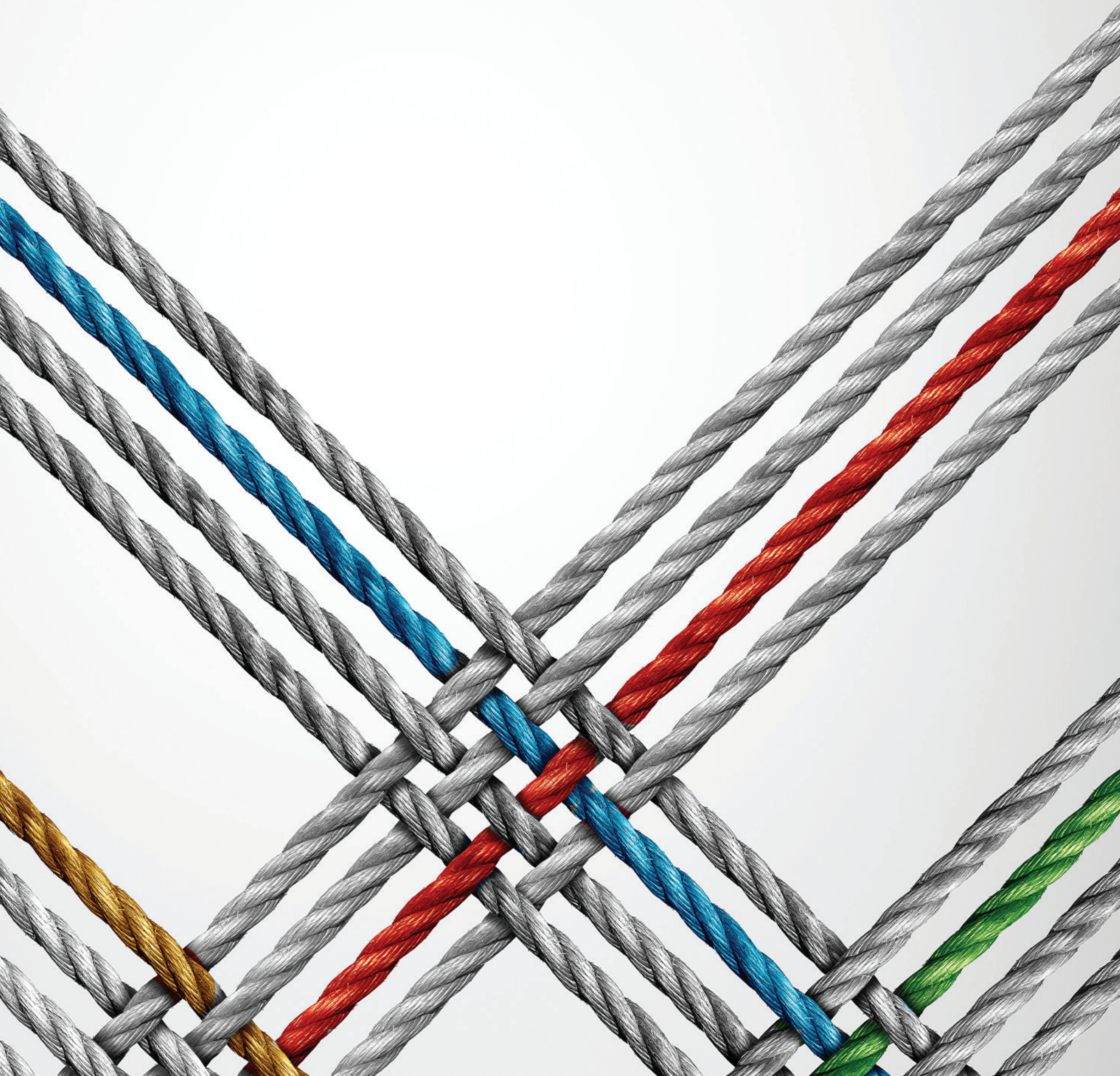
BBK

بنك البحرين والكويت

Connecting Potentials

Annual Report 2022



Contents

Visit www.bbkonline.com/annualreport2022 to view the digital version of the 2022 Annual Report
BBK is licensed by the Central Bank of Bahrain as a Conventional Retail Bank

H.M. King Hamad bin Isa Al Khalifa
King of the Kingdom of Bahrain

H.H. Sheikh Nawaf Al Ahmad Al Jaber Al Sabah
Amir of the State of Kuwait

Connecting Potentials

BBK has served as a catalyst for national growth and development for more than five decades, helping to connect people, businesses, communities, and ideas, and fostering the potential that drives progress and brings value to all our stakeholders.

We support individuals and businesses of all sizes in fulfilling their financial aspirations. We also play a proactive role in the advancement of society by supporting initiatives that enhance quality of life for Bahrain's citizens and residents, allowing them to realize their full potential.

As the world turns digital, we remain committed to excellence.
We continue to explore, create, and deliver our next generation of digital services, tailoring them to meet the evolving needs of today's customers.

BBK is proud to be an agent of change in the Kingdom, empowering its people and supporting a robust national economy. As we embark on the next stage of our journey, we look forward to creating an even stronger impact.

Vision, mission and values

OUR VISION

BBK will be the premier regional financial services enterprise in providing superior products and services of high quality through innovation, technology and lifelong client relationships.

OUR MISSION

The Bank will expand its overseas presence in more locations in which it chooses to operate in order to satisfy the diversified needs of clients. We believe clients are the driving force in everything we do. We will not compromise on our absolute commitment to providing the very best in client service.

We believe our people are our number one asset, with the highest degree of competence, integrity and professionalism. We instil in our people the principles of entrepreneurship, decision-making and ownership through our commitment to training, development, delegation and performance-based reward systems. We are determined to utilise cutting-edge technology, which we recognise as most critical in supporting our short, medium and long-term business objectives. Our shareholders are the source of our financial strength and can expect continued growth and profitability. They are supportive and are confident of our vision of the future.

