

**KHALEEJI COMMERCIAL BANK BSC**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2022**

Commercial registration	:	55133 (registered with Central Bank of Bahrain as a retail Islamic bank).
Office	:	Bahrain Financial Harbour East Tower PO Box 60002, Manama, Kingdom of Bahrain
Directors	:	Hisham Ahmed Al Rayes – Chairman Jassim Mohamed Alseddiqi – Ex - Chairman (resigned on 4 APRIL 2022) Sh. Ahmed Bin Isa Khalifa Al Khalifa – Vice Chairman Reyadh Eid Al Yaqoob Mosobah Saif Al Mutairy Isa Abdulla Zainal Mazen Ibrahim Abdulkarim Salah Abdulla Sharif Hussain Sayed Ali Al Hussaini Ali Murad (appointed on 17 APRIL 2022)
Chief Executive Officer	:	Sattam Sulaiman Algozaibi
Board secretary	:	Mohammed Abdulla Saleh
External Auditors	:	KPMG Fakhro, Bahrain

# KHALEEJI COMMERCIAL BANK BSC

## CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2022

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<b>CONTENTS</b>	<b>Page</b>
Board of Directors' report	1-3
Sharia supervisory board report	4
Independent auditors' report to the shareholders	5-10
<b>Consolidated financial statements</b>	
Consolidated statement of financial position	11
Consolidated income statement	12
Consolidated statement of changes in owners' equity	13-14
Consolidated statement of cash flows	15
Consolidated statement of changes in restricted investment accounts	16
Consolidated statement of sources and uses of zakah and charity fund	17
Notes to the consolidated financial statements	18-101



**Board of Directors Report  
For the Year Ended 31 December 2022  
Khaleeji Commercial Bank BSC**

*In the name of Allah, the beneficent, the merciful,  
Prayers and peace upon the last apostle and messenger, our prophet Muhammad.*

**Dear Shareholders,**

On behalf of the Board of Directors, it is my pleasure to present to you the annual financial statements of Khaleeji Commercial Bank (the "Bank") for the year ended 31<sup>st</sup> December 2022.

KHCB has achieved positive financial results in overall performance, as well as an increase in profits and revenues over the past year through our firm commitment to achieving the best returns for our valued shareholders. At the end of 2022, the Bank has achieved Net Profit attributable to the Shareholders of BD 14.01 million, realized through our reliance on operational plans that keep pace with modern trends and global changes at various levels, especially in light of the economic transformations that necessitated a steady pace forward to be a leading force in various aspects of our banking operations, as well as adherence to our innovative strategy of developing banking activities and accelerating digital transformation, which contributed to enhancing client satisfaction with our new and leading products and services. Furthermore, we proudly continue to embrace our role as a national banking institution that is keen on supporting government endeavours, especially considering the economic recovery plan's positive results.

Throughout 2022, the bank strived to consolidate its leading position in the local market by continuing to evolve and expand its range of innovative retail banking services for individuals, particularly relative to digital transformation by offering a package of distinguished and innovative digital products and services through the "Khaleeji Mobile App", self-service kiosks, and branches, all of which left a clear impact in enhancing our banking experience to valued clients. The bank has also strived to unveil a range of banking services that offer individuals exceptional privileges, which were well received by our valued clients.

Furthermore, KHCB has also continued to enter into fruitful partnerships with a number of public and private institutions with the aim of achieving mutual gains and benefits, which strengthened our close cooperation with important sectors in the Kingdom, resulting in successes that were reflected in our financial performance. The bank will continue to follow this approach in 2023, as developing products and services, enhancing client experiences, and establishing new strategic partnerships are among the priorities of the bank's business model.

On behalf of the Board of Directors, the Executive Management, and employees of Khaleeji Commercial Bank, I would like to take this opportunity to express profound gratitude and appreciation to His Majesty King Hamad bin Isa Al Khalifa, King of Bahrain, may God protect him, and His Royal Highness Prince Salman bin Hamad Al Khalifa, Crown Prince and Prime Minister, may God protect him, for their support and backing of all economic sectors in the Kingdom, especially the banking sector.

**Board of Directors Report  
For the Year Ended 31 December 2022  
Khaleeji Commercial Bank BSC**

I would also like to express my great appreciation and gratitude to the Central Bank of Bahrain for its fruitful cooperation, and my extended thanks to all the ministries, government bodies, and Bahrain Bourse for their continuous support and assistance.

I would also like to commend the dedicated efforts made by the Khaleeji Commercial Bank staff and management in consolidating the bank's leadership in pursuit of broader horizons of success and development through following the innovative approach that we have developed to achieve the best results, in addition to providing a banking experience that meets the aspirations of our valued clients. I would also like to thank our shareholders and valued clients for their limitless loyalty and trust in Khaleeji Commercial Bank as one of the leading financial institutions in the Islamic banking sector.

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

• **First: Board of Directors' Remuneration Details:**

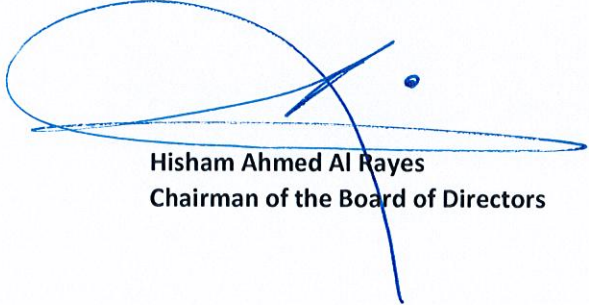
Name	Fixed remunerations				Variable remunerations				End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
	Remunerations of the chairman and BOD	Total allowance for attending Board and committee meetings	Others*	Total	Remunerations of the chairman and BOD	Incentive plans	Others**	Total			
<b>First: Independent Directors:</b>											
1- Sh. Ahmed Bin Isa Al Khalifa	30,000	21,500	-	51,500	-	-	-	-	-	51,500	-
2- Hussain Sayed Ali Al Hussaini	30,000	26,000	-	56,000	-	-	-	-	-	56,000	-
3- Reyadh Eid Al Yaqoob	30,000	21,500	-	51,500	-	-	-	-	-	51,500	-
4- Isa Abdulla Zainal	15,000	21,500	-	36,500	-	-	-	-	-	36,500	-
5- Mazen Ibrahim Abdulkarim	15,000	30,500	-	45,500	-	-	-	-	-	45,500	-
<b>Second: Non-Executive Directors:</b>											
1- Mosaboh Saif Al Mutairy	15,000	21,500	-	36,500	-	-	-	-	-	36,500	-
2- Ali Murad	11,250	16,500	-	27,750	-	-	-	-	-	27,750	-

**Board of Directors Report**  
**For the Year Ended 31 December 2022**  
**Khaleeji Commercial Bank BSC**

Name	Fixed remunerations				Variable remunerations				End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
	Remunerations of the chairman and BOD	Total allowance for attending Board and committee meetings	Others*	Total	Remunerations of the chairman and BOD	Incentive plans	Others**	Total			
<b>Third: Executive Directors:</b>											
1- Hisham Ahmed Al Rayes	30,000	15,500	-	45,500	-	-	-	-	-	45,500	-
2-Salah Abdulla Sharif	15,000	26,000	-	41,000	-	-	-	-	-	41,000	-
<b>Total</b>	<b>191,250</b>	<b>200,500</b>	<b>-</b>	<b>391,750</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>391,750</b>	<b>-</b>
<p>Note: All amounts are stated in Bahraini Dinars.</p> <p>Other remunerations:  * It includes in-kind benefits – specific amount - remuneration for technical, administrative and advisory works (if any).  ** It includes the board member's share of the profits - Granted shares (insert the value) (if any).</p> <p>Notes:  1. The Bank does not have any variable remuneration payments, end of service benefits, or expense allowances paid to its directors.  2. Board remuneration represents payments proposed for the year 2022 which are subject to the approval of the shareholders in upcoming Annual General Meeting dated 22<sup>nd</sup> March 2023.</p>											

• **Second: Executive Management Remuneration Details for Top 6 Executives:**

Executive management	Total paid salaries and allowances	Total remuneration (Bonus)	Any other cash/ in kind remuneration for 2022	Aggregate Amount
Remuneration of top 6 executives, including CEO and Head of Finance & Administration	905,365	508,298	-	1,413,663
<p>Note: All amounts are stated in Bahraini Dinars.</p> <p>Notes:  1. The total bonus included BD 258,524 as cash based remuneration and BD 249,774 as shares based remuneration.  2. Remuneration details include Board remuneration earned by executive management from their role in investee companies or other subsidiaries.</p>				



**Hisham Ahmed Al Rayes**  
Chairman of the Board of Directors



05 February 2023  
14 Rajab 1444 AH

**SHARI'A SUPERVISORY BOARD REPORT TO THE SHAREHOLDERS**  
**On the Activities of Khaleeji Commercial Bank B.S.C.**  
**For the financial year ending 31 December 2022**

Prayers and Peace upon the Last Apostle and Messenger, Our prophet Mohammed, His Family and companions.

In compliance with our terms of appointment, the Shari'a Supervisory Board ("SSB") hereby presents the following report to the Shareholders on the activities of Khaleeji Commercial Bank ("KHCB") and its subsidiaries for the financial year ending 31<sup>st</sup> December 2022.

**Respective responsibility of the Board of Directors and the SSB**

The SSB confirms that as a general principle and practice, KHCB's management is responsible for ensuring that it conducts its business in accordance with Islamic Shari'a rules and principles. The SSB's responsibility is to form an independent Shari'a opinion based on our review of the Bank's operations and to prepare this report.

**Basis of opinion**


In compliance with the Shari'a Governance and based on SSB's Fatwas, decisions and the AAOIFI standards, the SSB through its periodic meetings and its executive member have reviewed the internal Shari'a audit plan and Shari'a audit reports and examined the documents and transactions by conducting a sample-test method to ensure its compliance with the Shari'a rules and principles. In addition, the SSB has reviewed the IESCA report. The SSB in collaboration with Shari'a coordination and implementation department has reviewed contracts, agreements, financings and investment structures, products, related policies, consolidated Financial Statements and attached notes for the year ended 31<sup>st</sup> December 2022.

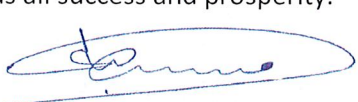
**Opinion**

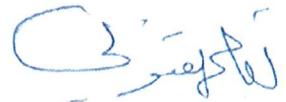
Based on our review, The SSB is satisfied that:

1. The contracts, agreements and transactions entered into by the Bank that have been reviewed by the SSB are in compliance with the Shari'a rules and principles.
2. The allocation of profits and charging of losses 'if any' on investment accounts conform to the basis that had been approved by the SSB and in accordance with Shari'a rules and principles.
3. Any earnings resulted by means prohibited by the Shari'a rules and principles have been channeled to charity account.
4. Zakah was calculated in accordance with Shari'a rules and principles based on net assets method according to AAOIFI standards. Each shareholder is responsible to pay their relevant zakah portion related to their respected shares as per zakah guide.
5. The Bank is in compliance with Shari'a rules and principles, SSB's Fatwas and decisions, Shari'a related policies and procedures, AAOIFI's Shari'a standards, relevant rulings of the CSSB and the regulations, resolutions and directives issued by the CBB.

We pray to Allah the almighty to grant us all success and prosperity.

  
Shaikh Dr. Fareed Al-Muftah  
Chairman

  
Shaikh Dr. Fareed Hadi  
Vice-Chairman & Executive Member

  
Shaikh Dr. Nizam Yaqoobi  
Board Member



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 Website: home.kpmg/bh  
 CR No. 6220

## Independent auditors' report

### To the Shareholders of

*Khaleeji Commercial Bank BSC*  
*PO Box 106*  
*Manama*  
*Kingdom of Bahrain*

#### Opinion

We have audited the accompanying consolidated financial statements of Khaleeji Commercial 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 owner's equity, cash flows, changes in restricted investment accounts and sources and uses of zakah and charity fund for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

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

#### Basis for Opinion

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

*Independent auditors' report to the shareholders (continued)*  
*Khaleeji commercial Bank BSC*

**Key Audit Matters**

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

**Impairment allowance on financing assets and ijarah assets**

Refer to accounting policy in note 5 (j), use of estimates and judgements in note 27 and management of credit risk in note 37

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"> <li>• of the significance of financing assets and ijarah assets representing 35% of total assets.</li> <li>• the estimation of expected credit losses ("ECL") on financing assets and ijarah assets involve significant judgment and estimates. The key areas where we identified greater level of management judgment and estimates are: <ul style="list-style-type: none"> <li>➢ Use of complex models Use of inherently judgmental complex models to estimate ECL which involves determining Probabilities of default ("PD"), Loss Given Default ("LGD") and Exposure At default ("EAD"). The PD models are considered the drivers of the ECLs.</li> <li>➢ Economic scenarios 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.</li> <li>➢ Management overlays Adjustments to the ECL model results are made by management to address known impairment model limitations or emerging trends or risks. Such adjustments are inherently uncertain and significant management judgment is involved in estimating these amounts.</li> </ul> </li> </ul>	<p>Our procedures included:</p> <p><b>Control testing</b></p> <p>We performed walk throughs to identify the key systems, applications and controls used in the ECL processes. Key aspects of our controls testing involved the following:</p> <ul style="list-style-type: none"> <li>• testing the design and operating effectiveness of the key controls over the completion and accuracy of the key inputs and assumptions into the ECL Model;</li> <li>• evaluating the design and operating effectiveness of the key controls over the application of staging criteria;</li> <li>• evaluating controls over validation, implementation and model monitoring;</li> <li>• evaluating controls over authorization and calculation of post model adjustments and management overlays; and</li> <li>• testing key controls relating to selection and implementation of material macro-economic variables and the controls over the scenario selection and probabilities.</li> </ul> <p><b>Tests of details</b></p> <ul style="list-style-type: none"> <li>• Sample testing over key inputs and assumptions impacting ECL calculations to assess the reasonableness of economic forecast, weights, and PD assumptions applied; and</li> <li>• Selecting a sample of post model adjustments to assess the reasonableness of the adjustments by challenging key assumptions, inspecting the calculation methodology and tracing a sample of the data used back to the source data.</li> </ul>

*Independent auditors' report (continued)*  
*Khaleeji commercial Bank BSC*

	<p><b>Use of specialists</b></p> <ul style="list-style-type: none"> <li>• We involved our information technology specialists in testing the relevant general IT and applications controls over the key systems used in the ECL process;</li> <li>• We involved our credit risk specialists to assist us in:             <ul style="list-style-type: none"> <li>➢ evaluating the appropriateness of the Groups' ECL methodologies (including the staging criteria used);</li> <li>➢ on a test basis, re-performing the calculation of certain components of the ECL model (including the staging criteria);</li> <li>➢ evaluating the appropriateness of the Group's methodology for determining the economic scenarios used and the probability weighing applied to them; and</li> <li>➢ evaluating the overall reasonableness of the management economic forecast by comparing it to external market data.</li> </ul> </li> </ul> <p><b>Disclosures</b></p> <p>Evaluating the adequacy of the Group's disclosures related to ECL on financing assets and ijarah assets by reference to the relevant accounting standards.</p>
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Impairment of investment in real estate	
Refer to accounting policy in note 5 (h) and use of estimates and judgements in note 27	
The key audit matter	How the matter was addressed in our audit
<p>We considered this as a key audit area we focused on because of:</p> <ul style="list-style-type: none"> <li>• the uncertainty prevalent in the property market; and</li> <li>• application of valuation techniques which often involve the exercise of judgment and the use of assumptions and estimates.</li> </ul>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• evaluating the appropriateness of the valuation methodology used by the external, independent property valuers appointed by the Group;</li> <li>• evaluating the reasonableness of key input and assumptions used in the valuation;</li> <li>• assessing the qualification and experience of the independent property valuers and reviewing the terms of their engagement letter to determine whether there were any matters that might have affected their objectivity or limited their scope of work; and</li> <li>• evaluating the adequacy of the Group's disclosures related to valuation of investment in real estate by reference to the relevant accounting standards.</li> </ul>

*Independent auditors' report (continued)*  
*Khaleeji commercial Bank BSC*

#### 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.

#### 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 ASIFs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ASIFs, we exercise professional 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.

*Independent auditors' report (continued)*  
*Khaleeji commercial Bank BSC*

- 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.

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.

*Independent auditors' report (continued)*  
*Khaleej commercial Bank BSC*

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

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



KPMG Fakhro  
Partner Registration Number 137  
7 February 2023

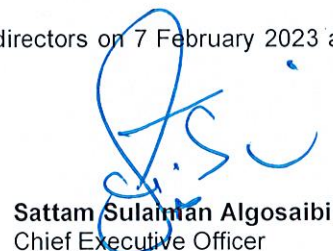
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
as at 31 December 2022

	Note	31 December 2022 BD '000	31 December 2021 BD '000
<b>ASSETS</b>			
Cash and bank balances	6	149,093	124,115
Placements with financial institutions	7	62,630	26,391
Investment in sukuk	8	523,332	323,846
Financing assets	9	321,135	324,373
Ijarah assets	10	183,725	152,394
Investment securities	11	33,637	30,884
Assets held-for-sale	12	4,341	63,103
Investment in real estate	13	96,947	80,919
Equity accounted investees	14	24,522	25,268
Other assets	15	22,901	13,192
Property and equipment	16	3,431	1,699
<b>Total assets</b>		<b>1,425,694</b>	<b>1,166,184</b>
<b>LIABILITIES</b>			
Placements from financial institutions		240,080	130,199
Placements from non-financial institutions and individuals	17	215,364	183,217
Term financing from financial institutions	18	130,955	71,617
Customers' current accounts		50,955	52,936
Other liabilities	19	25,437	25,629
<b>Total liabilities</b>		<b>662,791</b>	<b>463,598</b>
<b>Equity of investment account holders</b>			
- From financial institutions		159,926	125,707
- From non-financial institutions and individuals		445,207	419,488
<b>Total equity of investment account holders</b>	20	<b>605,133</b>	<b>545,195</b>
<b>OWNERS' EQUITY</b>			
Share capital	21	84,783	89,212
Statutory reserve		11,510	10,110
Treasury shares		(6,254)	(11,926)
Investment fair value reserve		(5,790)	187
Retained earnings		16,171	11,493
<b>Equity attributable to parent's shareholders</b>		<b>100,420</b>	<b>99,076</b>
Subordinated Mudharaba (AT1)	22	47,222	47,222
Non-controlling interest		10,128	11,093
<b>Total owners' equity</b>		<b>157,770</b>	<b>157,391</b>
<b>Total liabilities, equity of investment account holders and owners' equity</b>		<b>1,425,694</b>	<b>1,166,184</b>

The consolidated financial statements were approved by the Board of directors on 7 February 2023 and signed on its behalf by:

