of the recent acquisitions (refer note 46), the Group is organised into the following primary business segments:

Banking	Principally managing Shari'a compliant profit sharing investment accounts, and offering Shari'a compliant financing contracts and other Shari'a-compliant products. This segment comprises corporate banking, retail banking, private banking and wealth management in Bahrain and through the Bank's subsidiary in Seychelles. Banking segment also includes the Group's investments in banking associates which are allocated as assets attributable to the jointly financed pool of investment accountholders. Other overseas associate investments form part of the investment segment.
Treasury	Principally handling Shari'a compliant money market, trading, fixed income products and treasury services including short-term commodity murabaha.
Investments	Principally the Group's proprietary portfolio and asset management services to clients with a range of investment products, funds and alternative investments. These also include the Group's investment in certain associates and joint ventures.
Takaful	Represents the Group's investment in Solidarity Group Holding BSC (c) which is primarily involved in the business of offering Shari'a compliant takaful contracts. These comprise motor, non-motor, medical, group life and family takaful products. All activities of this business including its investment activities are reported under this segment as they are managed together along with the Takaful business.

Transactions between banking and other segments are conducted at estimated allocated internal rates. Transfer charges are based on a pool rate which approximates the cost of funds.

Segment information is disclosed as follows:

	2022					
	<i>Banking</i>	<i>Treasury</i>	<i>Investments</i>	<i>Takaful</i>	<i>Unallocated</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>		<i>BD '000</i>	<i>BD '000</i>
Finance income	90,161	3,848	626	523	-	95,158
Income from sukuk	-	34,395	-	383	-	34,778
Fees and commission, net	4,336	2,590	902	-	-	7,828
Income from non-trading investments, net	-	-	2,667	(169)	-	2,498
Share of profit from associates	7,380	-	1,937	12	-	9,329
Income from Takaful	-	-	-	3,773	-	3,773
Other income	2,212	(374)	158	28	-	2,024
Finance expense on placements from financial institutions	(334)	(4,621)	-	-	-	(4,955)
Finance expense on murabaha term financing	-	(6,046)	-	-	-	(6,046)
Return on equity of investment accountholders	(33,599)	(6,848)	(7,544)	-	-	(47,991)
Net operating income	70,156	22,944	(1,254)	4,550	-	96,396
Staff cost	15,463	4,520	3,581	-	-	23,564
Premises cost & depreciation	2,586	993	701	-	-	4,280
Other operating expenses	13,981	4,409	4,409	-	-	22,799
Operating income before impairment allowances	38,126	13,022	(9,945)	4,550	-	45,753

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36 SEGMENT INFORMATION (continued)

	2022					
	<i>Banking</i>	<i>Treasury</i>	<i>Investments</i>	<i>Takaful</i>	<i>Unallocated</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>		<i>BD '000</i>	<i>BD '000</i>
Net impairment charge	(8,747)	(13)	(3,923)	-	-	(12,683)
Segment result	34,023	8,901	(12,000)	2,146	-	33,070
Segment assets	2,224,708	1,286,557	229,699	51,738	106,659	3,899,361
Segment liabilities	2,415,880	937,770	21,971	91,791	94,594	3,562,006

Goodwill and other intangibles include BD 44,441 thousand (2021: BD 25,971 thousand) allocated from prior acquisitions within the banking segment and BD 7,557 thousand (2021: Nil) attributable to the takaful segment.

Segment information for the year ended 31 December 2021 was as follows:

	2021					
	<i>Banking</i>	<i>Treasury</i>	<i>Investments</i>	<i>Takaful</i>	<i>Unallocated</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Finance income	73,089	2,282	986	-	-	76,357
Income from sukuk	-	22,421	-	-	-	22,421
Fees and commission, net	4,819	2,438	124	-	-	7,381
Income from non-trading investments, net	-	-	426	-	-	426
Share of profit from associates	2,697	-	-	-	-	2,697
Income from Takaful	-	-	-	-	-	-
Other income	1,137	16	(691)	-	-	462
Finance expense on placements from financial institutions	-	(4,154)	-	-	-	(4,154)
Finance expense on murabaha term financing	-	(2,876)	-	-	-	(2,876)
Return on equity of investment accountholders	(31,403)	(3,893)	(681)	-	-	(35,977)
Net operating income	50,339	16,234	164	-	-	66,737
Staff cost	12,877	2,823	1,333	-	-	17,033
Premises cost & depreciation	2,476	400	273	-	-	3,149
Other operating expenses	9,652	2,213	952	-	-	12,817
<i>Operating income before impairment allowances</i>	<i>25,334</i>	<i>10,798</i>	<i>(2,394)</i>	<i>-</i>	<i>-</i>	<i>33,738</i>
Net impairment charge	(8,830)	605	(4,289)	-	-	(12,514)
Segment result	16,823	8,763	(4,362)	-	-	21,224
Segment assets	1,419,859	1,075,488	185,799	-	3,425	2,684,571
Segment liabilities	1,899,701	480,239	7,617	-	255	2,387,812