OUR VALUES

creative . passionate . pioneering . reliable

Financial highlights

	2022	2021	2020	2019	2018
Income Statement Highlights (BD millions)					
Net interest income	**102.5**	82.6	80.8	107.3	109.9
Other income	**35.7**	34.7	37.8	51.0	51.2
Operating expenses	**64.5**	60.8	60.7	63.2	57.7
Net profit	**64.4**	53.1	52.0	75.4	67.1
Cash dividend	**30%**	20%	20%	40%	40%
Stock dividend	**5%**	10%	10%	5%	-
Financial Statement Highlights (BD millions)					
Total assets	**3,754**	3,673	3,760	3,865	3,582
Loans and advances	**1,614**	1,607	1,556	1,671	1,773
Investments	**977**	1,051	1,023	946	863
Customer deposits	**2,117**	2,126	2,167	2,170	2,375
Term borrowings	**264**	245	189	333	145
Total equity	**599**	545	515	547	500
Profitability					
Diluted earnings per share (fils)	**39**	32	32	48	41
Cost / income	**46.7%**	51.8%	51.2%	40.0%	35.8%
Return on average assets	**1.7%**	1.4%	1.3%	1.9%	1.8%
Return on average equity	**11.7%**	10.1%	11.4%	14.9%	13.7%
Profit per employee (BD)	**49,734**	41,390	37,596	54,139	50,351
Capital					
Capital adequacy	**27.3%**	23.6%	21.8%	21.7%	19.6%
Equity / total assets	**16.0%**	14.8%	13.7%	14.2%	14.0%
Term borrowings / equity	**44.1%**	45.0%	36.6%	60.9%	28.9%
Liquidity & Business Indicators					
Loans and advances / total assets	**43.0%**	43.8%	41.4%	43.2%	49.5%
Loans and advances / customer deposits	**76.3%**	75.6%	71.8%	77.0%	74.6%
Investments / total assets	**26.0%**	28.6%	27.2%	24.5%	24.1%
Liquid assets / total assets	**31.7%**	32.6%	34.8%	34.4%	27.6%
Liquidity coverage ratio*	**301.4%**	323.7%	289.7%	407.1%	-
Net stable funding ratio*	**138.3%**	136.9%	134.2%	128.7%	-
Non-performing ratio	**3.4%**	5.2%	6.3%	5.9%	8.0%
Net yield ratio	**2.7%**	2.3%	2.1%	3.0%	3.1%
Number of employees	**1,295**	1,282	1,384	1,392	1,333

*The effective date for the liquidity coverage ratio and the net stable funding ratio was during year 2019.

Chairman's message

BBK's strong performance during the year once again demonstrated the Group's ability to withstand challenging economic cycles as well as its commitment to achieving the targets outlined in the new 2022-2024 strategy, which places even greater emphasis on sustainability.

Dear Shareholders,

We have just completed a landmark year that saw the Bank celebrate its Golden Jubilee and achieve net profit growth of 21.3 percent. This solid performance and the steady improvements to the Bank's operations reflect BBK's clear vision, robust business model, and adaptive strategies, as well as the high standards of professionalism among our team.

The top-line growth comes on the back of rising interest rates, strong liquidity, and digital transformation initiatives that have helped the Bank to enhance its services and better manage expenses. The contribution from our subsidiaries and overseas branches were also key to our financial success this year.

The banking industry has evolved, market conditions have fluctuated, and customers' expectations have shifted significantly over the past five decades, however, BBK's commitment to delivering innovative services and contributing to Bahrain's economic and social growth remains steadfast. On behalf of the Board, I extend our appreciation and gratitude to His Majesty King Hamad bin Isa Al Khalifa, the King of the Kingdom of Bahrain, and His Highness Sheikh Nawaf Al Ahmad Al Jaber Al Sabah, the Amir of the State of Kuwait. I also extend thanks to the governments and regulatory authorities of their respective countries for their guidance during the year.

Backed by the commitment of our Board of Directors and the valued support of our stakeholders, I am confident BBK can continue achieving its strategic objectives in 2023 and beyond.

Murad Ali Murad
Chairman

Board of Directors' report

On behalf of the Board of Directors (BOD), I am pleased to present the annual report and consolidated financial statements of the Bank of Bahrain and Kuwait (BBK) and its subsidiaries (the Group) for the year ended 31 December 2022.

This was a special year for BBK that saw us mark our Golden Jubilee. This was more than just a celebration of five decades since the Bank's inception, it was an opportunity to reflect on how far we have come while taking confident steps towards the future.

To mark our 50th anniversary, we rolled out a range of banking products and community support initiatives to give back to those who have helped shape BBK into the institution it is today. This is in line with our sustainability framework, which we use to define and manage our Environmental, Social, and Governance (ESG) impact.

Sustainability

Sustainability is an intrinsic part of BBK's corporate identity, and we continue working to achieve our ambitious goals. We remain mindful that as regulations change and disclosure requirements increase, we must be agile enough to keep pace. In 2022, we launched our inaugural sustainability report, an annual disclosure to key stakeholders and the wider community on the Bank's progress in implementing environmentally, socially, and economically sustainable practices.

BBK's Board of Directors must have the skills required to understand, embrace, and meet the demands of modern ESG. Accordingly, the BOD underwent two ESG training programs during the year to ensure we are fully prepared to fulfill our obligations.

Female empowerment

The Group is committed to female empowerment, the principles of equal opportunity, and ensuring female team members have the chance to excel and reach their full potential. At present, 40 percent of the Group's employees are female, and 19 percent of the Group's leadership roles are held by female employees.

In June, the Group announced the appointment of seven Bahraini women as board members of its various companies, further bolstering female participation in the Group's future and broadening its perspective.

Our Women Empowerment Committee continues to ensure gender equality across all levels and to guide employees in adopting these principles in their professional lives. Creating a culture of equal opportunity in the workplace not only leads to stability and job satisfaction, it also improves the Bank's productivity and contributes to the country's long-term advancement.