  
**Hisham Ahmed Al Rayes**  
Chairman

  
**Sh. Ahmed Bin Isa Al Khalifa**  
Vice Chairman

  
**Sattam Sulaiman Algosaibi**  
Chief Executive Officer

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

**CONSOLIDATED INCOME STATEMENT**  
**for the year ended 31 December 2022**

	Note	2022 BD '000	2021 BD '000
Income from financing assets and ijarah assets		35,725	29,908
Income from placements with financial institutions		723	166
Income from sukuk		21,977	20,087
Income from investment securities		305	580
Share of loss from equity accounted investees	14	(1,252)	(1,133)
Fees and other income, net		4,726	2,879
<b>Total income before return to investment account holders</b>		<b>62,204</b>	<b>52,487</b>
Return to investment account holders before Bank's share as Mudarib	20	(29,862)	(25,939)
Bank's share as a Mudarib	20	15,517	13,984
<b>Return to investment account holders</b>		<b>(14,345)</b>	<b>(11,955)</b>
Finance expense on placements from financial institutions, non-financial institutions and individuals		(14,333)	(12,371)
Finance expense on term financing from financial institutions		(4,339)	(1,272)
<b>Total income</b>		<b>29,187</b>	<b>26,889</b>
Staff cost	23	7,504	5,655
Other operating expenses	24	5,757	5,636
<b>Total expenses</b>		<b>13,261</b>	<b>11,291</b>
<b>Profit before impairment allowances</b>		<b>15,926</b>	<b>15,598</b>
Impairment allowance, net	25	(1,919)	(4,785)
<b>PROFIT FOR THE YEAR</b>		<b>14,007</b>	<b>10,813</b>
<b>Attributable to:</b>			
Shareholders of the parent		14,007	10,853
Non-controlling interest		-	(40)
		<b>14,007</b>	<b>10,813</b>
<b>Earnings per share</b>			
Basic and diluted earnings per share (fils)	30	<b>9.987</b>	<b>6.039</b>

  
**Hisham Ahmed Al Rayes**  
 Chairman

  
**Sh. Ahmed Bin Isa Al Khalifa**  
 Vice Chairman

  
**Sattam Sulaiman Algozaibi**  
 Chief Executive Officer

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY**  
**for the year ended 31 December 2022**

2022	Equity attributable to parent's shareholders					Subordinated mudharaba (AT1) BD '000	Non-controlling Interest BD '000	Total owners' equity BD '000	
	Share Capital	Statutory reserve	Treasury shares	Investment fair value reserve	Retained earnings				Total
	BD '000	BD '000	BD '000	BD '000	BD '000				BD '000
Balance at 1 January 2022	89,212	10,110	(11,926)	187	11,493	99,076	47,222	11,093	157,391
Net fair value changes	-	-	-	(5,977)	-	(5,977)	-	-	(5,977)
Profit for the year	-	-	-	-	14,007	14,007	-	-	14,007
<b>Total recognised income and expense for the year</b>	-	-	-	<b>(5,977)</b>	<b>14,007</b>	<b>8,030</b>	-	-	<b>8,030</b>
Cancellation of Treasury shares (note 21)	(4,429)	-	5,963	-	(1,534)	-	-	-	-
Purchase of Treasury shares	-	-	(291)	-	-	(291)	-	-	(291)
Profit distribution on AT 1 Capital (note 22)	-	-	-	-	(6,000)	(6,000)	-	-	(6,000)
Loss of control (note 12)	-	-	-	-	-	-	-	(965)	(965)
Transfer to statutory reserve	-	1,400	-	-	(1,400)	-	-	-	-
Transfer to Zakah fund	-	-	-	-	(395)	(395)	-	-	(395)
<b>Balance at 31 December 2022</b>	<b>84,783</b>	<b>11,510</b>	<b>(6,254)</b>	<b>(5,790)</b>	<b>16,171</b>	<b>100,420</b>	<b>47,222</b>	<b>10,128</b>	<b>157,770</b>

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY**  
**for the year ended 31 December 2022 (continued)**

2021	Equity attributable to parent's shareholders					Subordinated mudharaba (AT1)	Non-controlling Interest	Total owners' equity
	Share Capital	Statutory reserve	Treasury shares	Investment fair value reserve	Retained earnings			
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Balance at 1 January 2021	89,212	9,024	(11,859)	348	7,863	94,588	47,222	152,035
Impact of adoption of FAS 32	-	-	-	-	23	23	-	23
Balance as restated	89,212	9,024	(11,859)	348	7,886	94,611	47,222	152,058
Net fair value changes	-	-	-	(161)	-	(161)	-	(161)
Profit for the year	-	-	-	-	10,853	10,853	-	10,813
Total recognised income and expense for the year	-	-	-	(161)	10,853	10,692	-	10,652
Purchase of Treasury shares	-	-	(67)	-	-	(67)	-	(67)
Issue of shares under staff incentive scheme	-	-	-	-	69	69	-	69
Profit distribution on AT 1 Capital	-	-	-	-	(6,000)	(6,000)	-	(6,000)
Acquisition of a subsidiary	-	-	-	-	-	-	908	908
Transfer to statutory reserve	-	1,086	-	-	(1,086)	-	-	-
Transfer to Zakah fund	-	-	-	-	(229)	(229)	-	(229)
Balance at 31 December 2021	89,212	10,110	(11,926)	187	11,493	99,076	47,222	157,391

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**for the year ended 31 December 2022**

	Note	2022 BD '000	2021 BD '000
<b>OPERATING ACTIVITIES</b>			
Receipts from / (Payments for) financing assets, net		31,181	(320)
Payments for ijarah assets, net		(41,576)	(5,801)
Receipt of profit on short-term placements		723	166
Returns paid to investment account holders		(14,273)	(12,638)
Receipts from investment account holders, net		59,937	119,845
Payment of profit on placements		(14,333)	(12,370)
Payment for expenses		(25,842)	(10,770)
Other receipts		4,942	2,879
Payment for charity		(373)	(466)
Withdrawals from customers' current accounts, net		(1,981)	(2,740)
Receipts towards placements from financial institutions, net		109,882	50,653
Receipts from / (Payments for) placements from non-financial institutions and individuals, net		32,147	(31,026)
Net (payment for) / receipt from CBB reserve account		(10,505)	124
<b>Net cash generated from operating activities</b>		<b>129,929</b>	<b>97,536</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of sukuk		(229,243)	(212,871)
Proceeds from redemption / sale of sukuk		77,802	154,726
Income from sukuk received		22,775	14,866
Proceeds from disposal / redemption of investment securities		-	7,321
Proceeds from disposal of investment in real estate, net		3,229	780
Receipt of dividends / income from investment securities		145	666
Purchase of property and equipment, net		(2,124)	(1,350)
Investment in equity accounted investees		(508)	-
Payment for acquisition under restructuring program		-	(582)
<b>Net cash used in investing activities</b>		<b>(127,924)</b>	<b>(36,444)</b>
<b>FINANCING ACTIVITIES</b>			
Purchase of treasury shares, net		(291)	(67)
Profit distribution on AT 1 Capital		(6,000)	(6,000)
Draw down / (Repayment) of term financing from financial institutions, net		59,338	(3,860)
Finance expense on term financing from financial institutions		(4,339)	(1,272)
<b>Net cash generated from / (used in) financing activities</b>		<b>48,708</b>	<b>(11,199)</b>
<b>Net increase in cash and cash equivalents</b>		<b>50,713</b>	<b>49,893</b>
Cash and cash equivalents at 1 January		135,216	85,323
<b>Cash and cash equivalents at 31 December</b>		<b>185,929</b>	<b>135,216</b>
<b>Cash and cash equivalent comprise: *</b>			
Cash and bank balances (excluding CBB reserve)	6	123,299	108,825
Placements with financial institutions with original maturities of 90 days or less	7	62,630	26,391
		<b>185,929</b>	<b>135,216</b>

\* Cash and cash equivalents is net of the expected credit loss of BD 2 thousand (31 December 2021: BD 2 thousand).

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS  
for the year ended 31 December 2022**

	Balance at 1 January 2022			Movements during the year					Balance at 31 December 2022			
	No of units (‘000)	Average value per share BD	Total BD ‘000	Investment (withdrawals) BD ‘000	Revalua- tion BD ‘000	Gross income/ (loss) BD ‘000	Dividends paid BD ‘000	Bank's fees as an agent BD ‘000	Adminstra- tion expenses BD ‘000	No of units (‘000)	Average value per share BD	Total BD ‘000
Safana Investment WLL (RIA 1) and NS12	1,247	1.00	1,247	-	-	-	-	-	-	1,247	1.00	1,247
Shaden Real Estate Investment WLL (RIA 5)	269	1.00	269	-	-	-	-	-	-	269	1.00	269
			<b>1,516</b>	-	-	-	-	-	-			<b>1,516</b>

	Balance at 1 January 2021			Movements during the year					Balance at 31 December 2021			
	No of units (‘000)	Average value per share BD	Total BD ‘000	Investment (withdrawals) BD ‘000	Revalua- tion BD ‘000	Gross income/ (loss) BD ‘000	Dividends paid BD ‘000	Bank's fees as an agent BD ‘000	Adminstra- tion expenses BD ‘000	No of units (‘000)	Average value per share BD	Total BD ‘000
Safana Investment WLL (RIA 1) and NS12	6,254	1.00	6,254	(5,007)	-	-	-	-	-	1,247	1.00	1,247
Shaden Real Estate Investment WLL (RIA 5)	3,434	1.00	3,434	(3,165)	-	-	-	-	-	269	1.00	269
Locata Corporation Pty Ltd (RIA 6)	2,633	0.38	993	(993)	-	-	-	-	-	-	-	-
			<b>10,681</b>	<b>(9,165)</b>	-	-	-	-	-			<b>1,516</b>

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

## KHALEEJI COMMERCIAL BANK BSC

**CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND**  
**for the year ended 31 December 2022**

	Note	<b>2022</b> <b>BD '000</b>	2021 BD '000
<b>Sources of zakah and charity fund</b>			
At 1 January		471	696
Contributions by the Bank	32	395	229
Non-shari'a compliant income		29	12
<b>Total sources</b>		<b>895</b>	<b>937</b>
<b>Uses of zakah and charity fund</b>			
Contributions to charitable organisations		(373)	(466)
<b>Total uses</b>		<b>(373)</b>	<b>(466)</b>
<b>Undistributed zakah and charity fund at 31 December</b>		<b>522</b>	<b>471</b>

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

**1. REPORTING ENTITY**

Khaleeji Commercial Bank BSC (“the Bank”), a public shareholding company listed on Bahrain Bourse, was incorporated on 24 November 2004 in the Kingdom of Bahrain under Commercial Registration No. 55133. The Bank operates under an Islamic retail banking license granted by the Central Bank of Bahrain (“CBB”) on 20 October 2003. The Bank’s Additional Tier 1 securities were listed on London Stock Exchange (International Securities Market) in 2020.

The Bank is 85.41% (31 December 2021: 69.06%) owned by GFH Financial Group BSC (“the Parent”), a Bahraini incorporated investment bank operating under an Islamic wholesale banking license issued by the Central Bank of Bahrain (“CBB”) and listed on Bahrain Bourse, Boursa Kuwait, Dubai Financial Markets (“DFM”) and Abu Dhabi Security Exchange (“ADX”)

The Bank’s activities are regulated by the CBB and supervised by a Shari’a Supervisory Board to ensure adherence to Shari’a rules and principles in its activities.

The principal activities of the Bank include retail and corporate banking, consumer finance, wealth management, structured investment products and project financing facilities which comply with Islamic Shari’a rules and principles as determined by the Bank’s Shari’a Supervisory Board.

The consolidated financial statements include the results of the Bank and its subsidiaries (together “the Group”). As of 31 December 2021, KHCB Board was committed to a plan to transfer assets amounting to BD 55.62 million to Infracorp BSC (c) under the terms of the program and BD 4.5 million to its asset management investors (as in-kind consideration). The plan included transfer of two subsidiaries. On 15 March 2022, transfer of assets was executed and assets as per the plan were transferred in exchange of sukuk of BD 54.17 million (refer note 12). The significant subsidiaries are as follows:

<b>Name</b>	<b>Country of incorporation</b>	<b>% holding 2022</b>	<b>% holding 2021</b>	<b>Nature of business</b>
Harbour West 2 Real Estate W.L.L.	Bahrain	100.00%	100.00%	To hold real estate property.
Harbour West 4 Real Estate W.L.L.*	Bahrain	-	100.00%	To hold real estate property.
Surooh Limited	Cayman Islands	75.70%	75.70%	To construct and sell properties at “Oryx Hills”.
HH Hotel Properties W.L.L.	Bahrain	86.00%	86.00%	Hospitality business
KHCB Tier 1 Sukuk Limited	Cayman Islands	100.00%	100.00%	To issue additional tier 1 certificates
NS12 W.L.L.*	Bahrain	-	82.52%	To hold real estate property.
Amlak II Company	Cayman Islands	61.88%	61.88%	To hold real estate property.

\* On 15 March 2022, the subsidiaries transferred Infracorp BSC (c) as part of the asset transfer plan.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

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**2. STATEMENT OF COMPLIANCE**

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

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

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

**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.

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 a material impact of this conflict.

**3. BASIS OF MEASUREMENT**

The consolidated financial statements have been prepared on the historical cost basis except for equity and debt securities that are measured at fair value through equity and structured notes that are measured at fair value through income statement. 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.

**4. USE OF SIGNIFICANT JUDGEMENTS AND ESTIMATES**

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Management believes that the underlying assumptions are appropriate and the Group's consolidated financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 27.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

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**5. SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been consistently applied by the Group and are consistent with those used in the previous year except as described in Note 2 above "statement of compliance" and those arising from the adoption of the following standards:

*i) New Standards, amendments and interpretations issued and 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 had no material impact on adoption of this standard.

*ii) New Standards, amendments to Standards issued but not yet effective and not early adopted*

The following new standards and amendments to standards are effective for financial years beginning after 1 January 2023 with an option to early adopt. However, the Group has not early adopted any of these standards.

**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.

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 is assessing the impact of adoption of this standard.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

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**5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****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.

**(a) Basis of consolidation****(i) Business combination**

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meet the definition of a business and control is transferred to the Group.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

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**5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***(a) Basis of consolidation (continued)**(i) Business combination (continued)*

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable tangible and intangible assets acquired and liabilities assumed. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

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 financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, other contingent consideration is re-measured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

**(ii) Subsidiaries**

Subsidiaries are those enterprises (including special purpose entities) controlled by the Bank. Control exists when the Bank 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 Group owns more than 50% of voting rights on an entity.

**Non-controlling interests (NCI)**

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

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 borrowing or investment transaction and usually voting rights are 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 lending 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2022**

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**5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***(a) Basis of consolidation (continued)**(ii) Subsidiaries (continued)*

The Group in its fiduciary capacity manages and administers assets held in trust and other investment vehicles on behalf of investors.

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 28.

**(iii) Equity accounted investees**

The Group's interests in equity accounted investees comprise interests in associates and a joint venture.

Associates are those entities over which the Group holds exercises significant influence, but not control or joint control, over the financial and operating policies. 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. These are accounted for using the equity method.

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

The carrying amount of the equity accounted investee is tested for impairment in accordance with the policy described in note 5(k).

**(iv) 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 interest 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2022****5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(b) Foreign currency transactions**

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

Foreign currency transactions are translated using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items carried at their fair value, such as certain equity securities measured at fair value through equity, are included in investments fair value reserve.

The other Group companies functional currencies are either denominated in Bahraini dinars or US dollars; however, the Bahraini dinar is effectively pegged to the US dollar. Hence, the translation of financial statements of the group entities that have a functional currency different from the presentation currency do not result in an exchange difference.

**(c) Investment securities**

Investment securities comprise investments in equity securities and investments in debt-type securities, sukuk. Investment securities exclude investments in subsidiaries and equity accounted investees (refer note 5(a)).

**(i) Classification**

The Group segregates its investment into following categories:

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

*ii) Debt-type instruments:*

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

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

*iii) Other investment instruments*

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2022****5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(c) *Investment securities (continued)*

(i) *Classification (continued)*

***Amortised cost***

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

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

***Fair value through equity***

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

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

***Irrevocable classification at initial recognition***

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

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

***Fair value through income statement***

All other investments are measured at FVTIS.

***Business model assessment***

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profit, maintaining practical profit rate profile and realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2022**

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**5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(c) *Investment securities (continued)*

**(ii) 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.

**(iii) Measurement**

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

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

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

*Following Measurement principles are followed:*

**A. Amortised cost measurement**

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

**B. Fair value measurement**

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2022**

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**5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(c) *Investment securities (continued)*

(iii) *Measurement (continued)*

*B. Fair value measurement (continued)*

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

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

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

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

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

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

**(d) Financing assets**

Financing assets comprise Shari'a compliant financing contracts with fixed or determinable payments. These include financing provided through Murabaha, Musharaka, Mudharaba, Istisna and Wakala contracts. Financing assets are recognised on the date they are originated and are carried at their amortised cost less impairment allowances, 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 interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2022**

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**5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(d) 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.

**(e) Placements with and from financial institutions, non-financial institutions and individuals**

These comprise inter-bank and over the counter customer placements made/received using Shari'a compliant contracts. Placements are usually for short-term and are stated at their amortised cost.

**(f) Cash and cash equivalents**

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash and bank balances (excluding CBB reserve account), and placement with financial institutions with original maturities of three months or less when acquired which are subject to insignificant risk of changes in fair value and are used by the Group in the management of its short-term commitments.

**(g) Ijarah assets**

Ijarah assets (Ijarah Muntahia Bittamleek) are stated at cost less accumulated depreciation and any impairment. Under the terms of lease, the legal title of the asset passes to the lessee at the end of the lease term, provided that all lease instalments are settled. Depreciation is calculated using rates that systematically reduce the cost of the leased assets over the period of the lease in a pattern of economic benefits arising from these assets. The Group assesses at each reporting date whether there is objective evidence that the ijarah assets are impaired. Impairment loss is the amount by which the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses, if any, are recognised in the income statement. The estimates of future cash flows, when dependent on a single customer, takes into consideration the credit evaluation of the respective customer in addition to other factors.

**(h) Investment in real estate***Investment property*

Real estate properties held for rental, or for capital appreciation purposes, or both, are classified as investment property. Investment property are carried at cost less depreciation and impairment allowances. Cost includes expenditure that is directly attributable to the acquisition of the investment property. Investment property includes plots of land held for undetermined use and property leased to third parties. Land is not depreciated.

*Development property*

Development property is measured at lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less costs to complete development and selling expenses.

Development property comprise a property being developed as a hotel in the Kingdom of Bahrain.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

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**5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(i) Property and equipment**

Property and equipment is stated at cost, net of accumulated depreciation and impairment allowances, if any. Property includes land which is not depreciated. Other equipment is depreciated using the straight-line method to write-off the cost of the assets over their estimated useful lives as follows:

Buildings	Up to 25 years
Furniture and fixtures	3 to 5 years
Computers	3 to 5 years
Motor vehicles	3 to 5 years
Hotels	Up to 40 years
Other equipment's	3 to 5 years

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

**(j) Impairment of financial instruments**

**i) Exposures subject to credit risk**

The Group recognises loss allowances for ECLs on:

- Cash and bank balances;
- Placements with financial institutions;
- Financing assets;
- Ijarah assets;
- Investments in Sukuk - debt-type securities at amortised cost; and
- Undrawn financing commitments and financial guarantee contracts issued.