Goodwill resulting from BMI acquisition is allocated to banking segment.

Secondary segment information

The Group primarily operates in the GCC and derives substantially all its operating income and incurs all operating expenses in the GCC.

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37 FIDUCIARY ASSETS

Funds under management at the yearend amounted to BD 111,500 thousand (2021: BD 141,004 thousand). These assets are held in a fiduciary capacity, measured at remaining subscription amounts and are not included in the consolidated statement of financial position. Further, the Group through its SPV's, acts as an agent/custodian on behalf of certain clients to facilitate transactions as per terms and instructions from their customers.

38 SHARI'A SUPERVISORY BOARD

The Bank's Shari'a Supervisory Board ("SSB") consists of four Islamic scholars who review the Bank's compliance with general Shari'a rules and principles, specific fatwas and rulings issued by SSB and the guidelines of the Central Bank of Bahrain ("CBB") in relation to Shari'a governance and compliance. Their review includes examination and approval of products, documentation, procedure manuals and policies, services and related charges and fees that are presented to it to ensure that the Bank's adopted activities are conducted in accordance with Shari'a rules and principles, and consequently, issue report on the bank's compliance following the review and approval of the financial statements.

39 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

During the year, the Group earned Shari'a prohibited income totalling BD 450 thousand (2021: BD 291 thousand). These include income earned from the conventional financing and investments due to acquiring BMI, ASBS and BSB, penalty charges from customers and interest on balances held with correspondent banks. These funds were allocated to charitable contributions.

40 SOCIAL RESPONSIBILITY

The Group discharges its social responsibility through charity fund expenditures and donations to individuals and organisations which are used for charitable purposes. During the year, the Group paid an amount of BD 478 thousand (2021: 554 thousand) out of which BD 110 thousand (2021: BD 271 thousand) was paid from Sharia prohibited income pool.

41 ZAKAH

Pursuant to a resolution of the shareholders in an Extra-ordinary General Meetings (EGM) held on 12 November 2009, it was resolved to amend the articles of association of the Bank to inform the shareholders of their obligation to pay Zakah on income and net worth. Consequently, Zakah is not recognised in the consolidated income statement as an expense. The total Zakah payable by the shareholders for 2022 has been determined by the Shari'a supervisory board as 2.7 fils (2021: 2.6 fils) per share. Under FAS 9, Zakah payable for the year ended 2022 was calculated at 2.577% of the Zakah base of BD 245,883 thousand (2021: BD 233,146 thousand) which was determined on the Net Invested Funds method.

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42 FAIR VALUE HIERARCHY

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly; or

Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

Financial instruments measured at fair value

The following table shows an analysis of the non-trading investments and sukuk portfolio carried at fair value in the consolidated statement of financial position:

31 December 2022	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Sovereign sukuk at fair value through equity	73,071	139,635	-	212,706
Corporate sukuk at fair value through equity	15,423	350	-	15,773
Investment securities at fair value through income statement	11,898	302	82,915	95,115
Investment securities at fair value through equity	8,881	-	2,800	11,681
FX Wa'ad assets position	-	1,247	-	1,247
	109,273	141,534	85,715	336,522
FX Wa'ad liabilities position	-	440	-	440
	-	440	-	440

Financial instruments measured at amortized cost

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Sovereign sukuk at amortized cost	496,936	87,535	-	584,471
Corporate sukuk at amortized cost	10,118	-	14,313	24,431
	507,054	87,535	14,313	608,902

The fair value of sukuk carried at amortized cost is BD 579,528 thousand.