Bahrainization

National representation is also important as we believe in nurturing local talent and ensuring that Bahrainis have the opportunity to thrive. In 2022, Bahrainization reached 95 percent, with BBK proudly having been at over 90 percent for the past few decades. Investing in our employees is vital to our continued success, which is why we work to enhance their skills and advance in their careers, while creating tangible value for our customers, shareholders, and country.

Strategic cycle

The year also saw us launch our 2022-2024 plan, which is driven by continued innovation in digital products and platforms, a proactive acquisition strategy, and a sharp focus on customer-centric service delivery. It aims to build on the success of the previous plan, further strengthen our sustainability framework, and guide the next steps of our digital transformation journey. Our goals are also aligned with the nation's Economic Recovery Plan, which outlines a path for the financial sector to contribute to post-COVID growth.

Financial highlights

BBK achieved a net profit attributable to the owners of the Bank of BD 64.4 million in 2022, a 21.3% higher than 2021. The basic and diluted earnings per share reached 39 fils during 2022 compared to 32 fils during 2021. The shareholders' equity attributable to owners of the Bank stood at BD 596.3 million at the end of 2022 compared to BD 542.8 million at end of 2021.

The increase in net profit was mainly attributable to increase in net interest income by 24.1% comparing to previous year to reach BD 102.5 million during 2022 as a result of active balance sheet management followed by the Bank, in response to interest rates hikes during the year. On the other hand, the net provision charges increased from BD 2.9 million to BD 8.0 million due to the Bank's prudent risk management approach, and to strengthen the Bank's financial resilience given the challenging economic environment.

Based on the positive financial results for the year ended 31st December 2022, the Board of Directors recommends paying cash dividends of 25 fils per share and stock dividends of 5% per share equivalent to 5 shares for every 100 shares held for 2022.To mark the celebration of BBK's 50th anniversary, the Board of Directors also recommends an additional exceptional one-time cash dividend of 5 fils per share for shareholders registered with the Bank on the record date, subject to the approvals of the regulatory authorities and the shareholders at the Annual General Meeting (AGM).

Board of Directors' report (continued)

Global and regional economic performance
Although the world is steadily rebounding from the impact of the COVID-19 pandemic, global economic activity is experiencing a sharper-than-expected slowdown, with inflation at its highest in several decades. Conflicts, supply chain disruptions, and the cost-of-living in many countries are key contributors.

However, our role as BOD members is to face these challenges and find ways to navigate them. The fact that we have performed better this year is a strong indication that we have been successful in mitigating the impact of the challenges as best we can.

The GCC is one of the few regions in the world that performed well during 2022. The spike in energy prices created a surge in revenue that gave countries in the region the opportunity to continue with their economic programs.

GCC economies growth is estimated at 6.9 percent in 2022 with a moderate projection of 3.7 percent and 2.4 percent in 2023 and 2024, respectively, driven by stronger hydrocarbon and non-hydrocarbon industries, the World Bank has said. The easing of coronavirus-induced movement and social restrictions – and positive developments in the hydrocarbon market – drove strong recoveries in 2022 across the six-member economic bloc.

Mergers and acquisitions
Compared to our neighbors, Bahraini banks are relatively small, which is just one of the reasons that mergers & acquisitions are becoming more prevalent. This type of inorganic growth helps build larger and stronger financial institutions that meet the demands of the market, while providing more stability to the economy.

We entered 2022 with a renewed focus on expanding our retail, commercial, treasury, and financial institution services at home and abroad. Accordingly, Al Salam Bank's acquisition of Ithmaar Bank's consumer banking division and several other assets, including a 26.19% stake in BBK, was a major milestone. Having strong shareholders is definitely an advantage, and we are looking into areas where our respective management teams can collaborate more closely on new opportunities.

Empathetic banking
In line with the Kingdom of Bahrain's measures to protect the stability of the financial sector and the economy as a whole during the pandemic, Central Bank of Bahrain (CBB) issued various measures to reduce the financial impacts on citizens and businesses. Loan installments of individuals and companies were initially deferred in 2020, from March until August, at no charges or interest. These were deferred four more times under optional deals, with interest, from September 2020 until June 2022.

Before the end of the deferment period, BBK reevaluated the health of its portfolio and offered help to its customers, both retail and corporate, to overcome any financial constraints they were facing. Accordingly, a special committee was created to support them through the repayment of their loans.

Appointment of external auditors
At the Bank's Annual General Meeting, held on the 28 March 2022, Ernst & Young were reappointed as external auditors to BBK for the financial year ended 31 December 2022.

Appropriations
The Board of Directors' recommendations for appropriations of the Bank's net profit and approval by shareholders are:

Retained earnings as at 1 January 2022	129.3
Profit for the year 2022	64.4
Other movements in retained earnings	1.1
Transfer to statutory reserve	(6.4)
Retained earnings as at 31 December 2022 available for distribution (before proposed appropriations)	188.4
Proposed appropriation for Corporate Social Responsibility	(2.2)
Proposed cash dividend (30% of paid-up capital) net of treasury shares	(49.1)
Proposed stock dividend (5% of paid-up capital)	(8.2)
Retained earnings as at 31 December 2022 (after proposed appropriations)	128.9