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

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

When determining whether the credit risk of an exposure subject to credit risk has increased significantly since initial recognition when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due (refer note 37).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2022**

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5. *SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(j) Impairment of financial instruments (continued)**i) Exposures subject to credit risk (continued)*

The Group considers a financial asset to be in default when:

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

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

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

**Stage 1: 12-months ECL**

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

**Stage 2: Lifetime ECL - not credit impaired**

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

**Stage 3: Lifetime ECL - credit impaired**

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2022****5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***(j) Impairment of financial instruments (continued)**i) Exposures subject to credit risk (continued)***Measurement of ECLs**

ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

- Financing assets and ijarah assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).
- Financing assets and ijarah assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn financing commitment: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn and the cash flows that the Group expects to receive;
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover; and
- Purchased or originated credit-impaired financial assets are those assets that are credit-impaired on initial recognition. Their ECL is measured on a lifetime basis (stage 3).

ECLs are discounted at the effective profit rate of the financial instrument.

**Credit-impaired exposures**

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

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

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

Loss allowances for financial assets measured at amortised cost and ijarah assets are deducted from the gross carrying amount of the assets. Loss on undrawn commitments and financial guarantees are disclosed in other liabilities.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2022****5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***(j) Impairment of financial instruments (continued)***ii) Impairment of equity investments classified at fair value through equity (FVTE)**

In the case of investments in equity securities classified as FVTE, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment. The group considers a decline of 30% to be significant and a period of nine months to be prolonged. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are subsequently reversed through equity.

**(k) Impairment of non-financial assets**

The carrying amount of the Group's non-financial assets (other than for financial assets covered above), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use or fair value less costs to sell. An impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

**(l) Customers' current accounts**

Balances in current (non-investment) accounts are recognised when received by the Group. The transaction are measured at the cash equivalent amount received by the Group at the time of contracting. At the end of the accounting period, the accounts are measured at their book value.

**(m) Equity of investment account holders**

Equity of investment account holders are funds held by the Group in unrestricted investment accounts, which it can invest at its own discretion. The investment account holder authorises the Group to invest the account holders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

The Group charges management fee (Mudarib fees) to investment account holders. Of the total income from investment accounts, the income attributable to customers is allocated to investment accounts after setting aside provisions, reserves (Profit equalisation reserve and Investment risk reserve) and deducting the Group's share of income as a Mudarib. The allocation of income is determined by the management of the Group within the allowed profit sharing limits as per the terms and conditions of the investment accounts. Only the income earned on pool of assets funded from IAH are allocated between the owners' equity and investment account holders. Administrative expenses incurred in connection with the management of the funds are borne directly by the Group and are not charged separately to investment accounts.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2022**

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**5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(m) Equity of investment account holders (continued)**

The Group allocates specific provision and collective provision to owners' equity. Amounts recovered from these impaired assets is not subject to allocation between the IAH and owners' equity.

Investment accounts are carried at their book values and include amounts retained towards profit equalisation, investment risk reserves, if any. Profit equalisation reserve is the amount appropriated by the Group out of the Mudharaba income, before allocating the Mudarib share, in order to maintain a certain level of return to the deposit holders on the investments. Investment risk reserve is the amount appropriated by the Group out of the income of investment account holders, after allocating the Mudarib share, in order to cater against future losses for investment account holders. Creation of any of these reserves results in an increase in the liability towards the pool of unrestricted investment accounts.

**(n) Restricted investment accounts**

Restricted investment accounts represent assets acquired by funds provided by holders of restricted investment accounts and their equivalent and managed by the Group as an investment manager based on either a Mudharaba contract or agency contract. The restricted investment accounts are exclusively restricted for investment in specified projects as directed by the investments account holders. Assets that are held in such capacity are not included as assets of the Group in the consolidated financial statements.

**(o) 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.

**(p) Treasury shares**

The amount of consideration paid including all directly attributable costs incurred in connection with the acquisition of the treasury shares are recognised in equity. Consideration received on sale of treasury shares is presented in the financial statements as a change in equity. No gain or loss is recognised in the income statement on sale of treasury shares.

**(q) Statutory reserve**

The Bahrain Commercial Companies Law 2001 requires that 10 per cent of the annual net profit be appropriated to a statutory reserve which is normally distributable only on dissolution. Appropriations may cease when the reserve reaches 50 per cent of the paid up share capital.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2022****5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(r) Revenue recognition**

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

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

**Istisna'a revenue** and the associated profit margin is recognised using the percentage of completion method.

**Income from ijarah assets** (Ijarah Muntahia Bittamleek) are recognised applying the effective rate of return method over the lease term.

**Income from sukuk and structured note** and income/expenses on placements is recognised at its effective profit rate over the term of the instrument.

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

**Rental income** is recognised on a straight line basis over the term of the contract.

**Gain on sale of investment in equity securities and structured note** is recognised on trade date at the time of derecognition of the investment securities. The gain or loss is the difference between the carrying value on the trade date and the consideration received or receivable.

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

**(s) Earnings prohibited by Shari'a**

The Group is committed to avoid recognising any income generated from non-shari'a compliant sources. Accordingly, all income prohibited by shari'a is credited to a charity account where the Group uses these funds for social welfare purposes.

**(t) Zakah**

Zakah is calculated on the Zakah base of the Group in accordance with FAS 9 Zakah using the net assets method. Zakah is paid by the Group based on the eligible reserve and retained earnings balances at the end of the year and the remaining Zakah is payable by individual shareholders. The Group calculates and notifies the shareholders of their pro-rata share of the Zakah payable annually. The Group also pays Zakah on the balance of treasury shares held at the year-end based on the pro-rata share of Zakah. The calculations of Zakah is approved by the Shari'a Supervisory Board. Payment of Zakah on the unrestricted investment and other accounts is the responsibility of the investment account holders.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2022****5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(u) Employee benefits****(i) Short-term benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus 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.

**(ii) 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 Group are recognised as an expense in income statement when they are due.

Expatriate 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.

These benefits are in the nature of “defined benefit scheme” and any increase or decrease in the benefit obligation is recognised in the income statement.

The Group also operates a voluntary employees saving scheme under which the Group and the employee contribute monthly on a fixed percentage of salaries basis. The scheme is managed and administered by a board of trustees who are employees of the Group. The scheme is in the nature of a defined contribution scheme and contributions by the Group are recognised as an expense in the income statement when they are due.

**(iii) 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.

**(v) Dividends and board remuneration**

Dividends to shareholders and board remuneration are recognised as liabilities in the period in which they are declared.

**(w) Trade date accounting**

All “regular way” purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2022**

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**5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(x) Offsetting**

Financial assets and liabilities are offset only when there is a legal or Shari'a based enforceable right to set-off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

**(y) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

**(z) URIA Protection Scheme**

Funds held with the Group in investment accounts and current accounts are covered by the Deposit and URIA Protection Scheme ('the Scheme') established by the Central Bank of Bahrain regulation in accordance with Resolution No (34) of 2010. An annual contribution is made to the scheme and is recognised as an expense when due.

The Scheme applies to all eligible accounts held with the Group subject to certain specific exclusions, maximum total amount entitled and other regulations governing the establishment of a Deposit and URIA Protection Scheme and a Deposit Protection Board.

**(aa) Repossessed assets**

In certain circumstance, properties are repossessed following the foreclosure on financing facilities that are in default. Repossessed properties are measured at the lower of carrying value and fair value less cost to sell in accordance with IFRS 5 "Non-current assets held-for-sale and discontinued operation".

**(bb) Term financing from financial institutions**

Term financing from financial institutions represents borrowing obtained through murabaha contract recognized on the origination date and carried at amortized cost.

**(cc) Onerous contracts**

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from the contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

**(dd) Assets under management**

The Group acts as a trustee / manager and in other capacities that result in holding or placing of assets on behalf of a trust or other institution. These assets and income arising thereon are not included in the Group's financial statements as they are not assets of the Group.

**(ee) Ijarah****Identifying an Ijarah**

At inception of a contract, the Group assesses whether the contract is Ijarah, or contains an Ijarah. A contract is Ijarah, or contains an Ijarah if the contract transfers the usufruct (but not control) of an identified asset for a period of time in exchange for an agreed consideration. For Ijarah contracts with multiple components, the Group accounts for each Ijarah component within a contract separately from non-Ijarah components of the contract (e.g. service fee, maintenance charges, toll manufacturing charges etc.).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2022****5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Measurement**

For a contract that contains an Ijarah component and one or more additional Ijarah or non-Ijarah components, the Group allocates the consideration in the contract to each Ijarah component on the basis of relative stand-alone price of the Ijarah component and the aggregate estimated stand-alone price of the non-Ijarah components, that may be charged by the lessor, or a similar supplier, to the lessee.

At the commencement date, a lessee shall recognise a right-of-use (usufruct) asset and a net Ijarah liability.

*(i) Right-of-use (usufruct) asset*

On initial recognition, the lessee measures the right-of-use asset at cost. The cost of the right-of-use asset comprises of:

- the prime cost of the right-of-use asset;
- initial direct costs incurred by the lessee; and
- dismantling or decommissioning costs.

The prime cost is reduced by the expected terminal value of the underlying asset. If the prime cost of the right-of-use asset is not determinable based on the underlying cost method (particularly in the case of an operating Ijarah), the prime cost at commencement date may be estimated based on the fair value of the total consideration paid/ payable (i.e. total Ijarah rentals) against the right-of-use assets, under a similar transaction. As per the group's assessment, at the time of implementation the fair value of right-of-use assets are equal to the net Ijarah liability.

After the commencement date, the lessee measures the right-of-use asset at cost less accumulated amortisation and impairment losses, adjusted for the effect of any Ijarah modification or reassessment.

The Group amortises the right-of-use asset from the commencement date to the end of the useful economic life of the right-of-use asset, according to a systematic basis that is reflective of the pattern of utilization of benefits from the right-of-use asset. The amortizable amount comprises of the right-of-use asset less residual value, if any.

The Group determines the Ijarah term, including the contractually binding period, as well as reasonably certain optional periods, including:

- extension periods if it is reasonably certain that the Bank will exercise that option; and/ or
- termination options if it is reasonably certain that the Bank will not exercise that option.

Advance rentals paid are netted-off with the gross Ijarah liability.

The Group carries out impairment assessment in line with the requirements of FAS 30 "Impairment, Credit Losses and Onerous Commitments" to determine whether the right-of-use asset is impaired and to account for any impairment losses. The impairment assessment takes into consideration the salvage value, if any. Any related commitments, including promises to purchase the underlying asset, are also considered in line with FAS 30 "Impairment, Credit Losses and Onerous Commitments".

The net Ijarah liability comprises of the gross Ijarah liability, plus deferred Ijarah cost (shown as a contra-liability).

The gross Ijarah liability is initially recognised as the gross amount of total Ijarah rental payables for the Ijarah term. The rentals payable comprise of the following payments for the right to use the underlying asset during the Ijarah term:

- fixed Ijarah rentals less any incentives receivable;
- variable Ijarah rentals including supplementary rentals; and
- payment of additional rentals, if any, for terminating the Ijarah (if the Ijarah term reflects the lessee exercising the termination option).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2022****5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Variable Ijarah rentals are Ijarah rentals that depend on an index or rate, such as payments linked to a consumer price index, financial markets, regulatory benchmark rates, or changes in market rental rates. Supplementary rentals are rentals contingent on certain items, such as additional rental charge after provision of additional services or incurring major repair or maintenance. As of 31 December 2022, the Group did not have any contracts with variable or supplementary rentals.

After the commencement date, the Group measures the net Ijarah liability by:

- increasing the net carrying amount to reflect return on the Ijarah liability (amortisation of deferred Ijarah cost)
- reducing the carrying amount of the gross Ijarah liability to reflect the Ijarah rentals paid
- re-measuring the carrying amount in the event of reassessment or modifications to Ijarah contract, or to reflect revised Ijarah rentals

The deferred Ijarah cost is amortised to income over the Ijarah terms on a time proportionate basis, using the effective rate of return method. After the commencement date, the Group recognises the following in the income statement:

- amortisation of deferred Ijarah cost; and
- Variable Ijarah rentals (not already included in the measurement of Ijarah liability) as and when the triggering events/ conditions occur

**Ijarah contract modifications**

After the commencement date, the Group accounts for Ijarah contract modifications as follows:

- change in the Ijarah term: re-calculation and adjustment of the right-of-use asset, the Ijarah liability, and the deferred Ijarah cost; or
- change in future Ijarah rentals only: re-calculation of the Ijarah liability and the deferred Ijarah cost only, without impacting the right-of-use asset.

An Ijarah modification is considered as a new Ijarah component to be accounted for as a separate Ijarah for the lessee, if the modification both additionally transfers the right to use of an identifiable underlying asset and the Ijarah rentals are increased corresponding to the additional right-of-use asset.

For modifications not meeting any of the conditions stated above, the Group considers the Ijarah as a modified Ijarah as of the effective date and recognises a new Ijarah transaction. The Group recalculates the Ijarah liability, deferred Ijarah cost, and right-of-use asset, and de-recognise the existing Ijarah transaction and balances.

**Expenses relating to underlying asset**

Operational expenses relating to the underlying asset, including any expenses contractually agreed to be borne by the Bank, are recognised by the Bank in income statement in the period incurred. Major repair and maintenance, takaful, and other expenses incidental to ownership of underlying assets (if incurred by lessee as agent) are recorded as receivable from lessor.

**Recognition exemptions and simplified accounting for the lessee**

The Group has elected not to apply the requirements of Ijarah recognition and measurement of recognizing right-of-use asset and lease liability for the following:

- short-term Ijarah; and
- Ijarah for which the underlying asset is of low value.

Short-term Ijarah exemption can be applied on a whole class of underlying assets if they have similar characteristics and operational utility. However, low-value Ijarah exemption can only be applied on an individual asset/ Ijarah transaction, and not on group/ combination basis.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended 31 December 2022

**6. CASH AND BANK BALANCES**

	<b>31 December 2022 BD 000's</b>	31 December 2021 BD 000's
Cash	3,430	3,193
Balances with banks	95,080	50,580
Balances with the Central Bank:		
- Current account	24,789	55,052
- Reserve account	25,795	15,291
Less: impairment allowance	(1)	(1)
	<b>149,093</b>	<b>124,115</b>

The reserve account with the Central Bank of Bahrain is not available for day-to-day operational purposes.

**7. PLACEMENTS WITH FINANCIAL INSTITUTIONS**

	<b>31 December 2022 BD '000</b>	31 December 2021 BD '000
Gross Murabaha and Wakala receivable	62,657	26,393
Less: Deferred profits on Murabaha	(26)	(1)
Less: Impairment allowance	(1)	(1)
	<b>62,630</b>	<b>26,391</b>

The average profit rate on placement with financial institutions for 2022 was 3.68% per annum (2021: 1.12% per annum).

**8. INVESTMENT IN SUKUK**

	<b>31 December 2022 BD '000</b>	31 December 2021 BD '000
<b>Debt type instruments - at amortised cost:</b>		
- Quoted sukuk*	404,822	324,448
- Unquoted sukuk	1,317	1,317
Less: impairment allowance	(1,524)	(1,919)
<b>Debt type instruments – at fair value through equity</b>		
-Quoted sukuk	64,546	-
<b>Equity type instruments – at fair value through equity</b>		
-Quoted sukuk	54,171	-
	<b>523,332</b>	<b>323,846</b>

\* As of 31 December 2022, out of sovereign sukuk of BD 361,174 thousand (31 December 2021: BD 295,530 thousand) and corporate sukuk of BD 43,648 thousand (31 December 2021: BD 28,918 thousand), BD 234,229 thousand (31 December 2021: BD 152,419 thousand) were pledged against term financing from financial institutions of BD 81,753 thousand (31 December 2021: BD 71,617 thousand) (refer note 18).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended 31 December 2022

**9. FINANCING ASSETS**

	<b>31 December 2022 BD '000</b>	31 December 2021 BD '000
Murabaha	332,324	343,706
Mudharaba	6,536	971
Wakala	90	90
<b>Gross financing assets</b>	<b>338,950</b>	344,767
Less: Impairment allowance	(17,815)	(20,394)
<b>Net financing assets</b>	<b>321,135</b>	324,373

Murabaha financing assets are net of deferred profits of BD 18,900 thousand (31 December 2021: BD 17,391 thousand).

The movement on impairment allowances is as follows:

<b>2022</b>	<b>Stage 1 BD '000</b>	<b>Stage 2 BD '000</b>	<b>Stage 3 BD '000</b>	<b>POCI* BD '000</b>	<b>Total BD '000</b>
<b>At 1 January 2022</b>	6,024	1,751	12,007	612	20,394
Net movement between stages	336	134	(470)	-	-
Net charge	(1,861)	1,475	2,187	209	2,010
Write-off	-	-	(3,534)	-	(3,534)
Disposal	-	-	(855)	(200)	(1,055)
<b>At 31 December 2022</b>	<b>4,499</b>	<b>3,360</b>	<b>9,335</b>	<b>621</b>	<b>17,815</b>

2021	Stage 1 BD '000	Stage 2 BD '000	Stage 3 BD '000	POCI* BD '000	Total BD '000
At 1 January 2021	7,230	1,934	7,891	-	17,055
Net movement between stages	395	47	(442)	-	-
Net charge	(1,601)	(230)	4,804	612	3,585
Write-off	-	-	(5)	-	(5)
Disposal	-	-	(241)	-	(241)
At 31 December 2021	6,024	1,751	12,007	612	20,394

\* Purchased or originated credit impaired (POCI) assets are initially recognised at their fair values and subsequently remeasured for any change in ECL or expected recoverable amounts. The POCI assets are currently carried at 20.74% (31 December 2021: 13.69%) compared to their original contractual outstanding amounts. On a cumulative basis, the impaired assets (Stage 3 and POCI) are carried at 44.05% (31 December 2021: 34.38%) compared to their original contractual outstanding amounts.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended 31 December 2022

**10. IJARAH ASSETS**

	<b>31 December 2022 BD '000</b>	31 December 2021 BD '000
<b>Cost</b>		
At 1 January	204,736	186,209
Additions during the year	58,289	57,482
Settlements/adjustments during the year	(16,081)	(38,955)
<b>At 31 December</b>	<b>-246,944</b>	204,736
<b>Accumulated depreciation</b>		
At 1 January	47,030	42,472
Charge for year	17,465	21,245
Settlements during the year	(6,016)	(16,687)
<b>At 31 December</b>	<b>58,479</b>	47,030
Less: Impairment allowance	(4,740)	(5,312)
<b>Net book value at 31 December</b>	<b>183,725</b>	152,394

The movement on impairment allowances is as follows:

**2022**

	<b>Stage 1 BD '000</b>	<b>Stage 2 BD '000</b>	<b>Stage 3 BD '000</b>	<b>Total BD '000</b>
<b>At 1 January 2022</b>	242	929	4,141	5,312
Net movement between stages	570	(403)	(167)	-
Net charge	19	475	(168)	326
Disposal	-	-	(898)	(898)
<b>At 31 December 2022</b>	<b>831</b>	<b>1,001</b>	<b>2,908</b>	<b>4,740</b>

## 2021

	Stage 1 BD '000	Stage 2 BD '000	Stage 3 BD '000	Total BD '000
At 1 January 2021	545	424	3,014	3,983
Net movement between stages	(89)	286	(197)	-
Net charge	(214)	219	1,394	1,399
Disposal	-	-	(70)	(70)
At 31 December 2021	242	929	4,141	5,312

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

**11. INVESTMENT SECURITIES**

	<b>31 December 2022 BD '000</b>	31 December 2021 BD '000
<b>Equity type instruments:</b>		
<i>At fair value through income statement</i>		
- Structured notes		
At 1 January	15,531	15,080
Accrued profit	516	451
Redemption	(763)	-
Changes in fair value	(384)	-
	<b>14,900</b>	15,531
<i>At fair value through equity</i>		
Unquoted equity securities	18,737	15,353
	<b>18,737</b>	15,353
	<b>33,637</b>	30,884

**12. ASSETS HELD-FOR-SALE**

GFH Group is carrying out a group restructuring program (the 'program') which involves the spinning off of its infrastructure and real estate assets under a newly established entity "Infracorp B.S.C (c)" ("the Company"), which will be capitalized with more than US\$1 billion in infrastructure and development assets. Infracorp will specialise in investments focusing on accelerating growth and development of sustainable infrastructure assets and environments across the Gulf and global markets.