31 December 2021	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Sovereign sukuk at fair value through equity	455,723	157,680	-	613,403
Corporate sukuk at fair value through equity	14,132	379	11,774	26,285
Investment securities at fair value through income statement	4,116	302	86,823	91,241
Investment securities at fair value through equity	-	-	350	350
FX Wa'ad assets position	-	619	-	619
	473,971	158,980	98,947	731,898
FX Wa'ad liabilities position	-	402	-	402
	-	402	-	402

The movements in fair value of non-trading investments classified in Level 3 of the fair value hierarchy are as follows:

	<i>2022</i>	<i>2021</i>
	<i>BD '000</i>	<i>BD '000</i>
At 1 January	87,173	90,559
Transferred from Solidarity	2,805	-
Purchases	49	-
Disposals	(23)	-
Fair value changes	(275)	(35)
Impairment	(4,014)	(3,351)
At end of the year	85,715	87,173

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42 FAIR VALUE HIERARCHY (continued)

The sensitivity analysis for Level 3 of non-trading investments are summarized below:

<u>Valuation technique used</u>	<u>Key unobservable inputs</u>	<u>Fair value at 31 December 2022</u> <u>BD'000</u>	<u>Reasonable possible shift</u> <u>+/- (in average input)</u>	<u>Increase / (decrease) in valuation</u>
Asset Valuation	Underlying real estate	105,042	+/- 5%	5,252 / (5,252)

The movements in fair value of sukuk portfolio classified in Level 3 of the fair value hierarchy are as follows:

	<u>2022</u>	<u>2021</u>
	<i>BD '000</i>	<i>BD '000</i>
At 1 January	11,774	10,551
Additions	-	10,994
Disposals	-	(9,771)
Reclassified to amortized cost	(11,774)	-
At end of the year	-	11,774

The movements of sukuk portfolio carried at amortized cost classified in Level 3 of the fair value hierarchy are as follows:

	<u>2022</u>	<u>2021</u>
	<i>BD '000</i>	<i>BD '000</i>
At 1 January	-	-
Reclassified from FVTE	11,774	-
Additions	2,539	-
	14,313	-

The estimated fair value of yielding financing assets and financing liabilities approximates their carrying value as their pricing is not materially different to expected market return on such contracts.

The estimated fair values of other financial assets are not expected to be materially different from their carrying values as of 31 December 2022 and 31 December 2021 due to their short term nature.

43 FINANCIAL RISK MANAGEMENT

The Group's financial risk management objectives and policies are consistent with those disclosed in the annual consolidated financial statements for the year ended 31 December 2021.

Russia-Ukraine conflict

The current ongoing conflict between Russia-Ukraine has triggered a global economic disruption and has, amongst other impacts, led to increased volatility in financial markets and commodity prices due to disruption of supply chain which may affect a broad range of entities across different jurisdictions and industries.

43 FINANCIAL RISK MANAGEMENT (continued)

The management has carried out an assessment of its portfolio and has concluded that it does not have any direct exposures to / from the impacted countries. However, potential for indirect exposures continue to exist. At this stage it is difficult to quantify the full impact of this conflict since it depends largely on the nature and duration of uncertain and unpredictable events, such as further military action, additional sanctions, and reactions to ongoing developments by global financial markets. The management will continue to closely monitor impact of this evolving situation on its portfolio to assess indirect impact, if any. As at 31 December 2022 the Group does not have any direct material impact of this conflict.

44 DEPOSIT PROTECTION SCHEME

Certain customers' deposits of the Bank are covered by deposit protection schemes established by the CBB. Customers' deposits held with the Bank in the Kingdom of Bahrain are covered by the Regulation Protecting Deposits and Equity of unrestricted investment accounts issued by the CBB in accordance with Resolution No.(34) of 2010. This scheme covers eligible 'natural persons' (individuals) up to a maximum of BD 20,000 as set out by CBB requirements. A yearly contribution as mandated by the CBB is paid by the Bank under this scheme.

45 REGULATORY RATIOS**1) Liquidity Coverage Ratio (LCR)**

LCR has been developed to promote short-term resilience of a bank's liquidity risk profile. The LCR requirements aim to ensure that a bank has an adequate stock of unencumbered high quality liquidity assets (HQLA) that consists of assets that can be converted into cash immediately to meet its liquidity needs for a 30 calendar day stressed liquidity year. The stock of unencumbered HQLA should enable the bank to survive until day 30 of the stress scenario, by which time appropriate corrective actions would have been taken by management to find the necessary solutions to the liquidity crisis.