Board of Directors Remuneration for the year 2022

Name	Fixed remunerations: Remunerations of the chairman and BOD recommended to the AGM	Fixed remunerations: Total allowance for attending Board and committee meetings	Fixed remunerations: Salaries	Fixed remunerations: Others (Travel Allowance only)	Fixed remunerations: Total	Variable remunerations: Remunerations of the chairman and BOD	Variable remunerations: Bonus	Variable remunerations: Incentive plans	Variable remunerations: Others	Variable remunerations: Total	End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
First: Independent Directors:													
Mr. Murad Ali Murad	90,000	9,000	–	–	99,000	–	–	–	–	–	–	99,000	–
Sh. Abdulla Bin Khalifa Al Khalifa	45,000	5,000	–	600	50,600	–	–	–	–	–	–	50,600	–
Mr. Jassem Hasan Ali Zainal	45,000	6,000	–	4,200	55,200	–	–	–	–	–	–	55,200	–
Sh. Khalifa Bin Duaij Al Khalifa	45,000	6,500	–	–	51,500	–	–	–	–	–	–	51,500	–
Mr. Mohamed A.Rahman Hussain	45,000	11,000	–	600	56,600	–	–	–	–	–	–	56,600	–
Dr. Ghaneya Mohsin Al Derazi	45,000	2,500	–	–	47,500	–	–	–	–	–	–	47,500	–
Second: Non-Executive Directors:													
Mr. Hani Ali Rashed Al Maskati	28,726	1,000	–	–	29,726	–	–	–	–	–	–	29,726	–
Mr. Edrees Musaed Ahmed	45,000*	5,500*	–	7,800	58,300	–	–	–	–	–	–	58,300	–
Mr. Arif Haider Rahimi	16,274	0	–	0	16,274	–	–	–	–	–	–	16,274	–
Mr. Mishal Ali Al Hellow	45,000**	5,000	–	600	50,600	–	–	–	–	–	–	50,600	–
Mr. Nasser Khalid Al Ravee	45,000**	2,000	–	–	47,000	–	–	–	–	–	–	47,000	–
Mrs. Noor Nael Al Jassim	45,000*	4,500*	–	6,000	55,500	–	–	–	–	–	–	55,500	–
Third: Executive Directors:													
Mr. Ashraf Adnan Bseisu	45,000	4,500	–	600	50,100	–	–	–	–	–	–	50,100	–
Total	**585,000**	**62,500**	–	**20,400**	**667,900**	–	–	–	–	–	–	**667,900**	–

Note:
1. All amounts are in Bahraini Dinars.
2. The remuneration for membership of the Board of Directors that will be paid in 2023 after obtaining the approval of the Ordinary General Assembly in March 2023.

* Amount to be paid to Kuwait Investment Authority (KIA).
** Amount to be paid to Social Insurance Organization (SIO).

Looking ahead

Alongside digital innovation, further developing the capabilities of our team members will be a significant area of focus for BBK in 2023. Our sustainability and ESG ambitions are also crucial to our continued growth and will continue to play a prominent role throughout the year. Maintaining the health of our credit portfolio, controlling non-performing assets, engaging with parties across the region's FinTech ecosystem, and strengthening our compliance policies and software for AML cybersecurity and fraudulent transactions that directly impact our operational risks remain top of our mind as we forge ahead with our 2022-2024 strategy.

We approach 2023 with cautious optimism, hopeful that economic conditions will stabilize. Although global developments are outside our control, the Board and Management will continue to review the Bank's strategy and portfolio mix, and identify additional strategies to further strengthen our balance sheet and increase liquidity.

Appreciation

On behalf of the Board, I extend our thanks to BBK's shareholders for their continued support and confidence, as well as to our customers for their ongoing loyalty and patronage. I also offer my personal thanks to our management team and employees for their unwavering dedication. Their proactivity and adaptability have helped our organization thrive despite a range of external challenges, enabling us to continue providing the highest levels of service to our valued customers.

Murad Ali Murad
Chairman

Ratings

On the 30th of June 2022, Fitch Ratings affirmed BBK's Long-term Issuer Default Rating (IDR) at B+ with a Stable Outlook, and Viability Rating (VR) at b+.

BBK's IDRs are driven by the Bank's standalone strength, as reflected by its VR. The Bank's Viability Rate is capped by the Bahraini operating environment and, more specifically, by Bahrain's sovereign rating of B+.

On the 25th of April 2022, Moody's affirmed BBK's Long-term Deposit Rating at B2, in which it captures the Bank's standalone credit strength, reflected in its Baseline Credit Assessment (BCA) of b2, which is at the same level as the Government of Bahrain's rating (B2). Moody's also changed the outlook on long-term ratings to stable from negative following its decision to change the outlook of the Government of Bahrain to stable from negative.

BBK's b2 BCA captures its strong domestic franchise, which supports its sound profitability, solid liquidity buffers and resilient funding, and adequate capital.

Fitch

Long-term Issuer Default Rating

B+

Long-term Issuer Default Rating	B+
Short-term Issuer Default Rating	B
Viability Rating	b+
Support Rating	4
Support Rating Floor	B
Senior Unsecured Debt	B+
Outlook	Stable

Report issue date: 30 June 2022

Moody's

Long-term Bank Deposits

B2

Long-term Debt	B2
Long-term Deposit	B2
Counterparty Risk Rating	B1/NP
Bank Deposits	B2/NP
Baseline Credit Assessment	b2
Adjusted Baseline Credit Assessment	b2
Counterparty Risk Assessment	B1(cr)/NP(cr)
Senior Unsecured	B2
Subordinate	(P)B3
Outlook	Stable

Report issue date: 25 April 2022


3%
7%
24%

Board of Directors

Mr. Murad Ali Murad
Chairman

Chairman of the Nomination, Remuneration & Governance Committee
Chairman of the Audit and Compliance Committee
Member of Independent Directors' Committee
Director since 21 March 1999 (Independent)
Qualification and Experience
Fellow member of the Chartered Institute of Management Accountants, London, United Kingdom.
Over 50 years´ experience in the banking sector and has own business for the past 20 years.

Sh. Abdulla bin Khalifa bin Salman Al Khalifa
Deputy Chairman

Deputy Chairman of the Executive Committee
Director since 2 March 2008 (Non-Executive)
Qualification and Experience
Bachelor's degree in Business Administration from George Washington University, United States of America.
Over 21years´ experience in the banking and investment sector.

Mr. Mohamed Abdulrahman Hussain
Board Member

Chairman of the Executive Committee
Member of the Nomination, Remuneration & Governance Committee
Member of Independent Directors' Committee
Director since 2 March 2008 (Independent)
Qualification and Experience
Bachelor of Arts, degree in Economics and Finance, from the University of Aleppo, Syria.
Over 45 years´ experience in the Banking sector.