Under this program, certain real estate and infrastructure assets will be transferred from the group entities, including the Bank, to Infracorp for an in-kind consideration in the form of Sukuk and/or equity shares issued by Infracorp.

The Board of Directors of KHCB, in its meeting dated 6 May 2021 had approved the consolidation and aggregation of its real estate and infrastructure exposures by offering a structured exit to its asset under management investors through a combination of cash and in-kind consideration.

As of 31 December 2021, the Group had acquired shares in and assets held by various real estate entities under management amounting to BD 22.27 million, which was part of the assets to be transferred to Infracorp.

The shareholders in their annual general meeting dated 24 March 2022 approved the transfer of the Bank's development properties and investment in real estate up to USD 200 million (BD 75.4 million) to Infracorp for an in-kind consideration in the form of Sukuk and/or equity shares issued by Infracorp.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

**12. ASSETS-HELD-FOR-SALE (continued)**

As of 31 December 2022, KHCB transferred assets amounting to BD 54,171 thousand to Infracorp under the terms of the program and BD 4.3 million are part of a committed plan for transfer to its asset management investors (as in-kind consideration). As of 31 December 2022, the settlement process is pending the requisite regulatory approvals for separation of title deeds. In addition, the Group completed the sale of investments in real estate with carrying value of BD 3 million which were classified as assets held-for-sale as of 31 December 2021.

The above transfers of BD 4.3 million are subject to requisite corporate and regulatory approvals and are expected to be concluded within 12 months of the end of the reporting period. Of the total assets held-for-sale BD Nil (2021:BD 965 thousand) is attributable to NCI.

	<b>31 December 2022 BD '000</b>	31 December 2021 BD '000
Investment securities	-	34,499
Investment in real estate	4,341	12,198
Property and equipment	-	6,714
Equity accounted investees	-	8,871
Other assets	-	821
	<b>4,341</b>	<b>63,103</b>

**13. INVESTMENT IN REAL ESTATE**

	<b>31 December 2022 BD '000</b>	31 December 2021 BD '000
Development property	71,039	71,032
Investment property	25,908	9,887
	<b>96,947</b>	<b>80,919</b>

- (i) *Development property*  
 Development property comprise mainly a property under construction in Bahrain Financial Harbour in the Kingdom of Bahrain acquired from the Parent part of a swap transaction during 2020.
- (ii) *Investment property*  
 Investment property comprise plots of land in the Kingdom of Bahrain and United Arab Emirates. In 2021, properties held-in-use with carrying value of BD 4,895 thousand were reclassified to assets held-for-sale.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

**13. INVESTMENT IN REAL ESTATE (continued)**

The fair value of investment property as of 31 December 2022 was BD 27,643 thousand (31 December 2021: BD 9,761 thousand), determined by an external independent real estate valuer based on sales comparison approach and accordingly has been categorised as level 2 in the fair value hierarchy. Based on management assessment, there are no indicators of impairment as of year-end; hence, no impairment provision have been considered.

**14. EQUITY ACCOUNTED INVESTEEES**

	<b>31 December 2022 BD '000</b>	<b>31 December 2021 BD '000</b>
At 1 January	25,268	31,963
Additions	506	5,803
Derecognition on acquisition of controlling stake	-	(8,106)
Transfer to Assets held-for-sale	-	(3,259)
Share of loss for the year	(1,252)	(1,133)
<b>At 31 December</b>	<b>24,522</b>	<b>25,268</b>

Name	Country of incorporation	% holding		Nature of business
		2022	2021	
Capital Real Estate Projects Company	Kingdom of Bahrain	30.00%	30.00%	Real estate development
NS 12 W.L.L.*	Kingdom of Bahrain	-	82.52%	Investment in real estate
Lagoon Real Estate Development *	Kingdom of Bahrain	-	22.97%	Investment in real estate
Al Areen Hotels W.L.L.	Kingdom of Bahrain	50.00%	50.00%	Hospitality business
Travelex Bahrain W.L.L.	Kingdom of Bahrain	25.00%	25.00%	Exchange Company

\* Transferred to assets-held-for-sale.

The Group through shareholder's agreement agreed to exercise joint control with 50% shareholding over AlAreen Hotel SPC with its partner (it's Parent), hence, it is considered as an equity-accounted investee.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

**15. OTHER ASSETS**

	<b>31 December 2022 BD '000</b>	31 December 2021 BD '000
Profit accrued on Sukuk	5,779	4,293
Right-of-use asset	499	820
Prepaid expenses	870	577
Due from investments	279	249
Receivable from customers	4,564	4,564
Repossessed assets	4,938	-
Other receivables	5,972	2,689
	<b>22,901</b>	<b>13,192</b>

Below are further details related to the right-of-use asset:

	<b>2022 BD '000</b>
Balance as at 1 Jan	820
Additional right-of-use assets for the period, net	228
Amortisation charge during the year	(549)
<b>Balance as at 31 December</b>	<b>499</b>

	2021 BD '000
Recognition of right-of-use assets on initial application of FAS 32	1,234
Additional right-of-use assets for the year, net	114
Amortisation charge during the year	(528)
Balance as at 31 December	820

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended 31 December 2022

**16. PROPERTY AND EQUIPMENT**

	Land	Furniture and fixtures	Computers	Motor vehicle and other equipment	Work-in-progress	2022 Total	2021 Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
<b>Cost</b>							
At 1 January	-	4,553	5,912	629	883	11,977	17,346
Additions	-	60	175	32	1,858	2,125	1,372
Disposals	-	-	-	(36)	-	(36)	(26)
Transfer	-	46	197	-	(243)	-	-
Transfer to assets-held-for-sale	-	-	-	-	-	-	(6,714)
<b>At 31 December</b>	<b>-</b>	<b>4,659</b>	<b>6,284</b>	<b>625</b>	<b>2,498</b>	<b>14,066</b>	<b>11,978</b>
<b>Accumulated Depreciation</b>							
At 1 January	-	4,355	5,360	564	-	10,279	9,897
Charge for year (note 24)	-	55	315	22	-	392	386
Disposals	-	-	-	(36)	-	(36)	(4)
<b>At 31 December</b>	<b>-</b>	<b>4,410</b>	<b>5,675</b>	<b>550</b>	<b>-</b>	<b>10,635</b>	<b>10,279</b>
<b>Net book value At 31 December 2022</b>	<b>-</b>	<b>249</b>	<b>609</b>	<b>75</b>	<b>2,498</b>	<b>3,431</b>	<b>1,699</b>
At 31 December 2021	-	199	550	65	885	1,699	

**17. PLACEMENTS FROM NON-FINANCIAL INSTITUTIONS AND INDIVIDUALS**

	31 December 2022 BD '000	31 December 2021 BD '000
Individuals	106,829	116,029
Non-financial institutions	108,535	67,188
	<b>215,364</b>	<b>183,217</b>

These represent placements in the form of Murabaha contracts and are net of deferred profit of BD 11,036 thousand (31 December 2021: BD 2,273 thousand).

**18. TERM FINANCING FROM FINANCIAL INSTITUTIONS**

Represents term Murabaha facilities of BD 81,753 thousand (31 December 2021: BD 71,617 thousand) secured by pledge over sukuk of BD 234,229 thousand (31 December 2021: BD 152,419 thousand) (refer note 8). The average rate of borrowings is 3.54% (2021: 2.09%) with an average maturity ranging up-to six months.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended 31 December 2022

**19. OTHER LIABILITIES**

	<b>31 December 2022 BD '000</b>	31 December 2021 BD '000
Payable to Investors*	10,542	13,597
Mudharaba profit accrual	4,970	4,898
Net ijarah liability	404	806
Advance received from customers	231	556
Zakah and charity payable	522	471
Employee related accruals	1,453	258
Payable for Istisna'a contracts	27	27
Other payables and accrued expenses**	7,288	5,016
	<b>25,437</b>	<b>25,629</b>

\* Relates to cash settlement with investors on account of restructuring (note 12)

\*\* Includes impairment allowance on commitments and financial guarantees of BD 64 thousand (31 December 2021: BD 85 thousand)

The breakup of the Net Ijarah liability per maturity analysis is as follows:

**Net Ijarah Liability**

Maturity analysis	<b>31 December 2022</b>		
	Gross Ijarah liability BD '000	Deferred Ijarah BD '000	Net Ijarah liability BD '000
Less than one year	143	(7)	136
One to five years	295	(27)	268
<b>Total</b>	<b>438</b>	<b>(34)</b>	<b>404</b>

Maturity analysis	31 December 2021		
	Gross Ijarah liability BD '000	Deferred Ijarah BD '000	Net Ijarah liability BD '000
Less than one year	566	(16)	550
One to five years	260	(4)	256
<b>Total</b>	<b>826</b>	<b>(20)</b>	<b>806</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended 31 December 2022

**20. EQUITY OF INVESTMENT ACCOUNT HOLDERS**

	<b>31 December 2022 BD '000</b>	31 December 2021 BD '000
From Financial institutions	159,926	125,707
From non-financial institutions and individuals	445,207	419,488
	<b>605,133</b>	<b>545,195</b>

The funds received from investment account holders have been commingled and jointly invested with the Group in the following asset classes:

	<b>31 December 2022 BD '000</b>	31 December 2021 BD '000
Balances with banks	94,191	50,580
CBB reserve account	25,795	15,290
Placements with financial institutions	62,631	26,391
Debt type instruments – sukuk	172,029	172,029
Financing assets	250,487	280,905
	<b>605,133</b>	<b>545,195</b>

As at 31 December 2022, the balance of profit equalisation reserve and investment risk reserve was Nil (31 December 2021: Nil).

The Group does not allocate non-performing assets to IAH pool. All the impairment allowances are allocated to owners' equity. Recoveries from non-performing financial assets are also not allocated to IAH accountholders.

Only profits earned on pool of assets funded from IAH are allocated between the owners' equity and IAH. The Group did not charge any administration expenses to investment accounts.

Following is the average percentage for profit allocation between owner's equity and investment accountholders.

	<b>2022</b>		<b>2021</b>	
	Mudarib share	IAH shares	Mudarib share	IAH shares
1 month Mudharaba *	65.01%	34.99%	82.97%	17.03%
3 months Mudharaba	52.56%	47.44%	63.20%	36.80%
6 months Mudharaba	52.53%	47.47%	58.49%	41.51%
12 months Mudharaba	42.04%	57.96%	51.13%	48.87%
18 months Mudharaba	53.58%	46.42%	46.85%	53.15%
24 months Mudharaba	24.67%	75.33%	53.01%	46.99%
36 months Mudharaba	38.08%	61.92%	43.31%	56.69%

\* Includes savings, Al Waffer and Call Mudharaba accounts.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

20. *EQUITY OF INVESTMENT ACCOUNT HOLDERS (CONTINUED)*

During the year, average mudarib share as a percentage of total income allocated to IAH was 45.06% (2021: 53.73%) as against the average mudarib share contractually agreed with IAH. Hence the Group sacrificed average mudarib fees of 23.50% (2021: 9.97%).

The Group does not share profits resulting from the assets funded through current accounts and other funds received on the basis other than mudharaba contract.

The funds raised from IAH are deployed in the assets on a priority basis after setting aside certain amount in cash and placement with Banks for liquidity management purposes.

21. **SHARE CAPITAL**

	<b>31 December 2022 BD '000</b>	31 December 2021 BD '000
<b>Authorised:</b> 3,000,000,000 ordinary shares of BD 0.100 each	<b>300,000</b>	300,000
<b>Issued and fully paid up:</b> 847,830,534 ordinary shares (2021: 892,119,480 shares) of BD 0.100 each	<b>84,783</b>	89,212

The shareholders in their extraordinary general meeting dated 24 March 2022, approved the cancellation of the Bank's issued and paid-up capital by BD 4,428,895 through cancellation of 44,228,946 treasury shares of BD 0.100 each and accumulated losses of BD 1,534 thousand. As at 31 December 2022 the Bank's paid capital was BD 84,783,053 (31 December 2021: BD 89,211,948) representing 847,830,534 shares (31 December 2021: 892,119,480 shares).

*Distribution schedule of equity shares, setting out the number of holders and percentage in the following categories:*

**31 December 2022**

<b>Categories*</b>	<b>Number of Shares</b>	<b>Number of Shareholders</b>	<b>% of total outstanding shares</b>
Less than 1%	53,735,841	342	6.34%
1% up to less than 5%	22,403,211	2	2.64%
5% up to less than 10% **	47,588,090	1	5.61%
50% and above	724,103,392	1	85.41%
	<b>847,830,534</b>	<b>346</b>	<b>100.00%</b>

\* Expressed as a percentage of total outstanding shares of the Bank.

\*\* Includes treasury shares.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

21. *SHARE CAPITAL (continued)*

31 December 2021

Categories *	Number of Shares	Number of Shareholders	% of total outstanding shares
Less than 1%	108,434,519	498	12.15%
1% up to less than 5%	79,154,515	5	8.87%
5% up to less than 10% **	88,473,159	1	9.92%
50% and above	616,057,287	1	69.06%
	892,119,480	505	100.00%

\* Expressed as a percentage of total outstanding shares of the Bank.

\*\* Includes treasury shares.

Names and nationalities of the major shareholders and the number of equity shares held in which they have an interest of 5% or more of outstanding shares:

31 December 2022

	Nationality	Number of shares	% of total outstanding shares
GFH Financial Group*	Bahrain	724,103,392	85.41%
Khaleeji Commercial Bank B.S.C	Bahrain	47,588,090	5.61%

\* These shares are held by KHCB Asset Company on behalf of GFH Financial Group, the Parent.

31 December 2021

	Nationality	Number of shares	% of total outstanding shares
GFH Financial Group*	Bahrain	616,057,287	69.06%
Khaleeji Commercial Bank B.S.C	Bahrain	88,473,159	9.92%

\* These shares are held by KHCB Asset Company on behalf of GFH Financial Group, the Parent.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended 31 December 2022

**22. SUBORDINATED MUDHARABA (AT 1)**

	<b>31 December 2022 BD '000</b>	31 December 2021 BD '000
Subordinated mudharaba (AT 1)	47,222	47,222
	<b>47,222</b>	<b>47,222</b>

The Bank issued a Subordinated Mudharaba (Basel III compliant Additional Tier 1 capital securities) of face value of US\$ 159 million (BD 60 million) at a premium of USD 31.8 million (BD 12 million). Such capital was raised in order to meet minimum regulatory requirements relating to total equity as prescribed by Central Bank of Bahrain. The carrying value is net of issuance costs.

*Summary of key terms and conditions are as follows:*

- Profits on these securities shall be distributed on a semi-annual basis subject to and in accordance with terms and conditions on the outstanding nominal value of the securities at an expected rate of 10% p.a.
- The Subordinated Mudharaba is recognized under the owners' equity in the condensed interim consolidated statement of financial position and the profits paid to rab al-maal (security holder) are accounted for as appropriation of profits.
- Subordinated Mudharaba is invested in a general mudharaba pool of assets on a unrestricted comingled basis.
- Security holder will not have a right to claim the profits and such event will not be considered as event of default.
- In the event of non-viability, the certificates will be converted either in full or in part on a pro-rata basis in accordance with the terms of the certificate which require conversion at the fair value of the Bank's share at the time of such non-viability event.
- The Certificates carry a call option after 5 years from the date of issue.

During the year, the Group paid profit distribution on its AT1 to the its holders for an amount of BD 6,000 thousand (2021: BD 6,000 thousand).

**23. STAFF COST**

	<b>2022 BD '000</b>	2021 BD '000
Salaries and short-term benefits	6,470	4,785
Social insurance	845	742
Indemnity expenses	74	69
Other staff expenses	115	59
	<b>7,504</b>	<b>5,655</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

**24. OTHER OPERATING EXPENSES**

	<b>2022</b> <b>BD '000</b>	2021 BD '000
Professional fees	1,113	1,208
Distribution channel expenses	700	916
Information technology expenses	855	635
Net ijarah cost (note 15 and note 19)	561	600
Board expenses	278	441
Depreciation expense (note 16)	392	386
Advertisement and marketing expenses	386	258
Premises cost	225	192
Communication expenses	197	134
Other operating expenses	1,050	866
	<b>5,757</b>	<b>5,636</b>

**25. IMPAIRMENT ALLOWANCE, NET**

	<b>2022</b> <b>BD '000</b>	2021 BD '000
Financing assets (note 9)	2,009	3,585
Ijarah assets (note 10)	325	1,399
Investments in sukuk (note 8)	(395)	195
Balances and placements with banks and financial institutions	1	-
Commitments and financial guarantees (note 19)	(21)	(394)
	<b>1,919</b>	<b>4,785</b>

**26. SHARE-BASED EMPLOYEE INCENTIVE SCHEME**

The shareholders in their annual general meeting dated 24 March 2022, approved the amendments to the share incentive scheme. In line with the revised scheme 104,734 shares (unallocated) were transferred from the KHCB employee benefit Trust to the Bank as treasury shares. During the period, the KHCB employee benefit Trust was terminated.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

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**27. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

The Group makes judgments, estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. However, the process of making the required estimates and assumptions involved further challenges due to the prevailing uncertainties.

**I. Judgements**

- a) Establishing the criteria for determining whether credit risk on an exposure subject to credit risk has increased significantly since initial recognition, determining methodology for incorporating forward looking information into measurement of ECL and selection and approval of models used to measure ECL is set out in Note 5j (i) and Note 37.

*Impairment allowance on financing portfolio at amortised cost*

In determining the appropriate level of expected credit losses (ECLs) the Group considered the macro-economic outlook, customer credit quality, the type of collateral held, exposure at default, and the effect of payment deferral options as at the reporting date.

The ECL methodology, significant increase in credit risk (SICR) thresholds, and definition of default remain consistent with those used as at 31 December 2021.

The re-assessed model inputs, including forward-looking information, scenarios and associated weightings, were revised to reflect the current outlook. Noting the wide range of possible scenarios and macroeconomic outcomes, and the relative uncertainty of how the social and economic factors will materialize, these scenarios represent reasonable and supportable forward-looking views as at the reporting date. The Group's models are calibrated periodically to consider past performance and macrocosmic forward-looking variables as inputs.

The Group considers both qualitative and quantitative information in the assessment of significant increase in credit risk.

The Group continues to assess borrowers for other indicators of unlikeliness to pay, taking into consideration the underlying cause of any financial difficulty and whether it is likely to be temporary or longer term.