LCR is computed as a ratio of Stock of HQLA over the Net cash outflows. The average Consolidated LCR for three months calculated as per the requirements of the CBB rulebook, as of 31 December 2022 and 31 December 2021, is as follows:

	<i>Total weighted value</i>	
	<i>2022</i>	<i>2021</i>
	<i>BD '000</i>	<i>BD '000</i>
Stock of HQLA	538,323	579,523
Net cashflows	219,621	180,147
LCR %	251.40%	343.93%
Minimum required by CBB	100%	80%

2) Capital Adequacy Ratio

The primary objectives of the Group's capital management policies are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. Capital adequacy for each of the group companies is also managed separately at individual company level. The Group does not have any significant restrictions on its ability to access or use its assets and settle its liabilities other than any restrictions that may result from the supervisory frameworks within which the banking subsidiaries operate.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

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45 REGULATORY RATIOS (continued)**2) Capital Adequacy Ratio (continued)**

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

	<i>As at</i>	
	<u>2022</u>	<u>2021</u>
	<i>BD '000</i>	<i>BD '000</i>
CET 1 Capital before regulatory adjustments	302,173	295,333
Less: regulatory adjustments	34,562	25,971
CET 1 Capital after regulatory adjustments	267,611	269,362
AT 1 Capital	44	36
T 2 Capital adjustments	38,415	34,596
Regulatory Capital	306,070	303,994
Risk weighted exposure:		
Credit Risk Weighted Assets	1,244,559	934,629
Market Risk Weighted Assets	38,237	27,314
Operational Risk Weighted Assets	113,494	103,250
Total Regulatory Risk Weighted Assets	1,396,290	1,065,193
Total Adjusted Risk Weighted Exposures	1,396,290	1,065,193
Capital Adequacy Ratio	21.92%	28.54%
Tier 1 Capital Adequacy Ratio	19.17%	25.29%
Minimum required by CBB	12.50%	12.50%

As of 31 December 2022, aggregate of modification loss of BD 24,768 thousand has been added back to Tier 1 capital.

As per CBB instructions, the above concessional treatment would be followed for three years ending 31 December 2020, 31 December 2021 and 31 December 2022, thereafter this amount will be proportionately deducted from Tier 1 capital over three years starting 1 January 2023.

3) Net Stable Funding Ratio (NSFR)

The objective of the NSFR is to promote the resilience of banks' liquidity risk profiles and to incentivize a more resilient banking sector over a longer time horizon. The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on-balance sheet and off-balance sheet items, and promotes funding stability.

NSFR is calculated in accordance with the Liquidity Risk Management Module guidelines, issued by CBB and its affective from 2019. The minimum NSFR ratio as per CBB is 100%.

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45 REGULATORY RATIOS (continued)**3) Net Stable Funding Ratio (NSFR) (continued)**

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

Item	BD'000				
	Unweighted Values (before applying relevant factors)				
	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	279,592	-	-	38,415	318,007
Retail deposits and deposits from small business customers:					
Stable deposits	-	315,809	21,822	15,879	336,629
Less stable deposits	-	936,116	233,070	133,844	1,186,111
Wholesale funding:					
Other wholesale funding	-	1,452,526	184,892	87,198	473,702
Other liabilities:					
All other liabilities not included in the above categories	-	51,422	-	46,593	46,593
Total ASF	279,592	2,755,873	439,784	321,929	2,361,042
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	34,634
Performing financing and sukuk/ securities:					
Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	285,379	-	6,496	49,302
Performing financing to non-financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	357,123	154,489	1,222,473	1,268,029
With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	-	-	-	134,393	87,356
Performing residential mortgages, of which:	-	-	-	221,246	143,810
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	221,246	143,810
Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	12,236	2,458	12,357	17,850
Other assets:					
All other assets not included in the above categories	557,037	14,025	-	88,124	652,174
OBS items	-	275,333	-	-	13,767
Total RSF	557,037	944,096	156,947	1,550,696	2,179,566
NSFR (%)	-	-	-	-	108.33%

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45 REGULATORY RATIOS (continued)**3) Net Stable Funding Ratio (continued)**