Mr. Ashraf Adnan Bseisu
Board Member

Member of the Executive Committee
Director since 29 March 2017 (Executive)
Qualification and Experience
Bachelor of Science degree in Civil Engineering from Southern Methodist University, USA, Master of Science in Management Information Systems, The London School of Economics, UK.
Over 23 years' experience in Investment Management and over 33 years in the Insurance and financial services sector.
Nominated by:
Al Salam International W.L.L

Mr. Mishal Ali Al Hellow
Board Member

Member of the Executive Committee
Director since 13th March 2019 (Non-Executive)
Qualification and Experience
MBA from the Open University of Malaysia and a B.Sc. in Computer Science from the University of Bahrain.
Over 22 years of public and private sector experience, including roles in government, financial and investment entities.
Nominated by:
Social Insurance Organization (SIO)

Mr. Naser Khalid Al Raee
Board Member

Member of Risk Committee
Director since 13 March 2019 (Non-Executive)
Qualification and Experience
Certified Internal Auditor, Institute of Internal Auditors, United States of America. Bachelor´s degree in Business Administration, Finance Concentration, from the University of Texas, United States of America.
Over 13 years' experience in the audit and risk advisory field with variety of industry exposure including the banking and investment sector.
Nominated by:
Social Insurance Organization (SIO)

Mr. Jassem Hasan Ali Zainal
Board Member

Chairman of Risk Committee
Deputy Chairman of the Audit & Compliance Committee
Member of Independent Directors' Committee
Director since 22 November 1994 (Independent)
Qualification and Experience
Master´s degree in Civil Engineering, Kuwait University, State of Kuwait.
Over 37 years´ experience in the banking sector, 5 years in the government sector, 11 years with finance companies, 29 years with investment companies, and has had own business for 14 years.

Sh. Khalifa bin Duaij Al Khalifa
Board Member

Deputy Chairman of Nomination, Remuneration & Governance Committee
Member of the Audit & Compliance Committee
Member of Risk Committee
Member of Independent Directors' Committee
Director since 27 February 2005 (Independent)
Qualification and Experience
Master in Business Administration, Johns Hopkins University, United States of America.
Master´s degree in Social and Public Policy, Georgetown University, United States of America.
Over 13 years´ experience in the government sector (investment field) and 14 years in the diplomatic sector.

Mr. Edrees Musaed
Board Member

Member of the Audit & Compliance Committee
Member of the Nomination, Remuneration & Governance Committee
Director since 29 March 2017 (Non-Executive)
Qualification and Experience
Master´s degree in of Economics, Kuwait University, State of Kuwait.
Bachelors of Science in Economics, Virgina Tech, United States of America.
Over 17 years experience in Investment Sector.

Dr. Ghaneya Al-Derazi
Board Member

Member of Risk Committee
Member of Independent Directors' Committee
Director since 24 March 2020 (independent)

Qualification and Experience
Doctorate of Business Administration, from Durham University, United Kingdom.
Over 22 years´ experience in the banking industry and has had her own business for 3 years.

Mrs. Nour Nael Al Jassim
Board Member

Member of Executive Committee
Director since 24 March 2020 (Non-Executive)
Qualification and Experience
Bachelor's degree in Accounting and Finance, from Kuwait University, State of Kuwait.
Over 15 years´ experience in Investment Sector and Risk Management.
Nominated by:
Kuwait Investment Authority (KIA)

Mr. Aref Haider Rahimi
Board Member

Member of Risk Committee
Director since 22 August 2022 (Non-Executive)
Qualification and Experience
Certified Public Accountant, Board of Accountancy, Oregon, USA.
Over 31 years of experience in financial services.
Nominated by:
Al Salam International W.L.L

Group Chief Executive's review

BBK's exceptional performance in 2022 holds even greater significance considering the challenging global macroeconomic conditions witnessed throughout the year.

In many ways, 2022 was a milestone year for BBK. We celebrated our Golden Jubilee and saw steady improvements that brought our performance close to pre-pandemic levels. We introduced new services as part of our digital transformation journey and reaffirmed our commitment to sustainability with the launch of our inaugural sustainability report. We also continued to invest in new strategic initiatives aimed at supporting growth and delivering greater value to our customers and shareholders.

BBK's exceptional performance in 2022 holds even greater significance considering the challenging global macroeconomic conditions witnessed throughout the year. Geopolitical conflict in Europe, COVID-19 lockdowns in China, and supply chain bottlenecks created a perfect storm and sent inflation to its highest level in decades.

During the peak of the pandemic, central banks in advanced and emerging market economies took unprecedented measures to support economic recovery, including interest rate cuts. In 2022, we saw the opposite, with central banks around the world raising rates to curb inflation. With just two years between these opposite cycles, many businesses faced tough financial circumstances.

This made the availability of liquidity even more vital within the banking sector. Fortunately, BBK's strong liquidity levels are considerably above the Central Bank of Bahrain's minimum requirements, which enabled us to carry out our core activities under stressed market conditions and support our customers with navigating the challenges. This allowed us to maintain our leadership position and emerge from the crisis even stronger.

BBK Bahrain

As our home and primary market, Bahrain remains at the heart of our new 2022-2024 strategic cycle, which aims to build on the Bank's market-leading reputation and the momentum of our growth trajectory. Driven by our commitment to innovation, contributing to the Kingdom's social and economic development, and exceeding the high benchmarks we have set, BBK continued to take confident steps towards the future throughout the year.

BBK's sound investment strategy and prudent approach to risk management continued to serve the Bank well in 2022. We adjusted the selection process in terms of exposure to different markets, the timing of investments, and security-specific selections.

Mergers & acquisitions are central to our current strategy cycle, with our Board and Management committees proactively exploring opportunities in this area. Following 50 years of predominantly organic growth, we are now looking at a wide range of inorganic opportunities. However, identifying the right opportunities is key, which is why we have a stringent selection process to ensure we achieve our goals smoothly and sustainably.

Digital transformation journey

Digitalization and innovation are vital to providing the best possible service in a rapidly evolving digital landscape. Accordingly, we continue to take strides in our digital transformation journey, cognizant that it is a continuous process. At the start of the year, we launched our improved digital banking channels, BBK Mobile Banking and BBK Online Banking, which include existing and newly-added services that empower customers to conduct banking transactions seamlessly.