*b. Classification of investments*

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as 1) monetary or non-monetary debt-type instruments carried at fair value through equity or at amortised cost, or 2) equity-type instruments carried at fair value through equity or at fair value through income statement. The classification of each investment is based on business model assessment by management and is subject to different accounting treatments based on such classification (refer note 5 © (i)).

*c. Impairment of equity investments at fair value through equity – (refer to Note 5 (j) (ii))*

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

**27. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)**

**I. Estimations**

- a) *Impairment of financing assets at amortised cost*
- Determining inputs into ECL measurement model including incorporation of forward-looking information is set out in Note 5 (j) and Note 37; and
  - Key assumptions used in estimating recoverable cash flows
- b) *Measurement of fair value of unquoted equity investments (level 3) -refer to Note 5 (c) (iii) and Note 36*

*Assessment of impairment of investment in real estate (Note 5(h),5(k)) and Note 1*

- c) 3)

**28. ASSETS UNDER MANAGEMENT**

The Group provides corporate administration, investment management and advisory services to its investment entities, which involves making decisions on behalf of such entities. Assets that are held in such capacity are not included in these consolidated financial statements. At the reporting date, the Group had assets under management of BD 196.99 million (31 December 2021: BD 201.41 million). During the year, the Group has not charged any management fees (2021: BD Nil) for the management of these assets. The Group has outsourced the day-to-day management of the assets under management to its Parent.

**29. RELATED PARTY TRANSACTIONS**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include the parent company, other significant shareholders and entities over which the Group and the shareholders exercises significant influence, directors, sharia board members and executive management of the Group. The transactions with these parties were made on agreed commercial terms.

Details of Directors' interests in the Bank's ordinary shares as at the end of the year were nil (2021: Nil).

*Compensation of key management personnel*

Key management personnel of the Group comprise the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group.

The key management personnel compensation during the year is as follows:

	<b>2022</b> <b>BD '000</b>	<b>2021</b> <b>BD '000</b>
Board member fees and allowances	<b>286</b>	468
Salaries and other short-term benefits	<b>1,451</b>	1,538

The key management personnel balances as of the end the year is as follows:

	<b>31 December</b> <b>2022</b> <b>BD '000</b>	<b>31 December</b> <b>2021</b> <b>BD '000</b>
Balances due to key management as compensation	<b>463</b>	431

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

**29. RELATED PARTY TRANSACTIONS (CONTINUED)**

The related party balances and transactions (except for compensation of key managerial personnel) included in these consolidated financial statements are as follows:

31 December 2022	<b>Associates</b>	<b>Directors / Key management personnel and shari'a board members</b>	<b>Parent company / other significant shareholders / entities in which directors are interested</b>	<b>Assets under management (including special purpose entities)</b>	<b>Total</b>
	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>
<b>Assets</b>					
Financing assets	-	3,171	6,902	-	<b>10,073</b>
Investment securities	-	-	2,284	4,461	<b>6,745</b>
Equity accounted investees	24,522	-	-	-	<b>24,522</b>
Investment in sukuk	-	-	54,171	-	<b>54,171</b>
Other assets	17	-	272	46	<b>335</b>
<b>Liabilities</b>					
Placement from financial institutions, Non-FIs and individuals	-	1,274	86,222	-	<b>87,496</b>
Customers' current accounts	723	69	5,572	451	<b>6,815</b>
Equity of investment account holders	362	1,084	226,111	219	<b>227,776</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

29. *RELATED PARTY TRANSACTIONS (CONTINUED)*

31 December 2021	Associates	Directors / Key management personnel and shari'a board members	Parent company / other significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
<b>Assets</b>					
Financing assets	-	3,227	6,061	-	9,288
Investment securities	-	-	2,284	4,754	7,038
Equity accounted investees	25,268	-	-	-	25,268
Investment in sukuk	-	-	-	-	-
Other assets	117	-	-	30	147
<b>Liabilities</b>					
Placement from financial institutions, Non-FIs and individuals	-	1,666	-	-	1,666
Customers' current accounts	866	340	5,952	24	7,182
Equity of investment account holders	409	102	138,833	292	139,636

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

29. *RELATED PARTY TRANSACTIONS (CONTINUED)*

2022	Associates	Directors / Key management personnel and shari'a board members	Parent company / other significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
<b>Income</b>					
Income from financing assets and ijarah assets	-	198	476	-	674
Income from investment securities	-	-	-	-	-
Share of loss from equity accounted investees	(1,252)	-	-	-	(1,252)
Income from sukuk	-	-	1,083	-	1,083
Fees and other income, net	-	-	-	-	-
<b>Expenses</b>					
Finance expense on placements from financial institutions, non-financial institutions and individuals	-	34	1,504	-	1,538
Return to investment account holders	10	38	6,087	4	6,139
Staff cost	-	1,451	-	-	1,451
Other expenses	-	286	-	-	286

During the year, the Group paid profit distribution on its AT1 to the Parent for an amount of BD 5,666 thousand (2021: 5,666).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

29. *RELATED PARTY TRANSACTIONS (CONTINUED)*

2021	Associates	Directors / Key management personnel and shari'a board members	Parent company / other significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
Income					
Income from financing assets and ijarah assets	-	1,133	1,143	96	2,372
Income from investment securities	-	-	-	263	263
Share of loss from equity accounted investees	(1,133)	-	-	-	(1,133)
Fees and other income, net	-	-	-	-	-
Expenses					
Finance expense on placements from financial institutions, non-financial institutions and individuals	-	24	-	-	24
Return to investment account holders	12	1	3,797	7	3,817
Staff cost	-	1,538	-	-	1,538
Other expenses	-	468	-	102	570

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

**30. EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of equity shares outstanding during the year adjusted for impact arising from shares issued under the employee share incentive scheme.

<b>Basic EPS</b>	<b>2022 BD '000</b>	<b>2021 BD '000</b>
Profit attributable to shareholders of parent for the year	14,007	10,853
Less: Profit distribution on AT 1 Capital	6,000	6,000
Profit attributable to the shareholders of the parent for basic and diluted earnings per share computation for the year	8,007	4,853
Weighted average number of shares outstanding during the year, net of treasury shares (thousand)	801,760	803,600
<b>Basic and diluted earnings per share (in fils)</b>	<b>9.987</b>	<b>6.039</b>

The Group did not have any dilutive instruments as of 31 December 2022 and 31 December 2021.

**31. SHARI'A SUPERVISORY BOARD**

The Group's Shari'a Supervisory Board consists of three Islamic scholars who review the Group's compliance with general Shari'a principles and specific fatwas, rulings and guidelines issued. Their review includes examination of evidence relating to the documentation and procedures adopted by the Group to ensure that its activities are conducted in accordance with Islamic Shari'a principles.

**32. ZAKAH**

Zakah is directly borne by the shareholders on distributed profits and investment account holders. The Group currently does not collect or pay Zakah on behalf of its shareholders and investors in restricted investment accounts. Zakah payable by the shareholders is computed by the Group on the basis of the method prescribed by the Group's Shari'a Supervisory Board and notified to shareholders annually. During the year, the Shari'a Supervisory Board has computed Zakah payable of BD 660 thousand (2021: BD 438 thousand) of which BD 555 thousand (2021: 395 thousand) represents the Zakah computed on the statutory reserve and cumulative retained earnings as at 31 December 2022, payable by the Group. The remaining Zakah balance amounting to BD 105 thousand or 0.124 fils per share (2021: BD 43 thousand or 0.048 fils per share) is due and payable by the shareholders. The Group will pay Zakah of BD 6 thousand (2021: BD 4 thousand) on the treasury shares held as of 31 December 2022 based on 0.124 fils per share (2021: 0.048 fils per share).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

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**33. SEGMENT REPORTING**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group's chief operating decision maker (Board of Directors) to make decisions about resource allocation to each segment and assess its performance and for which discrete financial information is available. An operating segment is divided into business segment and geographic segments. For management purposes, the Group is organised into two major business segments:

*Corporate and retail banking*

Providing customer services such as accepting Mudharaba deposits, savings account and current account facilities, fund transfer facilities, bill payment facilities. It also provides financing facilities (in the form of Commodity Murabaha, Mudharaba, Musharaka, Istisna'a and Ijarah facilities) to corporate clients and High-Networth-Individuals and consumer finance products. This segment includes money market and treasury services in the form of short term Commodity Murabaha and Wakala to banks, financial institutions and investments in sukuk to manage funding of the Group.

*Investments*

Primarily relates to conceptualising of investment deals and performing roles of an arranger, lead manager, and administrator of the funds (involves structuring of deals, raising of funds through private placement and fund administration). Also manages like Restricted Investment Accounts (RIA) and management of funds raised through the RIA structures. Also involves carrying out strategic investments in the form of equity contribution (either in the funds created and managed by the Group or other institutions).

Segment performance is measured based on results for each department as mentioned in the internal management reports that are reviewed by the Board of directors on a quarterly basis. Segment results is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate in these industries.

The Group reports directly attributable revenue and cost relating to transactions originating from respective segments as segment revenue and segment cost respectively. Indirect costs and corporate overheads are treated as unallocated. The internal management reports are designed to reflect revenue and cost for respective segments which are measured against the budgeted figures.

The Group primarily operates from Bahrain and does not have any overseas branches/divisions. The geographic concentration of assets and liabilities is disclosed in note 35 (b) to the consolidated financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

33. *SEGMENT REPORTING (CONTINUED)*

These segments are the basis on which the Group reports its primary segment information. Transactions between segments (if any) are conducted on an arm's length basis.

<b>31 December 2022</b>	<b>Investments</b>	<b>Corporate and Retail Banking</b>	<b>Unallocated</b>	<b>Total</b>
	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>
Cash and bank balances	2	149,091	-	149,093
Placements with financial institutions	576	62,054	-	62,630
Investment in sukuk	-	523,332	-	523,332
Financing assets	-	321,135	-	321,135
Ijarah assets	-	183,725	-	183,725
Investment securities	33,637	-	-	33,637
Assets held-for-sale	4,341	-	-	4,341
Investment in real estate	96,947	-	-	96,947
Equity accounted investees	24,522	-	-	24,522
Other assets	5,289	5,936	11,676	22,901
Property and equipment	-	-	3,431	3,431
<b>Total segment assets</b>	<b>165,314</b>	<b>1,245,273</b>	<b>15,107</b>	<b>1,425,694</b>
Placements from financial institutions	-	240,080	-	240,080
Placements from non-financial institutions and individuals	-	215,364	-	215,364
Term financing from financial institutions	-	130,955	-	130,955
Customers' current accounts	576	50,379	-	50,955
Other liabilities	12,249	5,913	7,275	25,437
<b>Total segment liabilities</b>	<b>12,825</b>	<b>642,691</b>	<b>7,275</b>	<b>662,791</b>
<b>Equity of investment account holders</b>	<b>-</b>	<b>605,133</b>	<b>-</b>	<b>605,133</b>
<b>Restricted investment accounts</b>	<b>1,516</b>	<b>-</b>	<b>-</b>	<b>1,516</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

**33. SEGMENT REPORTING (CONTINUED)**

<b>2022</b>	<b>Investments</b>	<b>Corporate and Retail Banking</b>	<b>Unallocated</b>	<b>Total</b>
	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>
Income from financing assets and ijarah assets	-	35,725	-	35,725
Income from placements with financial institutions	7	716	-	723
Income from sukuk	-	21,977	-	21,977
Income from investment securities	305	-	-	305
Share of loss from equity accounted investees	(1,252)	-	-	(1,252)
Fees and other income, net	-	4,726	-	4,726
<b>Total income before return to investment account holders</b>	<b>(940)</b>	<b>63,144</b>	<b>-</b>	<b>62,204</b>
Less: Return to investment account holders before Bank's share as Mudarib	-	(29,862)	-	(29,862)
Bank's share as a Mudarib	-	15,517	-	15,517
<b>Return to investment account holders</b>	<b>-</b>	<b>(14,345)</b>	<b>-</b>	<b>(14,345)</b>
Less:				
Expense on placements from financial institutions, non-financial institutions and individuals	-	(14,333)	-	(14,333)
Finance expense on term financing from financial institutions	-	(4,339)	-	(4,339)
<b>Total segment income</b>	<b>(940)</b>	<b>30,127</b>	<b>-</b>	<b>29,187</b>
Staff cost	122	7,382	-	7,504
Other expenses	38	5,719	-	5,757
<b>Total segment expenses</b>	<b>160</b>	<b>13,101</b>	<b>-</b>	<b>13,261</b>
Segment results before impairment allowances	(1,100)	17,026	-	15,926
Net impairment charge	395	(2,314)	-	(1,919)
<b>Segment results</b>	<b>(705)</b>	<b>14,712</b>	<b>-</b>	<b>14,007</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

**33. SEGMENT REPORTING (CONTINUED)**

31 December 2021	Investments BD '000	Corporate and Retail Banking BD '000	Unallocated BD '000	Total BD '000
Cash and bank balances	2	124,113	-	124,115
Placements with financial institutions	595	25,796	-	26,391
Investment in sukuk	-	323,846	-	323,846
Financing assets	-	324,373	-	324,373
Ijarah assets	-	152,394	-	152,394
Investment securities	30,884	-	-	30,884
Assets held-for-sale	63,103	-	-	63,103
Investment in real estate	80,919	-	-	80,919
Equity accounted investees	25,268	-	-	25,268
Other assets	241	5,257	7,694	13,192
Property and equipment	-	-	1,699	1,699
<b>Total segment assets</b>	<b>201,012</b>	<b>955,779</b>	<b>9,393</b>	<b>1,166,184</b>
Placements from financial institutions	-	130,199	-	130,199
Placements from non-financial institutions and individuals	-	183,217	-	183,217
Term financing from financial institutions	-	71,617	-	71,617
Customers' current accounts	594	52,342	-	52,936
Other liabilities	15,234	6,470	3,925	25,629
<b>Total segment liabilities</b>	<b>15,828</b>	<b>443,845</b>	<b>3,925</b>	<b>463,598</b>
Equity of investment account holders	-	545,195	-	545,195
Restricted investment accounts	1,516	-	-	1,516

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

**33. SEGMENT REPORTING (CONTINUED)**

2021	Investments BD '000	Corporate and Retail Banking BD '000	Unallocated BD '000	Total BD '000
Income from financing assets and ijarah assets	-	29,908	-	29,908
Income from placements with financial institutions	4	162	-	166
Income from sukuk	-	20,087	-	20,087
Income from investment securities	580	-	-	580
Share of loss from equity accounted investees	(1,133)	-	-	(1,133)
Fees and other income	35	2,844	-	2,879
Total income before return to investment account holder	(514)	53,001	-	52,487
Less: Return to investment account holders before Bank's share as Mudarib	-	(25,939)	-	(25,939)
Bank's share as a Mudarib	-	13,984	-	13,984
Return to investment account holders	-	(11,955)	-	(11,955)
Less:				
Expense on placements from financial institutions, non-financial institutions and individuals	-	(12,371)	-	(12,371)
Finance expense on term financing from financial institutions	-	(1,272)	-	(1,272)
Total segment income	(514)	27,403	-	26,889
Staff cost	566	2,262	2,827	5,655
Other expenses	177	1,181	4,278	5,636
Total segment expenses	743	3,443	7,105	11,291
Segment results before impairment allowances	(1,257)	23,960	(7,105)	15,598
Net impairment charge	(195)	(4,590)	-	(4,785)
Segment results	(1,452)	19,370	(7,105)	10,813

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended 31 December 2022

**34. MATURITY PROFILE**

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

<b>31 December 2022</b>	<b>Up to 3 months BD '000</b>	<b>3 to 6 months BD '000</b>	<b>6 months - 1 year BD '000</b>	<b>1 to 3 years BD '000</b>	<b>Over 3 years BD '000</b>	<b>Total BD '000</b>
<b>Assets</b>						
Cash and bank balances	137,100	2,780	5,109	4,104	-	149,093
Placements with financial institutions	62,630	-	-	-	-	62,630
Investment in sukuk	134,352	-	-	283,926	105,054	523,332
Financing assets	41,042	9,512	46,119	80,999	143,463	321,135
Ijarah assets	6,099	3,081	6,291	25,458	142,796	183,725
Investment securities	-	-	-	14,900	18,737	33,637
Assets held-for-sale	4,341	-	-	-	-	4,341
Investment in real estate	-	-	-	-	96,947	96,947
Equity accounted investees	-	-	-	-	24,522	24,522
Other assets	4,548	1,001	2,084	10,328	4,940	22,901
Property and equipment	-	-	-	-	3,431	3,431
<b>Total assets</b>	<b>390,112</b>	<b>16,374</b>	<b>59,603</b>	<b>419,715</b>	<b>539,890</b>	<b>1,425,694</b>
<b>Liabilities</b>						
Placements from financial institutions	191,762	16,599	19,443	12,276	-	240,080
Placements from non-financial institutions and individuals	29,427	14,359	13,727	76,363	81,488	215,364
Term financing from financial institutions	-	-	-	130,955	-	130,955
Customers' current account	3,552	6,267	-	3,429	37,707	50,955
Other liabilities	18,366	2,753	2,503	1,815	-	25,437
<b>Total liabilities</b>	<b>243,107</b>	<b>39,978</b>	<b>35,673</b>	<b>224,838</b>	<b>119,195</b>	<b>662,791</b>
<b>Equity of investment account holders</b>	<b>45,899</b>	<b>13,348</b>	<b>24,349</b>	<b>8,960</b>	<b>512,577</b>	<b>605,133</b>
<b>Restricted investment accounts</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,516</b>	<b>-</b>	<b>1,516</b>
<b>Commitments and financial guarantees</b>	<b>21,238</b>	<b>1,611</b>	<b>18,575</b>	<b>13,030</b>	<b>646</b>	<b>55,100</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

34. *MATURITY PROFILE (CONTINUED)*

31 December 2021	Up to 3 months BD '000	3 to 6 months BD '000	6 months - 1 year BD '000	1 to 3 years BD '000	Over 3 years BD '000	Total BD '000
<b>Assets</b>						
Cash and bank balances	117,405	2,553	3,638	519	-	124,115
Placements with financial institutions	26,391	-	-	-	-	26,391
Investment in sukuk	267,491	-	56,355	-	-	323,846
Financing assets	103,624	13,200	26,198	113,931	67,420	324,373
Ijarah assets	12,805	5,027	9,966	39,708	84,888	152,394
Investment securities	-	-	15,531	6,699	8,654	30,884
Assets held-for-sale	63,103	-	-	-	-	63,103
Investment in real estate	-	-	-	-	80,919	80,919
Equity accounted investees	-	-	-	-	25,268	25,268
Other assets	1,006	319	19	11,848	-	13,192
Property and equipment	-	-	-	-	1,699	1,699
<b>Total assets</b>	<b>591,825</b>	<b>21,099</b>	<b>111,707</b>	<b>172,705</b>	<b>268,848</b>	<b>1,166,184</b>
<b>Liabilities</b>						
Placements from financial institutions	56,131	67,514	6,554	-	-	130,199
Placements from non-financial institutions and individuals	68,224	48,659	46,400	15,573	4,361	183,217
Term financing from financial institutions	45,138	-	26,479	-	-	71,617
Customers' current account	16,275	5,152	5,595	6,393	19,521	52,936
Other liabilities	14,953	1,404	1,348	7,924	-	25,629
<b>Total liabilities</b>	<b>200,721</b>	<b>122,729</b>	<b>86,376</b>	<b>29,890</b>	<b>23,882</b>	<b>463,598</b>
Equity of investment account holders	122,554	101,525	142,145	88,820	90,151	545,195
Restricted investment accounts	-	-	-	1,516	-	1,516
Commitments and financial guarantees	43	1,247	6,510	37,145	6,079	51,024