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

Item	Unweighted Values (before applying relevant factors)					Total weighted value
	BD'000	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	
Available Stable Funding (ASF):						
Capital:						
Regulatory Capital	272,744	-	-	34,596	307,340	
Retail deposits and deposits from small business customers:						
Stable deposits	-	85,820	3,048	6,445	90,869	
Less stable deposits	-	501,988	113,787	80,423	634,621	
Wholesale funding:						
Other wholesale funding	-	1,322,106	149,710	56,041	522,229	
Other liabilities:						
All other liabilities not included in the above categories	-	67,695	-	-	-	
Total ASF	272,744	1,977,609	266,545	177,505	1,555,059	
Required Stable Funding (RSF):						
Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	29,612	
Performing financing and sukuk/ securities:						
Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	366,087	6,367	5,878	63,974	
Performing financing to non-financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	227,810	153,681	756,908	812,050	
With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	-	-	-	110,335	71,718	
Performing residential mortgages, of which:	-	-	-	188,086	122,256	
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	188,086	122,256	
Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	12,743	-	3,151	9,050	
Other assets:						
All other assets not included in the above categories	241,383	5,809	-	30,018	274,306	
OBS items	-	188,333	-	-	9,417	
Total RSF	241,383	800,782	160,048	984,041	1,320,665	
NSFR (%)	-	-	-	-	117.75%	

46 BUSINESS COMBINATION

In the first quarter of 2022, the Bank entered into definitive discussions in relation to the acquisition of certain group of assets from Ithmaar Holding's group of companies consisting of the consumer banking business of Ithmaar Bank, the entire 26.19% underlying shareholdings of Ithmaar Holding in Bank of Bahrain and Kuwait B.S.C. (BBK) and 55.91% holdings in Solidarity Group Holding, subject to the requisite approvals and signing of definitive agreements. The acquisition has been completed to on 7 July 2022 after obtaining required regulatory and corporate approvals.

The transaction was structured as a balanced carve out of agreed assets and liabilities of Ithmaar Holding. As consideration for acquisition of the acquired group of assets, the Group has assumed certain liabilities and equity of investment account holders of the consumer banking division of Ithmaar Bank BSC (c) of an equivalent value.

Identifiable assets acquired and liabilities assumed

The transaction includes acquisition of businesses and certain assets. The fair value of assets, liabilities, equity interests will have been reported in these disclosures on a provisional basis and will be finalized within a period of 12 months from the date of acquisition. In line with the provisions of IFRS 3 "Business Combinations", if new information, obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date, identified adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised. Revisions to provisional acquisition accounting will be reflected on a retrospective basis.

The reported amounts below represent the adjusted acquisition carrying values of the acquired assets and liabilities at the acquisition date:

ASSETS ACQUIRED

	<i>BD '000</i>
CONSUMER BANKING BUSINESS	
Cash and bank balances	63,240
Financing portfolio	456,979
Other assets	57
Fixed assets	5,449
Intangible assets	19,105
Total	544,830
TAKAFUL BUSINESS	
Cash and balance with banks	8,480
Commodity and other placements with banks, financial and other institutions	36,078
Sukuks	18,817
Investment securities (non-trading investments)	19,620
Investment in associates	290
Takaful and other receivables	50,320
Fixed assets	7,792
Other assets	12,081
Investment in real estate	5,982
Intangible assets	7,558
Total assets	167,018
Investment securities	
Investment in associates and other equity investments	247,471
Total assets acquired (A)	959,319

46 BUSINESS COMBINATION (continued)

CONSIDERATION - LIABILITIES ASSUMED	<i>BD '000</i>
Consumer business	
Due to banks financial and other institutions	2,211
Customers' current accounts	35,272
Due to customers	14,368
Other liabilities	22,995
Total liabilities	74,846
Equity of investment accountholders	754,655
Total liabilities and equity of investment accountholders	829,501
Takaful business	
Other liabilities	13,658
Takaful related reserves	83,271
Total liabilities	96,929
Total liabilities assumed	926,430
Add: Non-controlling interests associated with the Takaful business recognized	32,889
Total consideration for the acquired assets (B)	959,319

As the transaction was structured as a carve-out of the consumer business alongside a selection of other assets and due to the likely effects of synergies and integration adjustments post the business transfer, it is impracticable to determine the profit or loss of the combined entity for the current reporting period assuming the acquisition-date for the whole business combination occurred at the beginning of the annual reporting date. Had the acquisition occurred on 1 January 2022, management estimates that the Group's total operating income would have been higher by BD 43.55 million.

47 COMPARATIVE FIGURES

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