We also opened our fifth BBKPLUS digital branch, which underscores our commitment to innovation and allows customers to conduct their financial activities with greater efficiency and convenience. The opening of the new branch at Souq Al Baraha in Diyar Al Muharraq also supports our network strategy of being present in all key locations of the Kingdom. Meeting the aspirations of our customers and providing the latest digital banking services remains a priority. During the year, BBK became the first bank in Bahrain to offer the Samsung Wallet service to its customers, adding to an array of payment options that enable customers to conduct secure cashless transactions.

As the world continues its cyber migration, we are forging ahead with digitalizing our entire range of products and services.

One of BBK's most significant digital transformation milestones during 2022 was the signing of a strategic agreement with end-to-end cybersecurity solutions provider, Beyon Cyber that will further strengthen our digital defenses. The multi-year deal includes a 24x7 Security Operation Center, cyber threat intelligence, and cyber incident response services, among others. These planned improvements to BBK's cybersecurity infrastructure are vital if we are to achieve our ambitious digitalization goals.

Moreover, the Bank continues to evergreen its technology infrastructure to keep pace with technological advancements and growing transaction volumes.

Corporate banking

We value the longstanding relationships we have built with our corporate customers and continue working to grow alongside them. In line with our commitment to enhancing BBK's products and services and making them even more accessible, we migrated corporate clients to our BanKey platform, an advanced digital solution designed according to industry best practice and the highest standards. Highly secure and simple to use, it incorporates straight-through-processing (STP), bringing new levels of operational efficiency, improved accuracy, and faster turnaround times. The response from customers has been positive and we will continue to build on the platform's success by introducing new features and capabilities to suit their evolving requirements.

We are also close to launching an onboarding application for SMEs and corporates so that any new customers can be onboarded digitally in a few simple clicks.

These initiatives demonstrate the Bank's commitment to leading the transformation of Bahrain's financial services system, accelerating the pace of digital transformation in our financial and banking services, and providing the highest levels of customer satisfaction.

Interest Rate Benchmark Reform

The Bank has taken proactive steps in line with the fundamental reforms for replacement of certain Interbank Offered Rates (IBORs) with alternative nearly risk-free rates. Most London Inter-Bank Offered Rates (LIBOR) and other IBORs were discontinued after 31 December 2021 and replaced with certain Alternative Benchmark Rates, with the exception of certain USD LIBOR rates where cessation is delayed until 30 June 2023.

System enhancements were required to meet the various conventions, which apply to both lending transactions, as well as the derivatives and funding markets. The reform involves booking new deals on alternative risk-free rates, such as the USD Secured Overnight Financing Rate (SOFR), in addition to working with our customers to transition existing agreements from IBOR rates to alternative nearly risk-free rates.

In addition, awareness sessions were conducted internally and customer educational content was posted to ensure adequate understanding of these reforms. The Bank has begun the

Group Chief Executive's review (Continued)

transition of legacy contracts for certain IBOR agreements and is on track to ensure all IBOR contracts are transitioned before 30 June 2023. Newly originated deals since January 2022 are booked using alternative risk-free rates.

Customer satisfaction

At BBK, we pride ourselves on meeting customers' needs and exceeding their expectations. To ensure we continue to offer a leading banking experience, we established the Customer Experience Unit to monitor feedback and address complaints using customer satisfaction measurement and engagement tools such as net promotor scores (NPS), customer satisfaction surveys, and after-call surveys. The Bank aims to maintain an NPS of 55 or above and our current score is 66.9 , which reflects the efficacy of our efforts to further improve our performance.

Supporting government efforts

During the year, we signed a new strategic partnership agreement with the Labour Fund (Tamkeen) to provide financing that supports the development of the Kingdom's private sector. Our collaboration aims to ensure that private sector institutions receive the necessary funding to stimulate economic activity, as well as to encourage entrepreneurs, businessmen, and investors to start new projects, expand their businesses, and achieve their development objectives. This will help to maintain a robust private sector and ensure it remains an engine of economic growth.

We also launched a mentorship and training program aimed exclusively at enabling women to advance in their careers, including board memberships in companies and organizations. The initiative highlights BBK's continued contribution to the advancement and empowerment of Bahraini women, and is in line with government directives that aim to increase the representation of women in leadership and decision-making roles.

BBK is proud to support government efforts to improve the quality of life in Bahrain in various areas, including housing. In 2022, we signed a partnership agreement with Eskan Bank to provide mortgage loans to Bahrainis eligible for the Mazaya social housing program, offered in coordination with the Ministry of Housing and Urban Planning.

The Mazaya Program gives beneficiaries the opportunity to own their dream homes through a real estate finance facility subsidized by the government. This program, which is in line with the Bank's ESG framework, enables us to play a proactive role in supporting the government in meeting the growing demand for housing in the Kingdom.

BBK is also keen to play a proactive role in shaping a more sustainable future for Bahrain. During the year, we launched a special loan facility for business owners who aim to switch partially or entirely to renewable energy sources. This reflects the Bank's firm commitment to helping the Kingdom reach its 2060 net-zero emission target.

Focused on Sustainability

Sustainability is at the heart of BBK and we remain mindful of the importance of meeting the needs of the present without compromising the ability of future generations to do the same. In 2022, we launched our inaugural sustainability report to showcase the Bank's progress in implementing environmentally, socially, and economically sustainable practices in 2021.

The statistics and success stories outlined in the report not only demonstrate our commitment to achieving our goals, they also provide a benchmark for improving sustainability across our entire business. Whether it is further minimizing our environmental impact, increasing gender diversity within the Group, or adapting to new regulations, we fully embrace the opportunity to improve.

BBK continues to prioritize ESG initiatives according to identifiable and measurable targets. We promote sustainable development within the Bank and throughout the Kingdom of Bahrain. BBK's ESG performance is monitored at a Board level, and to expand knowledge of environmental and social topics, we conducted ESG/Sustainability awareness sessions for Board members, executives, and employees all year round.