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended 31 December 2022

35. **CONCENTRATION OF ASSETS, LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND RESTRICTED INVESTMENT ACCOUNTS**

(a) **Industry sector**

31 December 2022

	<b>Banks and financial institutions</b>	<b>Real estate</b>	<b>Others</b>	<b>Total</b>
	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>
<b>Assets</b>				
Cash and bank balances	149,093	-	-	149,093
Placements with financial institutions	62,630	-	-	62,630
Investment in sukuk	-	73,826	449,506	523,332
Financing assets	3,637	106,220	211,278	321,135
Ijarah assets	-	159,222	24,503	183,725
Investment securities	14,899	14,275	4,463	33,637
Assets-held-for-sale	-	4,341	-	4,341
Investment in real estate	-	96,947	-	96,947
Equity accounted investees	-	24,522	-	24,522
Other assets	-	10,270	12,631	22,901
Property and equipment	-	-	3,431	3,431
<b>Total assets</b>	<b>230,259</b>	<b>489,623</b>	<b>705,812</b>	<b>1,425,694</b>
<b>Liabilities</b>				
Placements from financial institutions	240,080	-	-	240,080
Placements from non-financial institutions and individuals	2,505	77,606	135,253	215,364
Term financing from financial institutions	130,955	-	-	130,955
Customers' current accounts	1,582	8,628	40,745	50,955
Other liabilities	-	396	25,041	25,437
<b>Total liabilities</b>	<b>375,122</b>	<b>86,630</b>	<b>201,039</b>	<b>662,791</b>
<b>Equity of investment account holders</b>	<b>159,914</b>	<b>9,043</b>	<b>436,176</b>	<b>605,133</b>
<b>Restricted investment accounts</b>	<b>-</b>	<b>1,516</b>	<b>-</b>	<b>1,516</b>
<b>Commitments and financial guarantees</b>	<b>-</b>	<b>11,477</b>	<b>43,623</b>	<b>55,100</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

**35. CONCENTRATION OF ASSETS, LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND RESTRICTED INVESTMENT ACCOUNTS (CONTINUED)**

(a) *Industry sector (continued)*

31 December 2021	Banks and financial institutions	Real estate	Others	Total
	BD '000	BD '000	BD '000	BD '000
<b>Assets</b>				
Cash and bank balances	124,115	-	-	124,115
Placements with financial institutions	26,391	-	-	26,391
Investment in sukuk	-	2,262	321,584	323,846
Financing assets	4,583	72,292	247,498	324,373
Ijarah assets	-	128,202	24,192	152,394
Investment securities	15,531	10,598	4,755	30,884
Assets-held-for-sale	-	63,103	-	63,103
Investment in real estate	-	80,919	-	80,919
Equity accounted investees	-	25,268	-	25,268
Other assets	757	5,018	7,417	13,192
Property and equipment	-	-	1,699	1,699
<b>Total assets</b>	<b>171,377</b>	<b>387,662</b>	<b>607,145</b>	<b>1,166,184</b>
<b>Liabilities</b>				
Placements from financial institutions	130,199	-	-	130,199
Placements from non-financial institutions and individuals	2,702	298	180,217	183,217
Term financing from financial institutions	71,617	-	-	71,617
Customers' current accounts	293	6,411	46,232	52,936
Other liabilities	-	396	26,161	26,557
<b>Total liabilities</b>	<b>204,811</b>	<b>7,105</b>	<b>252,610</b>	<b>464,526</b>
Equity of investment account holders	116,392	22,797	406,006	545,195
Restricted investment accounts	-	1,516	-	1,516
Commitments and financial guarantees	-	18,328	32,696	51,024

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

## 35. CONCENTRATION OF ASSETS, LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND RESTRICTED INVESTMENT ACCOUNTS (CONTINUED)

## (b) Geographic sector

31 December 2022	GCC countries BD '000	Europe BD '000	America BD '000	Asia BD '000	Australia BD '000	Total BD '000
<b>Assets</b>						
Cash and bank balances	104,343	1,896	42,850	4	-	149,093
Placements with financial institutions	51,040	11,590	-	-	-	62,630
Investment in sukuk	442,201	81,131	-	-	-	523,332
Financing assets	315,074	6,061	-	-	-	321,135
Ijarah assets	183,725	-	-	-	-	183,725
Investment securities	14,276	14,900	-	-	4,461	33,637
Assets held-for-sale	4,341	-	-	-	-	4,341
Investment in real estate	96,947	-	-	-	-	96,947
Equity accounted investees	24,522	-	-	-	-	24,522
Other assets	22,856	15	-	29	1	22,901
Property and equipment	3,431	-	-	-	-	3,431
<b>Total assets</b>	<b>1,262,756</b>	<b>115,593</b>	<b>42,850</b>	<b>33</b>	<b>4,462</b>	<b>1,425,694</b>
<b>Liabilities</b>						
Placements from financial institutions	240,080	-	-	-	-	240,080
Placements from non-financial institutions and individuals	213,470	1,894	-	-	-	215,364
Term financing from financial institutions	74,500	56,455	-	-	-	130,955
Customers' current accounts	49,627	514	-	814	-	50,955
Other liabilities	25,437	-	-	-	-	25,437
<b>Total liabilities</b>	<b>603,114</b>	<b>58,863</b>	<b>-</b>	<b>814</b>	<b>-</b>	<b>662,791</b>
<b>Equity of investment account holders</b>	<b>593,900</b>	<b>9,697</b>	<b>-</b>	<b>1,536</b>	<b>-</b>	<b>605,133</b>
<b>Restricted investment accounts</b>	<b>1,516</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,516</b>
<b>Commitments and financial guarantee</b>	<b>55,100</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>55,100</b>

Concentration by location for financing assets is measured based on the location of the counterparty, which has a high correlation with the location of the collateral for the exposure.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

**35. CONCENTRATION OF ASSETS, LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND RESTRICTED INVESTMENT ACCOUNTS (CONTINUED)**

(b) *Geographic sector (continued)*

31 December 2021	GCC countries BD '000	Europe BD '000	America BD '000	Asia BD '000	Australia BD '000	Total BD '000
<b>Assets</b>						
Cash and bank balances	111,341	2,303	10,456	15	-	124,115
Placements with financial institutions	26,391	-	-	-	-	26,391
Investment in sukuk	323,846	-	-	-	-	323,846
Financing assets	318,364	6,009	-	-	-	324,373
Ijarah assets	152,394	-	-	-	-	152,394
Investment securities	10,599	15,531	-	-	4,754	30,884
Assets held-for-sale	39,229	-	-	23,874	-	63,103
Investment in real estate	80,919	-	-	-	-	80,919
Equity accounted investees	25,268	-	-	-	-	25,268
Other assets	13,163	15	-	13	1	13,192
Property and equipment	1,699	-	-	-	-	1,699
<b>Total assets</b>	<b>1,103,213</b>	<b>23,858</b>	<b>10,456</b>	<b>23,902</b>	<b>4,755</b>	<b>1,166,184</b>
<b>Liabilities</b>						
Placements from financial institutions	130,199	-	-	-	-	130,199
Placements from non-financial institutions and individuals	183,132	-	-	85	-	183,217
Term financing from financial institutions	44,994	26,623	-	-	-	71,617
Customers' current accounts	51,375	566	-	995	-	52,936
Other liabilities	25,629	-	-	-	-	25,629
<b>Total liabilities</b>	<b>435,329</b>	<b>27,189</b>	<b>-</b>	<b>1,080</b>	<b>-</b>	<b>463,598</b>
Equity of investment account holders	536,893	42	1	8,259	-	545,195
Restricted investment accounts	1,516	-	-	-	-	1,516
Commitments and financial guarantee	51,024	-	-	-	-	51,024

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

**36. FAIR VALUE**

*a) Fair value*

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

The fair value of quoted Sukuk carried at amortised cost of BD 404,821 thousand (31 December 2021: BD 324,448 thousand) is BD 392,127 thousand as at 31 December 2022 (31 December 2021: BD 333,124 thousand).

In case of financing assets and lease receivables, the average profit rate of the portfolio is in line with current market rates for similar facilities and hence after consideration of adjustment for prepayment risk and impairment charges it is expected that the current value would not be materially different to fair value of these assets. The estimated fair values of the Group's other financial instruments are not significantly different from their carrying values due to their short-term nature.

*b) Fair value hierarchy*

The table below analyses the financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**31 December 2022**

	<b>Level 1 BD '000</b>	<b>Level 2 BD '000</b>	<b>Level 3 BD '000</b>	<b>Total BD '000</b>
Structured notes at fair value through income statement	-	14,900	-	14,900
Debt-type sukuk at fair value through equity	-	64,546	-	64,546
Equity-type sukuk at fair value through equity	-	54,171	-	54,171
Equity type securities carried at fair value through equity	-	-	18,738	18,738
	<b>-</b>	<b>133,617</b>	<b>18,738</b>	<b>152,355</b>

**31 December 2021**

	<b>Level 1 BD '000</b>	<b>Level 2 BD '000</b>	<b>Level 3 BD '000</b>	<b>Total BD '000</b>
Structured notes at fair value through income statement	-	15,531	-	15,531
Unquoted equity type securities carried at fair value through equity	-	-	15,353	15,353
		<b>15,531</b>	<b>15,353</b>	<b>30,884</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

36. FAIR VALUE (CONTINUED)

b) Fair value hierarchy (continued)

The table below shows the reconciliation of movements in value of investments measured using Level 3 inputs:

	2022 BD '000	2021 BD '000
At 1 January	15,353	40,812
Fair value change in equity	(341)	(161)
Purchases	-	10,084
Settlements	2,281	(884)
Transfer from/(to) assets held-for-sale	1,445	(34,498)
<b>At 31 December</b>	<b>18,738</b>	<b>15,353</b>

The potential effect of using reasonable possible alternative assumptions for fair valuing certain equity investments classified as level 3 are summarised below:

**31 December 2022**

Valuation technique used	Key unobservable inputs	Fair value at 31 December 2022 BD '000	Reasonable possible shift +/- (in average input)	Increase / (decrease) in valuation
Market multiples approach	Enterprise value to EBITDA	2,817	+/- 5%	94 / (94)
Market multiples approach	Price to book value	5,101	+/- 5%	157 / (157)
Market multiples approach	Price to total assets	1,142	+/- 5%	12 / (12)
Discounted cash flow	Cost of equity and terminal growth rate	735	+/- 5%	27 / (27)
Adjusted Net Asset Value	Change in net asset value	8,943	+/- 5%	447 / (447)
		<b>18,738</b>		

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

36. *FAIR VALUE (CONTINUED)*

*b) Fair value hierarchy (continued)*

31 December 2021

Valuation technique used	Key unobservable inputs	Fair value at 31 December 2021 BD '000	Reasonable possible shift +/- (in average input)	Increase / (decrease) in valuation
Market multiples approach	Enterprise value to EBITDA			
Market multiples approach	Price to book value	2,817	+/- 5%	4 / (4)
Market multiples approach	Price to total assets	3,959	+/- 5%	228 / (228)
Discounted cash flow	Cost of equity and terminal growth rate	1,142	+/- 5%	32 / (32)
Adjusted Net Asset Value	Change in net asset value	7,435	+/- 5%	372 / (372)
		15,353		

37. **FINANCIAL RISK MANAGEMENT**

**Introduction and overview**

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

**Risk management framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established various committees with responsibilities for managing the overall risks associated with the Group. The committees also continuously monitors consistent implementation of the Board approved policies in the Group and reports deviations, if any, to the Board. The committees consists of heads of business and other functional units in the Group. The committees comprise the following: Management Committee (operational risks), Executive Credit and Investment Committee (credit and investment risks), and Assets and Liabilities Committee (market and capital risks). In addition to the Committees, the Board has established an independent Risk Management Department with an overall responsibility to identify, measure, control risks and recommend policies and corrective actions. Risk Management Department reports directly to the Board Audit and Risk Management Committee.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2022****37. FINANCIAL RISK MANAGEMENT (CONTINUED)***Risk Management Framework (CONTINUED)*

The Group's Audit and Risk Management Committee is responsible for monitoring compliance with the risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit and Risk Management Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Management Committee.

**CREDIT RISK**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's exposures to placements with financial institutions, financing assets, ijarah assets, investment in sukuk and other receivables. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual and group exposure risk, country and sector concentration risk, related party exposure, etc.).

The Group manages its credit risks through its various business units, an independent Risk Management Department, Board Audit & Risk Management Committee ("BARMC"), and the Executive Credit & Investment Committee ("ECICOM"). The Credit risk management framework comprises the following:

- Formulating credit risk strategies policies and risk appetite which are developed after careful assessment of the market, capital requirement, regulatory rules, and the Board's risk appetite. The risk strategies and risk appetites are coded into policies approved by the Board. The Group's credit policy framework includes, inter alia, the following: in consultation with business units, credit risk management framework, credit risk mitigations, credit risk rating, credit risk pricing, expected credit loss, cross boarder business policy, personal finance product programs, approval authorities' matrix, and many others.
- Credit granting process. All credit exposures are assumed after careful assessment of the risks. Business proposals are initiated by the business units through formal credit applications. Such credit application provide adequate information about the proposed exposure including description of possible risks and mitigating factors. All credit applications are independently reviewed by Credit Review Unit to assess the adequacy of the due diligence conducted, independent assessment of the risks and mitigants, ensure compliance with limits and policies. Credit Review Unit issue formal opinion in respect of the proposals which may include recommendations for enhancing the Group's position. Proposals are then presented to approving authorities for their considerations (see proceeding point below). Where applicable and necessary, credit applications are also independently reviewed by the Sharia Compliance Officer to ensure adherence to Islamic principles.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Approval authorities are documented in the Credit Authorities Policy of the Group which describes the various approval authorities, conditions, and limits for approving business transactions arising from investment and credit activities within the Group. There are 5 main levels of credit and investment authorities within the Group: Board of Directors, Board Investment & Credit Committee, Executive Credit & Investment Committee, Chief Executive Officer, and Heads of Business Units. Approval authorities are decided based on the magnitude of the risk and transactions size while at the same time allowing for smooth business operations.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****for the year ended 31 December 2022****37. FINANCIAL RISK MANAGEMENT (CONTINUED)**

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*CREDIT RISK (CONTINUED)*

- **Managing concentrations.** The Group places significant emphasis on diversifying its portfolio through applying a portfolio strategy in which the Group spreads its assets and liabilities' businesses so that results from volatility or fluctuations in such businesses become subdued, controlled, and assist in the consistent long-term growth of the shareholders' interests. An important element of such portfolio strategy is to establish limits within which the Management may conduct business. In principle, the Group shall adhere to all maximum limits established by regulatory authorities. At the same time, the Group has defined its own internal limits to control the following: Credit risk concentration, Counterparty limits, Industry limits, Country limits, Collateral concentration limits, Product mix, Maturity limits, amongst others. These internal limits are reviewed on periodic basis taking into considerations the following factors: The Group's risk appetite, Business and budget plans, Counterparty's risk rating, Risk rating of the Counterparty's country, The Group's financial positions including liquidity and Capital adequacy, General market condition; and other factors as determined by the Board of Directors or the Board Audit & Risk Management Committee. In general, the Group adopts a negative correlation between risks and limits in that lower limits are defined for higher risks.
- **Credit Measurement Methodologies.** The Group quantifies its credit risk using two main metrics: expected loss (EL) and economic capital (EC). The expected loss reflects the average value of the estimated losses (i.e. the cost of the business) and is associated with the Group's policy on provisions, while economic capital is the amount of capital necessary to cover unexpected losses (i.e. if actual losses are higher than expected losses). As part of its measurement techniques, the Group conducts adequate stress testing on its portfolio.
- **Credit risk rating.** An important tool in monitoring the quality of individual credits, as well as the total portfolio, is the use of Credit Risk Rating systems. The Group adopts a well-structured internal CRR system as a mean of differentiating the degree of credit risk in the different credit exposures of the Group to allow more accurate determination of the overall characteristics of the asset portfolio, concentrations, limits management, problem assets, pricing, and the adequacy of loss reserves (provisions). As well as identifying the risks associated with a counterparty and a credit facility, CRRs provide a key input for the capital charges and risk weights. The Group's approach to credit risk rating is documented in the Credit Risk Rating Policy which aims at achieving the following: (a) create a benchmark for assessing relative creditworthiness of the graded entity and measure credit risk in relation to the market, (b) arrive at a system of risk-based pricing for credit facilities granted by the Group, (c) monitor the overall credit risk inherent in the Group's Credit portfolio, (d) create a benchmark for recognition of accrued income on credit assets, (e) link asset review frequency and approval authority levels to Credit risk and emphasize focus on effective management of weak assets, and (f) provide a means to link Internal Capital Adequacy to the portfolio credit risk.
- **Classifications and identification of non-performing exposures.** The Group has adopted FAS 30 / IFRS 9 standards for classifying exposures into three stages. Accounts are moved into higher staging depending on occurrence of Significant Increase in Credit Risks. Exposures with past due exceeding 90 days are classified as non-performing.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2022**

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**37. FINANCIAL RISK MANAGEMENT (CONTINUED)***CREDIT RISK (CONTINUED)*

*Remedial management.* All credit exposures assumed by the Group are considered after thorough risk and reward analysis adequate for the size and nature of business being considered. However, despite all due diligence exercised to minimize the risks involved, it is inevitable that certain exposures may experience setbacks due to various reasons such as: fundamental changes in the market conditions, changes in regulations and laws, changes in the status of counterparties (such as death, loss of job, sanctions, seizure of business, or bankruptcy), delays in deliverables (such as delays in completion of projects), or Unintentional errors in the initial assumptions. From business impact point of view, such exposures would have high costs due to suspension of profits, provisioning, liquidity, reputational, or opportunity costs. To prevent such adverse business impact, the Group has developed a prudent remedial strategy appropriate for the size, nature, and delinquency period. Such strategy is documented in the Remedial Management Policy. The Group, through its Remedial and Collection department pursue various recovery techniques including dunning, rescheduling, restructuring, collateral foreclosure, legal actions, and cash settlement amongst others.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