International performance

Overall, our asset quality significantly improved in 2022. Non-Performing Loans (NPLs) came down from about 5.2 percent by the end of 2021 to 3.4% percent by the end of 2022. However, the spike in interest rates, coupled with the impact of the Russia-Ukraine conflict, led to asset quality pressure for almost all asset classes globally. The modest performance of BBK's international portfolio of assets was mitigated thanks to the diversification policies of our overall portfolio, including strict risk limits to minimize exposure to excessive interest rates. As a result, we are proud to report that the impact on BBK has not been significant.

Subsidiaries' performance

CrediMax processed more than BD 2.4 billion worth of transactions in 2022, over 11,000 every hour. We are proud to continue supporting Bahrain's goal of reducing cash in circulation and the advancement of the Digital Payment Acceptance by introducing new technologies like the Mini-POS and App-to-App integration, and helping merchants to introduce self-checkout experiences.

As a leading card issuing company, CrediMax introduced a range of initiatives to better serve its customers. These include

introducing the "Black" Infinite Credit Card to meet the needs of affluent clients, improving the Thameen Loyalty Points program, and becoming one of the first issuers to introduce online digital onboarding with full integration with Bahrain Credit Rating Bureau, eKYC , World-Check, and Scoring, among other initiatives.

CrediMax also continues to offer products for younger people, including University Students Cards and the iLead app, which is designed to help parents teach their children about financial awareness and responsibility from an early age. The company is also exploring a range of technical and operational advancements focused on improving the customer experience at all touch points, and ways of empowering merchants grow their businesses.

Meanwhile, Invita's joint venture with Credimax, 973Labs signed its first investment deal with a Bahrain-based Software Solutions provider. This is in line with its vision to diversify into FinTech and other digital solutions investments. Invita was also awarded a major contract for the fourth term and continues to deliver new digital solutions to the client.

The company also made steady progress on other Artificial Intelligence-based solutions focussing on Customer Experience Management, and will be rolling them out soon. Invita projects further growth in 2023 as developments in digital services bring new opportunities, which we believe will help us enhance our relationship with our existing partners and reach new customer segments.

Our people

We continue to actively support employees in developing their careers and improving their skills. In 2022, the Bank expanded its training programme to enhance employees' knowledge of ESG topics, conducting a range of courses focused on climate risks and sustainability.

In line with its commitment to empower female employees and helping them to advance their careers, the Bank appointed seven Bahraini women as board members in the Group's companies. It also provided them with specialised training on topics related to corporate governance.

During the year, all employees received an average of 59 hours of training. All frontline employees receive annual corruption and anti-money laundering training, while all other employees receive it every other year. BBK also ensures that all employees receive Operational Risk Management and Data Privacy Protection training to enhance their awareness of regulatory standards and frameworks. Moreover, and as part of the Bank's commitment to providing the highest level of customer service, all frontline employees underwent Customer Centricity and Customer Experience training.

To foster a culture of continuous learning, the Bank introduced new policies to support employees embarking on university degrees and professional certifications. This year, we launched our 9th Management Trainee Programme, with a special focus on digital transformation. The first of its kind in Bahrain, the intensive programme is designed to prepare the Bahraini talents who will shape the next phase of the financial sector's digital transformation.

Group Chief Executive's review (Continued)

At this year's Long Service Awards, we honored 101 employees who have been with the Bank for between 5 and 40 years. Their loyalty and dedication to BBK's values are remarkable, and we deeply appreciate the contributions they have made to our success.

A range of programs were launched during the year to increase employees' awareness of well-being in the workplace. Employee satisfaction and engagement is a priority, therefore, the Bank conducts an employee net promoter survey twice a year. The results are shared with management and evaluated for the sake of continuous improvement.

BBK has several programs aimed at optimising talent attraction and retention, the results of which are tracked to assess progress. In 2022, voluntary turnover was around 5 percent, demonstrating the efficacy of our efforts. The Bank recently launched a Culture Development Program to empower the Bank's employees to meet the expectations of the digital age and transformation challenges in the financial sector.

Internal control

With the objective of safeguarding the Group's assets, BBK maintains sound internal control systems and processes across all entities, departments, branches, and offices. The dedicated Internal Control Unit has implemented comprehensive systems and procedures that help to identify and manage risks that could arise in the course of doing business. These controls are reviewed periodically and updated as required.

Awards

Our commitment to providing customers with an outstanding banking experience saw BBK recognized with several prestigious awards, including the Outstanding Digital Customer Experience Strategy award from The Digital Banker, the Best Bank in Terms of Digital Services in Bahrain for the Year 2022 from the World Union of Arab Banks, and the Compliance and Banking Management Ethics award from International Excellence Foundation. These proud achievements inspire us to build on our success and further improve our high standards.

Golden Jubilee

The celebration of BBK's 50th anniversary was a highlight of the year. For five decades, we have remained steadfast in our support for the economic and societal growth of the communities in which we operate. This year, we wanted to give back something special to thank our shareholders, our employees, our customers, and the community for the unwavering support we have received along the way.

Accordingly, we rolled out a series of initiatives. We donated BD200,000 to the Sahm Al-Gharimeen (insolvent debtors) to help 50 individuals repay their debts. We also financed 50 scholarships for high school graduates to enroll at the University of Bahrain and Bahrain Polytechnic. The Bank also paid off BD5,000 of 50 customers' loans.

To conclude the year-long celebration, the Bank will hold a festival where loyal customers stand the chance to win one of 50 cars.

Outlook 2023

Although the financial implications of global growth deceleration are outside of BBK's control, we remain cautiously optimistic for 2023. The lower than expected US inflation rate in Q4 2022 raised the prospects of a shallower recession next year across the industrialized world. This gives hope that any further spikes in inflation will be less intense, providing better stability to the global economy.

In Bahrain, the National Economic Recovery Plan, which supports the Kingdom's post-Covid recovery and economic diversification strategies, continues to have a tangible impact. In November, S&P Global Ratings revised its outlook on Bahrain to positive from stable, while affirming its 'B+/B' long and short-term foreign and local currency sovereign credit ratings.