37. *FINANCIAL RISK MANAGEMENT (CONTINUED)*

*CREDIT RISK (CONTINUED)*

**Exposures subject to credit risk**

**31 December 2022**

	<b>Stage 1 BD '000</b>	<b>Stage 2 BD '000</b>	<b>Stage 3* BD '000</b>	<b>Total BD '000</b>
<b>Financing facilities</b>				
Grade 8 -10 Impaired	-	-	18,983 **	18,983
Past due but not impaired				
<i>Grade 1-6 Low-Fair Risk</i>	66,203	15,165	-	81,368
<i>Grade 7 Watch list</i>	-	9,545	-	9,545
<u>Past due comprises:</u>				
Up to 30 days	24,979	7,804	-	32,783
30-60 days	7,708	997	-	8,705
60-90 days	33,516	15,909	-	49,425
Neither past due nor impaired				
<i>Grade 1-6 Low-Fair Risk</i>	221,414	4,978	-	226,392
<i>Grade 7 Watch list</i>	79	2,583	-	2,662
Gross carrying amount	287,696	32,271	18,983	338,950
Less: expected credit losses	4,499	3,360	9,956	17,815
<b>Net carrying amount</b>	<b>283,198</b>	<b>28,908</b>	<b>9,029</b>	<b>321,135</b>
<b>Ijarah assets</b>				
Grade 8 -10 Impaired	-	-	6,717 ***	6,717
Past due but not impaired				
<i>Grade 1-6 Low-Fair Risk</i>	29,702	1,597	-	31,299
<i>Grade 7 Watch list</i>	74	4,529	-	4,603
<u>Past due comprises:</u>				
Up to 30 days	15,025	278	-	15,303
30-60 days	1,961	2,181	-	4,142
60-90 days	12,790	3,667	-	16,457
Neither past due nor impaired				
<i>Grade 1-6 Low-Fair Risk</i>	130,037	9,966	-	140,003
<i>Grade 7 Watch list</i>	-	5,843	-	5,843
Gross carrying amount	159,813	21,935	6,717	188,465
Less: expected credit losses	831	1,001	2,908	4,740
<b>Net carrying amount</b>	<b>158,983</b>	<b>20,935</b>	<b>3,807</b>	<b>183,725</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

37. *FINANCIAL RISK MANAGEMENT (CONTINUED)*

*CREDIT RISK (CONTINUED)*

*Exposures subject to credit risk (continued)*

<b>31 December 2022</b>	<b>Stage 1 BD '000</b>	<b>Stage 2 BD '000</b>	<b>Stage 3 BD '000</b>	<b>Total BD '000</b>
<b>Investment in Sukuk</b>				
Grade 8 -10 Impaired	-	-	1,318	1,318
Grade 1-6 Low-Fair Risk	404,821	-	-	404,821
Gross carrying amount	404,821	-	1,318	406,139
Less: expected credit losses	206	-	1,318	1,524
<b>Net carrying amount</b>	<b>404,615</b>	<b>-</b>	<b>-</b>	<b>404,615</b>
<b>Balances with banks and placements</b>				
Grade 1-6 Low-Fair Risk	208,295	-	-	208,295
Gross carrying amount	208,295	-	-	208,295
Less: expected credit losses	1	-	-	1
<b>Net carrying amount</b>	<b>208,294</b>	<b>-</b>	<b>-</b>	<b>208,294</b>
<b>Commitments and financial guarantees</b>				
Grade 8 -10 Impaired	-	-	-	-
Grade 1-6 Low-Fair Risk	53,265	354	6	53,625
Grade 7 Watch list	-	130	-	130
Gross carrying amount	53,265	484	6	53,755
Less: expected credit losses	56	1	6	63
<b>Net carrying amount</b>	<b>53,209</b>	<b>483</b>	<b>-</b>	<b>53,692</b>
<b>Total net carrying amount</b>	<b>1,108,299</b>	<b>50,325</b>	<b>12,838</b>	<b>1,171,461</b>

\* Includes facilities under cooling off period of BD 6,281 thousand.

\*\* includes BD 1,951 thousand of purchased or originated credit impaired assets (POCI).

\*\*\* includes BD 621 thousand of ECL on POCI assets.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

37. *FINANCIAL RISK MANAGEMENT (CONTINUED)*

*CREDIT RISK (CONTINUED)*

*Exposures subject to credit risk (continued)*

31 December 2021	Stage 1 BD '000	Stage 2 BD '000	Stage 3* BD '000	Total BD '000
Financing facilities				
Grade 8 -10 Impaired	-	-	30,580**	30,580
Past due but not impaired				
<i>Grade 1-6 Low-Fair Risk</i>	6,265	7,281	-	13,546
<i>Grade 7 Watch list</i>	7	2,841	-	2,848
<u>Past due comprises:</u>				
Up to 30 days	5,772	9,987	-	15,759
30-60 days	106	-	-	106
60-90 days	394	135	-	529
Neither past due nor impaired				
<i>Grade 1-6 Low-Fair Risk</i>	246,375	25,087	-	271,462
<i>Grade 7 Watch list</i>	2,000	24,331	-	26,331
Gross carrying amount	254,647	59,540	30,580	344,767
Less: expected credit losses	6,024	1,751	12,619	20,394
Net carrying amount	248,623	57,789	17,961	324,373
Ijarah assets				
Grade 8 -10 Impaired	-	-	12,812	12,812
Past due but not impaired				
<i>Grade 1-6 Low-Fair Risk</i>	6,126	-	-	6,126
<i>Grade 7 Watch list</i>	276	281	-	557
<u>Past due comprises:</u>				
Up to 30 days	3,100	-	-	3,100
30-60 days	717	24	-	741
60-90 days	2,585	257	-	2,842
Neither past due nor impaired				
<i>Grade 1-6 Low-Fair Risk</i>	102,968	24,606	-	127,574
<i>Grade 7 Watch list</i>	245	10,392	-	10,637
Gross carrying amount	109,615	35,279	12,812***	157,706
Less: expected credit losses	242	929	4,141	5,312
Net carrying amount	109,373	34,350	8,671	152,394

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

37. *FINANCIAL RISK MANAGEMENT (CONTINUED)*

*CREDIT RISK (CONTINUED)*

*Exposures subject to credit risk (continued)*

31 December 2021

	Stage 1 BD '000	Stage 2 BD '000	Stage 3 BD '000	Total BD '000
Investment in Sukuk				
Grade 8 -10 Impaired	-	-	1,317	1,317
Grade 1-6 Low-Fair Risk	324,448	-	-	324,448
Gross carrying amount	324,448	-	1,317	325,765
Less: expected credit losses	602	-	1,317	1,919
Net carrying amount	323,846	-	-	323,846
Balances with banks and placements				
Grade 1-6 Low-Fair Risk	147,313	-	-	147,313
Gross carrying amount	147,313	-	-	147,313
Less: expected credit losses	2	-	-	2
Net carrying amount	147,311	-	-	147,311
Commitments and financial guarantees				
Grade 8 -10 Impaired	-	-	6	6
Grade 1-6 Low-Fair Risk	44,788	6,221	-	51,009
Grade 7 Watch list	-	9	-	9
Gross carrying amount	44,788	6,230	6	51,024
Less: expected credit losses	79	-	6	85
Net carrying amount	44,709	6,230	-	50,939
Total net carrying amount	873,862	98,369	26,632	998,863

\* Includes facilities under cooling off period of BD 46,900 thousand.

\*\* includes BD 6,621 thousand of purchased or originated credit impaired assets (POCI).

***Significant increase in credit risk***

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

In determining whether credit risk has increased significantly since initial recognition, the following criteria are considered:

- 1 Downgrade in risk rating according to the approved ECL policy;
- 2 Facilities restructured during previous twelve months;
- 3 Qualitative indicators; and
- 4 Facilities overdue by 30 days as at the reporting date subject to rebuttal in deserving circumstances

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

37. *FINANCIAL RISK MANAGEMENT (CONTINUED)*

*CREDIT RISK (CONTINUED)*

***Credit risk grades***

The Group allocates each exposure to credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. 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 borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk 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 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. Exposers are rated 1 to 10 with 1 to being good and 7 being watch list and 8, 9 and 10 default grades. The monitoring typically involves use of the following data.

*Corporate exposures*

- Information obtained during periodic review of customer files- e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes
- Data from credit reference agencies. press articles, changes in external credit ratings
- Quoted bond and credit default swap (CDS) prices for the borrower where available
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities

*Retail exposures*

- Internally collected data on customer behaviour -e.g. utilisation of credit card facilities
- Affordability metrics
- External data from credit reference agencies including industry-standard credit scores

*All exposures*

- Payment record this includes overdue status as well as a range of variables about payment ratios
- Utilisation of the granted limit
- Requests for and granting of forbearance
- Existing and forecast changes in business, financial and economic conditions

***Generating the term structure of PD***

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analyzed by jurisdiction or region and by type of product, borrower and credit risk grading.

The Group employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark profit rates and oil price. For exposures to specific industries and/or regions. the analysis may extend to relevant commodity and/or real estate prices.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2022****37. FINANCIAL RISK MANAGEMENT (CONTINUED)****CREDIT RISK (CONTINUED)****Generating the term structure of PD (continued)**

Based on advice from the Risk Management Department and economic experts and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Group then uses these forecasts to adjust its estimates of PDs.

**Determining whether credit risk has increased significantly**

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

Using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

Qualitative indicators, including different criteria used for different portfolios credit cards and commercial real estate.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

**Definition of default**

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on any material obligation to the Group.
- It is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligation.

In assessing whether the borrower is in default, the Group considers qualitative and quantitative indicators. The definition of default aligns with that applied by the Group for regulatory capital purposes.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2022****37. FINANCIAL RISK MANAGEMENT (CONTINUED)****CREDIT RISK (CONTINUED)*****Incorporation of forward-looking information***

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Assets and Liabilities Committee ("ALCO") and economic experts and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, supranational organisations such as the OECD and the International Monetary Fund, and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

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 as at 31 December 2022 included the key indicators for the selected countries such as the unemployment rates, profit rates and the GDP growth.

***Modified financial assets and ijarah assets***

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

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- Its remaining lifetime PD at the reporting date based on the modified terms; with
- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Group renegotiates financing to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, forbearance of financing assets is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of profit payments and amending the terms of loan covenants. Both retail and corporate financings are subject to the forbearance policy.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2022****37. FINANCIAL RISK MANAGEMENT (CONTINUED)***CREDIT RISK (CONTINUED)**Modified financial assets and ijarah assets (continued)*

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired / in default (refer Note 5). A customer needs to demonstrate consistently good payment behaviour over a period of time (12 months) before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

**Measurement of ECLs**

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 inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

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

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For financing assets secured by retail property, LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective profit rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

37. *FINANCIAL RISK MANAGEMENT (CONTINUED)*

*CREDIT RISK (CONTINUED)*

The following tables show reconciliations from the opening to the closing balance of the loss allowance: 12-month ECL, lifetime ECL and credit-impaired.

	<b>12 month ECL (Stage 1)</b>	<b>Lifetime ECL not credit impaired (Stage 2)</b>	<b>Lifetime ECL credit impaired (Stage 3 + POCI)</b>	<b>Total</b>
	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>
<b>Balance at 1 January 2022</b>	6,949	2,680	18,083	27,712
Transfer to 12-month ECL	1,583	(1,179)	(404)	-
Transfer to lifetime ECL	(621)	922	(301)	-
Transfer to lifetime credit-impaired	(56)	(13)	69	-
Net transfers	906	(270)	(636)	-
Net re-measurement of loss allowance	(2,261)	1,952	2,226	1,917
Write-offs	-	-	(3,534)	(3,534)
Settlements	-	-	(1,951)	(1,951)
<b>Balance at December 2022</b>	<b>5,594</b>	<b>4,362</b>	<b>14,188</b>	<b>24,144</b>

Break down of ECL by category of assets in the statement of financial position and off-balance sheet commitments:

	<b>12 month ECL (Stage 1)</b>	<b>Lifetime ECL not credit impaired (Stage 2)</b>	<b>Lifetime ECL credit impaired (Stage 3 + POCI)</b>	<b>Total 2022</b>
	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>
<i>Balances and placements with banks and financial institutions</i>	1	-	-	1
<i>Investment in sukuk (note 8)</i>	206	-	1,318	1,524
<i>Financing assets (note 9)</i>	4,499	3,360	9,956	17,815
<i>Ijarah assets (note 10)</i>	831	1,001	2,908	4,740
<i>Commitments and financial Guarantees (note 19)</i>	57	1	6	64
	<b>5,594</b>	<b>4,362</b>	<b>14,188</b>	<b>24,144</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

37. *FINANCIAL RISK MANAGEMENT (CONTINUED)*

*CREDIT RISK (CONTINUED)*

The following tables show reconciliations from the opening to the closing balance of the loss allowance: 12-month ECL, lifetime ECL and credit-impaired.

	<i>12 month ECL (Stage 1)</i>	<i>Lifetime ECL not credit impaired (Stage 2)</i>	<i>Lifetime ECL credit impaired (Stage 3 + POCI)</i>	<i>Total</i>
	BD '000	BD '000	BD '000	BD '000
<i>Balance at 1 January 2021</i>	8,339	2,364	14,039	24,742
<i>Transfer to 12-month ECL</i>	1,324	(668)	(656)	-
<i>Transfer to lifetime ECL non-credit-impaired</i>	(858)	1,197	(339)	-
<i>Transfer to lifetime ECL credit-impaired</i>	(164)	(193)	357	-
<i>Net transfers</i>	302	336	(638)	-
<i>Net re-measurement of loss allowance</i>	(1,692)	(20)	6,497	4,785
<i>Recoveries / write backs</i>	-	-	-	-
<i>Write-offs</i>	-	-	(5)	(5)
<i>Disposals</i>	-	-	(1,810)	(1,810)
<i>Balance at 31 December 2021</i>	6,949	2,680	18,083	27,712

Break down of ECL by category of assets in the statement of financial position and off-balance sheet commitments:

	<i>12 month ECL (Stage 1)</i>	<i>Lifetime ECL not credit impaired (Stage 2)</i>	<i>Lifetime ECL credit impaired (Stage 3 + POCI)</i>	<i>Total 2021</i>
	BD '000	BD '000	BD '000	BD '000
<i>Balances and placements with banks and financial institutions</i>	2	-	-	2
<i>Investment in sukuk (note 8)</i>	602	-	1,317	1,919
<i>Financing assets (note 9)</i>	6,024	1,751	12,619	20,394
<i>Ijarah assets (note 10)</i>	242	929	4,141	5,312
<i>Commitments and financial Guarantees (note 19)</i>	79	-	6	85
	6,949	2,680	18,083	27,712

**Impaired financial assets**

Impaired financial assets are those for which the Group determines that it is probable that it will be unable to collect all or part of the principal and profit due according to the contractual terms of the exposure and these fall under risk grades 8, 9 and 10. For other financial assets impairment is assessed on an individual basis for each exposure by considering various factors.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2022****37. FINANCIAL RISK MANAGEMENT (CONTINUED)****CREDIT RISK (CONTINUED)****Past due but not impaired exposures**

The exposure pertains to financing assets where contractual profit or principal payments are past due but the Group believes that impairment is not appropriate on the basis of subsequent collections, the level of security / collateral available and / or the stage of collection of amounts owed to the Group.

**Renegotiated facilities**

During the year, facilities of BD 2,559 thousands (2021: BD 19,205 thousand) were renegotiated, out of which BD 920 thousand (2021: BD 18,072 thousand) are classified as neither past due nor impaired as of 31 December 2022. The renegotiated terms usually require settlement of profits accrued till date on the facility and/or part payment of the principal and/or obtaining of additional collateral coverage. The renegotiated facilities are subject to revised credit assessments and independent review by the RMD. Of the total past due facilities of BD 126,815 thousand (2021: BD 23,077 thousand) only instalments of BD 78,729 thousand (2021: BD 4,218 thousand) are past due as at 31 December 2022.

**Allowances for impairment**

The Group makes provisions for impairment on individual assets classified under grades 8,9 and 10. This is done on the basis of the present value of projected future cash flows from the assets themselves and consideration of the value of the collateral securities available. On a collective basis, the Group has provided for impairment losses based on management's judgment of the extent of losses incurred but not identified based on the current economic and credit conditions.

**Non-accrual basis**

Group classifies financing facility/Sukuk as non-accrual status, if the facility/Sukuk is past due greater than 90 days or there is reasonable doubt about the collectability of the receivable amount. The profits on such facilities are not recognized in the income statement until there are repayments from the borrower or the exposure is upgraded to regular status.

**Write-off policy**

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group expects no significant recovery from the amount written 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. During the year, the Group has written off financing facilities amounting to BD 4,129 thousand (2021: BD 5 thousand) which were fully impaired. The Group has recovered BD 1,808 thousand from a financing facility written off in previous years (2021: BD 723 thousand).

**Collaterals**

The Group holds collateral against financing assets and receivables from ijarah assets in the form of mortgage/ pledge over property, listed securities, other assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely. Collateral generally is not held against exposure to other banks and financial institutions. An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below. This includes the value of financial guarantees from banks, but not corporate and personal guarantees as the values thereof are not readily quantifiable. The collateral values considered for disclosure are restricted to the extent of the outstanding exposures.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

37. *FINANCIAL RISK MANAGEMENT (CONTINUED)*

*CREDIT RISK (CONTINUED)*

*Collaterals (continued)*

	As at 31 December 2022			As at 31 December 2021		
	Financing assets BD '000	Ijarah assets BD '000	Total BD '000	Financing assets BD '000	Ijarah assets BD '000	Total BD '000
<u>Against impaired</u>						
Property	4,301	3,721	8,022	8,081	8,645	16,726
Other	744	-	744	1,023	-	1,023
						-
<u>Against past due but not impaired</u>						
Property	59,231	35,176	94,407	14,001	6,423	20,424
Other	5,239	-	5,239	180	-	180
						-
<u>Against neither past due nor impaired</u>						
Property	131,127	125,066	256,193	177,378	137,463	314,841
Other	8,482	-	8,482	20,000	-	20,000
						-
<b>Total</b>	<b>209,124</b>	<b>163,963</b>	<b>373,087</b>	<b>220,663</b>	<b>152,531</b>	<b>373,194</b>

The average collateral coverage ratio on secured facilities is 149.71% at 31 December 2022 (31 December 2021: 148.99%).

For analysis of concentration of total assets and liabilities refer note 34.

Further, for financing assets and ijarah assets, the Group monitors concentrations of credit risk by sector and by geographic location.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

37. *FINANCIAL RISK MANAGEMENT (CONTINUED)*

*CREDIT RISK (CONTINUED)*

An analysis of concentrations of credit risk at the reporting date is shown below:

Concentration by Sector	As at 31 December 2022			As at 31 December 2021		
	Financing assets BD '000	Ijarah assets BD '000	Total BD '000	Financing assets BD '000	Ijarah assets BD '000	Total BD '000
Banking and finance	3,637	-	3,637	4,582	-	4,582
Real estate	41,112	159,222	200,334	71,434	128,202	199,636
Construction	65,108	-	65,108	54,180	-	54,180
Trading	48,680	-	48,680	51,447	-	51,447
Manufacturing	12,805	-	12,805	13,543	-	13,543
Consumer	43,405	-	43,405	43,929	-	43,929
Others	106,388	24,503	130,891	85,258	24,192	109,450
<b>Total carrying amount</b>	<b>321,135</b>	<b>183,725</b>	<b>504,860</b>	<b>324,373</b>	<b>152,394</b>	<b>476,767</b>

**Settlement risk**

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a company to honour its obligations to deliver cash, securities or other assets as contractually agreed.

Settlement limits form part of the credit approval / limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from RMD.

**LIQUIDITY RISK**

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

*Management of liquidity risk*

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

37. *FINANCIAL RISK MANAGEMENT (CONTINUED)*

*LIQUIDITY RISK (CONTINUED)*

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 below.

Financial Control Department (FCD) collates data from treasury and other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. FCD communicates the information to the treasury who manages the Group's portfolio of short-term liquid assets, largely made up of short-term placements with other banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored by FCD. The Group has in place a Liquidity Contingency Plan, the elements of which are periodically tested. Tools for implementation of regular stress testing under various scenarios are in place. All liquidity policies and procedures are subject to review by ALCO and approval by appropriate authorities. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO members.

*Exposure to liquidity risk*

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For computation of this, net liquid assets are considered as including cash and bank balances and placements with financial institutions and investments in sukuk net of sukuk pledged against term financing from financial institutions less placements from financial institution, and deposits comprise current accounts, placements from non-financial institutions and individuals, and equity of investment account holders.

Details of the reported Group ratio of net liquid assets to deposits and customers current accounts at the reporting date and during the reporting period were as follows:

	<b>2022</b> %	2021 %
At 31 December	54.0%	46.1%
Average for the period	43.8%	42.3%
Maximum for the period	54.0%	46.1%
Minimum for the period	36.7%	38.8%

For maturity profile of assets and liabilities refer note 34.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

37. *FINANCIAL RISK MANAGEMENT (CONTINUED)*

*LIQUIDITY RISK (CONTINUED)*

The Central Bank of Bahrain introduced Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) during 2019.

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

LCR is computed as a ratio of Stock of HQLA over the Net cash outflows over the next 30 calendar days. As at 31 December 2022, the Bank is required to maintain LCR greater than 100%. As of 31 December 2022, the Bank had LCR ratio of 137.64%.

NSFR is to promote the resilience of banks' liquidity risk profiles and to incentivise a more resilient banking sector over a longer time horizon. The NSFR will require banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. A sustainable funding structure is intended to reduce the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress. The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on-balance sheet and off-balance sheet items, and promotes funding stability.

NSFR as a percentage is calculated as "Available stable funding" divided by "Required stable funding". As at 31 December 2022, the Bank is required to maintain NSFR ratio greater than 100%. As of 31 December 2022, the Bank had NSFR ratio of 107.81%.

The Consolidated NSFR calculated as per the requirements of the CBB rulebook, as of 31 December 2022 is as follows:

	Unweighted values (i.e. before applying relevant factors)				Total weighted value BD '000
	No specified maturity BD '000	Less than 6 months BD '000	More than 6 months and less than one year BD '000	Over one year BD '000	
<b>Available Stable Funding (ASF):</b>					
<b>Capital:</b>					
Regulatory Capital	157,608	-	-	9,958	167,566
Other Capital Instruments	-	-	-	-	-
<b>Retail deposits and deposits from small business customers:</b>					
Stable deposits	-	59,644	5,689	9,832	71,898
Less Stable deposits	-	152,486	31,360	60,229	225,690
<b>Wholesale funding:</b>					
Operational deposits	-	-	-	-	-
Other wholesale funding	-	700,308	99,927	123,928	290,305
<b>Other liabilities:</b>					
NSFR derivative liabilities	-	-	-	-	-
All other liabilities not included in the above categories	-	25,581	-	-	-
<b>Total ASF</b>	<b>157,608</b>	<b>938,019</b>	<b>136,977</b>	<b>203,947</b>	<b>755,459</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

37. *FINANCIAL RISK MANAGEMENT (CONTINUED)*

*LIQUIDITY RISK (CONTINUED)*

**Required Stable Funding (RSF):**

Total NSFR high-quality liquid assets (HQLA)	445,706	-	-	-	21,892
Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions	-	157,709	-	-	23,656
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	86,291	32,278	294,940	305,247
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	23,679	15,391
Performing residential mortgages	-	-	-	87,769	57,050
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	-	-
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	112,550	32,663	-	99,182	213,186
All other assets not included in the above categories	77,003	-	-	-	77,003
OBS items	53,790	-	-	-	2,689
<b>Total RSF</b>	<b>689,048</b>	<b>276,664</b>	<b>32,278</b>	<b>481,890</b>	<b>700,724</b>
<b>NSFR%</b>					<b>107.81%</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

37. *FINANCIAL RISK MANAGEMENT (CONTINUED)*

*LIQUIDITY RISK (CONTINUED)*

The Consolidated NSFR calculated as per the requirements of the CBB rulebook, as of 31 December 2021 is as follows:

	Unweighted values (i.e. before applying relevant factors)				Total weighted value BD '000
	No specified maturity BD '000	Less than 6 months BD '000	More than 6 months and less than one year BD '000	Over one year BD '000	
<u>Available Stable Funding (ASF):</u>					
Capital:					
Regulatory Capital	158,107	-	-	9,627	167,734
Other Capital Instruments					
Retail deposits and deposits from small business customers:					
Stable deposits	-	68,722	9,797	1,037	75,630
Less Stable deposits	-	187,257	55,678	3,440	222,082
Wholesale funding:					
Operational deposits					
Other wholesale funding	-	580,012	52,547	25,589	179,209
Other liabilities:					
NSFR derivative liabilities					
All other liabilities not included in the above categories	-	25,844	-	-	-
<b>Total ASF</b>	<b>158,107</b>	<b>861,835</b>	<b>118,022</b>	<b>39,693</b>	<b>644,655</b>

<u>Required Stable Funding (RSF):</u>					
Total NSFR high-quality liquid assets (HQLA)	360,333	-	-	-	17,733
Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions	-	76,971	-	-	11,546
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:					
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	101,368	28,532	251,598	278,808
Performing residential mortgages					
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	68,238	44,355
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	115,189	35,386	-	2,262	134,805
All other assets not included in the above categories	116,431	-	-	-	116,431
OBS items	51,024	-	-	-	2,551
<b>Total RSF</b>	<b>642,977</b>	<b>213,725</b>	<b>28,532</b>	<b>331,443</b>	<b>612,303</b>
<b>NSFR%</b>					<b>105.28%</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****for the year ended 31 December 2022****37. FINANCIAL RISK MANAGEMENT (CONTINUED)****MARKET RISK**

Market risk is the risk that changes in market prices, such as profit rate, equity prices, foreign exchange rates and credit spreads will affect the Group's income, future cash flows or the value of its holdings of financial instruments. Market risk comprises three types of risk: currency risk, profit rate risk and other price risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

*Exposure to profit rate risk–non–trading portfolios*

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market profit rates. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for re-pricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by the Group's Risk Management Department in its day-to-day monitoring activities.

A summary of the Group's profit rate gap position at 31 December 2022 is as follows:

<b>31 December 2022</b>	<b>Up to 3 months</b>	<b>3 - 6 months</b>	<b>6 months - 1 year</b>	<b>1 - 3 years</b>	<b>More than 3 years</b>	<b>Total</b>
	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>
<b>Assets</b>						
Placements with financial institutions	62,630	-	-	-	-	<b>62,630</b>
Investment in sukuk	-	-	2,570	286,600	234,161	<b>523,331</b>
Financing assets	51,924	7,077	16,605	48,247	197,283	<b>321,136</b>
Ijarah assets	9	4	281	2,547	180,885	<b>183,725</b>
<b>Total profit rate sensitive assets</b>	<b>114,563</b>	<b>7,081</b>	<b>19,456</b>	<b>337,394</b>	<b>612,328</b>	<b>1,090,822</b>
<b>Liabilities and investment accounts</b>						
Placements from financial institutions	191,762	16,599	19,443	12,276	-	<b>240,080</b>
Placements from non-financial institutions and individuals	41,756	14,378	64,931	94,299	-	<b>215,364</b>
Term financing from financial institutions	-	-	-	130,955	-	<b>130,955</b>
Customers' current accounts	1,480	-	-	-	-	<b>1,480</b>
Equity of investment account holders	463,903	42,767	53,023	45,439	1	<b>605,133</b>
<b>Total profit rate sensitive liabilities and investment accounts</b>	<b>698,901</b>	<b>73,744</b>	<b>137,397</b>	<b>282,969</b>	<b>1</b>	<b>1,193,012</b>
<b>Profit rate gap</b>	<b>(584,338)</b>	<b>(66,663)</b>	<b>(117,941)</b>	<b>54,425</b>	<b>612,327</b>	<b>(102,190)</b>
<b>Cumulative profit rate gap</b>	<b>(584,338)</b>	<b>(651,001)</b>	<b>(768,942)</b>	<b>(714,517)</b>	<b>(102,190)</b>	

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

37. *FINANCIAL RISK MANAGEMENT (CONTINUED)*

*MARKET RISK (CONTINUED)*

*Exposure to profit rate risk–non–trading portfolios (continued)*

31 December 2021	Up to 3 months	3 - 6 months	6 months - 1 year	1 - 3 years	More than 3 years	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
<b>Assets</b>						
Placements with financial institutions	26,391	-	-	-	-	26,391
Investment in sukuk	13,067	10,660	3,792	25,523	270,804	323,846
Financing assets	49,835	3,038	4,829	43,423	223,248	324,373
Ijarah assets	13	13	32	3,439	148,897	152,394
<b>Total profit rate sensitive assets</b>	<b>89,306</b>	<b>13,711</b>	<b>8,653</b>	<b>72,385</b>	<b>642,949</b>	<b>827,004</b>
<b>Liabilities and investment accounts</b>						
Placements from financial institutions	56,130	67,514	6,555	-	-	130,199
Placements from non-financial institutions and individuals	100,661	26,547	52,844	3,165	-	183,217
Term financing from financial institutions	45,138	-	26,479	-	-	71,617
Customers' current accounts	1,554	-	-	-	-	1,554
Equity of investment account holders	401,690	56,571	57,749	29,185	-	545,195
<b>Total profit rate sensitive liabilities and investment accounts</b>	<b>605,173</b>	<b>150,632</b>	<b>143,627</b>	<b>32,350</b>	<b>-</b>	<b>931,782</b>
<b>Profit rate gap</b>	<b>(515,867)</b>	<b>(136,921)</b>	<b>(134,974)</b>	<b>40,035</b>	<b>642,949</b>	<b>(104,778)</b>
<b>Cumulative profit rate gap</b>	<b>(515,867)</b>	<b>(652,788)</b>	<b>(787,762)</b>	<b>(747,727)</b>	<b>(104,778)</b>	

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise across all yield curves and a 50 bp rise or fall of all yield curves.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

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37. *FINANCIAL RISK MANAGEMENT (CONTINUED)*

*MARKET RISK (CONTINUED)*

*Exposure to profit rate risk–non–trading portfolios (continued)*

An analysis of the Group's sensitivity to an increase or decrease in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position position) is as follows:

	<b>100bp increase/ decrease BD '000</b>	<b>50bp increase/ decrease BD '000</b>
<b>At 31 December 2022</b>	± 484	± 242
At 31 December 2021	± 1,047	± 523

Overall non-trading profit rate risk positions are managed by Treasury department, which uses short term investment securities, placement with banks and placement from banks to manage the overall position arising from the Group's non-trading activities.

A fundamental review and reform of major profit rate benchmarks is being undertaken globally. The majority of LIBOR and other Interbank Offer Rates are discontinued after 31 December 2022 and replaced with certain Alternative Reference Rates ("ARRs"), with the exception of certain USD LIBOR rates where cessation is delayed until 30 June 2023. The transition away from the IBORs covers most of the business units and support functions of the Group.

The Assets and liabilities committee monitors and manages the Group's transition to alternative rates. The committee evaluates the extent to which contracts reference IBOR cash flows, whether such contracts will need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties. The committee reports to the Group's board of directors quarterly and collaborates with other business functions as needed. It provides periodic reports to management of profit rate risk and risks arising from IBOR reform.

As of 31 December 2022, the Group did not have any outstanding contracts linked to benchmark rates and it continues to enhance its systems and processes to cope with the change in benchmark rates.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

37. *FINANCIAL RISK MANAGEMENT (CONTINUED)*

*MARKET RISK (CONTINUED)*

***Exposure to foreign exchange risk***

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group had the following significant net exposures denominated in foreign currency as of 31 December.

	<b>2022</b> <b>BD</b> <b>Equivalent</b> <b>BD '000</b>	<b>2021</b> <b>BD</b> <b>Equivalent</b> <b>BD '000</b>
US Dollars*	125,247	78,780
Other GCC Currencies *	(120,045)	(87,168)
Euros	(892)	(548)
Australian Dollars	4,510	4,803
Kuwaiti Dinars	3,113	3,352
Sterling Pounds	(526)	(369)
Indian Rupee	8	18

(\*) The exposure in US dollars and other GCC currencies does not create any foreign exchange risk for the Group since Bahrain Dinars and other GCC currencies except for Kuwaiti Dinars are effectively pegged to the US Dollars.

The management of foreign exchange risk against net exposure limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various foreign exchange scenarios. Standard scenarios that are considered on a monthly basis include a 5% plus/minus increase in exchange rates, for currencies other than US Dollars, other GCC 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:

	<b>2022</b> <b>BD</b> <b>Equivalent</b> <b>BD '000</b>	<b>2021</b> <b>BD</b> <b>Equivalent</b> <b>BD '000</b>
Euros	±45	± 27
Australian Dollars	±226	± 240
Kuwaiti Dinars	±156	± 168
Sterling Pounds	±26	±18
Indian Rupees	-	±1

***Exposure to other price risks—non-trading portfolios***

Credit spread risk on debt securities is subject to regular monitoring by RMD, but is not currently significant in relation to the overall financial position of the Group.

The Group's unquoted equity securities carried at cost are exposed to risk of changes in equity values. Refer to note 27 for significant estimates and judgments in relation to impairment assessment of unquoted equity investments carried at cost. The Group manages exposure to other price risks by actively monitoring the performance of the equity securities. The performance assessment is performed on a quarterly basis and is reported to the Board Investment and Credit Committee

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2022****37. FINANCIAL RISK MANAGEMENT (CONTINUED)****OPERATIONAL RISK**

Operational risk is the risk of loss arising from systems and control failures, fraud and human errors, which can result in financial and reputation loss, and legal and regulatory consequences. The Group manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, including internal audit and compliance. The Risk Management Department is in charge of identifying, monitoring and managing operational risk in the Group. The Group already has an approved policy for doing this and all required organisational and physical infrastructure are in place.

The Group has completed conducting one cycle of Risk Control Self-Assessment (RCSA) of Operational risk for majority of the departments of the Group to identify the important Key Risk Areas, Key Risk Indicators and Key Risk Triggers. Furthermore, for the remaining departments Key Risk Areas have been identified and the next process will be the identification of Key Risk Indicators and Key Risk Triggers. The RCSA process is a continuous process and will be conducted at regular frequencies across the Group. It will be an annual process to review all the KRI's. A software for monitoring these triggers and recording actual and near miss losses is already in place. The medium-term objective of the Group is to generate statistically reliable data to upgrade to more sophisticated modes of Operational Risk Control both to manage the risk better and to reduce capital commitment.

In response to COVID-19 outbreak, there were various changes in the working model, interaction with customers, digital modes of payment and settlement, customer acquisition and executing contracts and carrying out transactions with and on behalf of the customers. The management of the Group has enhanced its monitoring to identify risk events arising out of the current situation and the changes in the way business is conducted. The operational risk department has carried out a review of the existing control environment and has considered whether to update the risk registers by identifying potential loss events based on their review of the business processes in the current environment.

During 2022, the Group did not have any significant issues relating to operational risks.

**CAPITAL MANAGEMENT**

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

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

- *Tier 1 capital: includes CET1 and AT1.*

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

AT1 comprise instruments issued by consolidated banking subsidiaries of the Bank which meet the criteria of AT1, and regulatory adjustments applied in calculation of AT1.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2022**

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**37. FINANCIAL RISK MANAGEMENT (CONTINUED)***OPERATIONAL RISK (CONTINUED)**CAPITAL MANAGEMENT (continued)*

- *Tier 2 capital*

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

The regulations prescribe higher risk weights for certain exposures that exceeds materiality thresholds. These regulatory adjustments required for certain items such as goodwill on mortgage service right, deferred tax assets, cash flow hedge reserve, gain on sale of related securitization transactions, defined benefit pension fund assets and liabilities, investment in own shares and reciprocal cross holdings in the capital of Banking and financial entities, investment in the capital of Banking and financial entities that are outside the scope of regulatory consolidation and where the Group does not own more than 10% of issued common shares capital of the entity and significant investments in the capital of banking and financial entities that are outside the scope of regulatory consolidation.

As at 31 December 2022, the Group has made regulatory adjustments of BD Nil thousand (2021: BD 11,926 thousand) in line with the CBB requirements.

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

To counter the effect of COVID 19, the CBB had allowed the aggregate of modification loss of BD 9,452 thousand for the period from March to December 2020 to be added back to Tier 1 capital for the three years commencing 1 January 2023.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

37. *FINANCIAL RISK MANAGEMENT (CONTINUED)*

*CAPITAL MANAGEMENT (CONTINUED)*

The Group's regulatory capital position at 31 December was as follows:

	<b>31 December 2022 BD '000</b>	31 December 2021 BD '000
<b>Total risk weighted exposure</b>	<b>856,994</b>	858,942
Tier 1 capital:		
- CET 1 capital prior to regulatory adjustments	110,385	120,967
- Less: regulatory adjustments	-	(11,926)
CET 1 after regulatory adjustments	110,385	109,041
AT 1	47,222	47,222
Tier 2 capital:	9,703	9,627
<b>Total regulatory capital</b>	<b>167,310</b>	165,890
<b>Total regulatory capital expressed as a percentage of total risk weighted assets</b>	<b>19.52%</b>	19.31%
<b>Liquidity coverage ratio</b>	<b>137.64%</b>	177.58%
<b>Net stable funding ratio</b>	<b>107.81%</b>	105.28%
<b>Leverage ratio</b>	<b>15.41%</b>	19.38%

The Group has complied with all externally imposed capital requirements throughout the year.

**Capital allocation**

The allocation of capital between specific operations and activities is primarily driven by regulatory requirements. The Group's capital management policy seeks to maximise return on risk adjusted while satisfying all the regulatory requirements. The Group's policy on capital allocation is subject to regular review by the Board.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2022**

**38. COMMITMENTS AND CONTINGENCIES**

The commitments contracted in the normal course of business of the Group:

	<b>2022</b> <b>BD '000</b>	2021 BD '000
Undrawn commitments to extend finance *	37,894	35,946
Financial guarantees	15,896	15,078
Lease commitments	1,310	-
	<b>55,100</b>	<b>51,024</b>

\* The Group has a right to revoke the undrawn commitment to extend finance prior to expiry of its tenor.

Impairment allowance of BD 15 thousand (2021: BD 85 thousand) has been provided on account of the credit risk on these for commitments and contingent liabilities.

*Performance obligations*

During the ordinary course of business, the Group may enter into performance obligations in respect of certain of its infrastructure development projects. It is the usual practice of the Group to pass these performance obligations, wherever possible, on to the companies that own the projects. In the opinion of the management, no liabilities are expected to materialise on the Group at 31 December 2022 due to the performance of any of its projects.

*Litigations and claims*

In the normal course of business, legal cases are filed by the Bank against its customers and against the Bank by its customers or investors. The Group's legal department engages with in-house legal counsel and external legal counsel depending on the nature of the cases. A periodic assessment is carried out to determine the likely outcome of these legal cases and is reported to the senior management and Board of directors.

**39. SOCIAL RESPONSIBILITY**

The Group discharges its social responsibilities through donations to charitable causes and organisations from its zakah and charity fund.

**40. COMPARITIVES**

Certain prior year amounts have been regrouped to conform the current year's presentation. Such regrouping did not affect previously reported profit for the year or owner's equity.