This reflects the efficacy of the plan, which includes the launch and development of more than 20 new projects across key sectors with an investment of over US$30 billion. We are encouraged by the government's vision and the introduction of so many projects that will help further stimulate the economy. BBK's impressive results in 2022 highlight the efficacy of our forward-looking strategy, conservative approach to risk management, and diversified portfolio. We look forward to building on the momentum in 2023 as we continue our digital transformation journey while working towards achieving our 2022-2024 strategy objectives.

Appreciation

On behalf of my management colleagues, I express appreciation to our Board of Directors for their continuous support and strategic contributions, which have served the Group and its shareholders exceptionally well. I also extend my thanks to the regulatory authorities that have guided us wherever we operated in 2022 – and send my deepest gratitude to our loyal customers and exceptional employees for their respective trust and enduring commitment.

AbdulRahman Ali Saif
Group Chief Executive

Celebrating 50 years of success

50 YEARS OF INNOVATION IN ACTION

In celebration of our Golden Jubilee, we rolled out a series of initiatives to thank our shareholders, employees, customers, and the community of the Kingdom of Bahrain for the unwavering support we have received over the past five decades. Centered on the number 50, these activities reflect our commitment to the values that have transformed BBK into one of the region's leading financial institutions.

OUR SHAREHOLDERS

The Board of Directors recommended an additional exceptional one-time cash dividend of 5 fils per share for shareholders registered with the Bank on the occasion of BBK's 50th anniversary, subject to the approvals of the regulatory authorities and the shareholders at the Annual General Meeting (AGM). BBK and its wholly owned subsidiaries remain committed to enhancing shareholders' value, protecting their interests, and defending their rights.

OUR COMMUNITY

Insolvent Debtors
BBK donated BD200,000 to the Sahm Al Gharimeen (insolvent debtors) fund as a contribution towards repaying the debts of 50 people, equally male and female, who are unable to pay their debts. The donation was made in cooperation with the Zakat and Sadaqat Funds, the Ministry of Justice, Islamic Affairs and Waqf, and the Supreme Council for Women. It reflects the Bank's continued dedication to supporting governmental and civil efforts aimed at achieving social solidarity and supporting stability and development within Bahraini society.

By helping to repay the debts of these insolvent individuals, most of whom were simply victims of circumstances, we are able to give them a second chance at life and help keep families together. We are delighted to support this humanitarian project, which spotlights how closely knit Bahrain's community is. We also remain as resolute as ever to supporting the community, helping people to avoid insolvency altogether.

Scholarships
At BBK, we believe that investing in the capabilities and skills of young Bahrainis is an investment in the Kingdom's future. In line with this, we financed, at a total cost of BD192,000, 50 scholarships for both male and female graduates from Bahrain's public and private schools for enrollment at the University of Bahrain and Bahrain Polytechnic.

BBK remains committed to developing the capabilities of young Bahraini talent and securing the future of the financial sector by creating leaders armed with advanced skill sets. A combination of academia and practical, hands-on experience is the key to creating a well-rounded national workforce.

OUR PEOPLE

To mark the Bank's 50th anniversary, BBK held a special ceremony to honor our clients, members of the community, board members and past and present executives. Former and current Chairmen and Group Chief Executives were presented with tokens of appreciation for their important contributions to the Bank's growth and development. In attendance were dignitaries from a range of industries and sectors in the Kingdom of Bahrain and the State of Kuwait.

BBK also recognized its employees, in Bahrain and overseas, with a financial reward to acknowledge their contributions to the Bank's success over the years. This is in line with the Bank's philosophy that a motivated and engaged workforce translates into a superior banking experience for its customers.

Our employees play a crucial role in enabling the Bank to create and achieve standards of operational excellence. At BBK, we strive to be an employer of choice and as such we are dedicated to empowering and motivating our employees to reach their full potential through training, development, and recognition.

OUR CLIENTS

Loan Settlement
The Bank payed off BD5,000 of 50 clients' loans, with a total value of BD250,000 during the year. The winners were selected through a series of raffle draws held virtually under the supervision of the Consumer Protection Unit at the Ministry of Industry and Commerce, in addition to BBK's Internal Audit, Internal Control, Marketing, and Retail Banking, and an External Audit representative from Ernest & Young. This campaign had a positive impact on the winners, and we are pleased to have been able to reduce the burden of their loans partially or completely.

BBK Festival
The Bank will conclude its anniversary celebrations in 2023 with the BBK Festival, which will feature a range of special programs, including a live draw where customers will stand a chance to win one of 50 cars. In addition, the festival will offer visitors and the general public the chance to win instant cash prizes and will feature live performances, food and beverages, and activities for the children.

Executive management

AbdulRahman Ali Saif
Group Chief Executive

Qualifications and Experience
PhD in Economics, University of Leicester, United Kingdom (1992).
40 years' banking experience.
Joined BBK in 2008.

Hassaan Mohammed Burshaid
Group Chief Human Resources & Administration Officer

Qualifications and Experience
Master of Science in Human Resources Management, DePaul University, United States of America (2006).
28 years' experience in the field of human resources.
Joined BBK in 1998.

Mohammed Abdulla Isa
Group Chief Financial Officer
Financial Planning & Control

Qualifications and Experience
Certified Public Accountant (CPA), American Institute of Certified Public Accountants, Delaware State Board of Accountancy, United States of America (2001).
31 years' experience in the field of finance.
Joined BBK in 2001.

Nadeem A.Aziz Al Kooheji
General Manager Credit Assessment and Recovery

Qualifications and Experience
Bachelor in Business Administration, University of Texas at Austin, United States of America (1988).
25 years' banking experience and 12 years' audit.
Joined BBK in 1999.

Raj Kumar Dugar
General Manager
Internal Audit

Qualifications and Experience
ACA, Institute of Chartered Accountants of India (1987),
33 years' banking experience, of which 22 years in internal audit.
Joined BBK in 2000.

Mohamed Ahmed Al Rayes
General Manager
Treasury and Investment

Qualifications and Experience
Master of Business in Finance, University of Otago, New Zealand (2008).
14 years' banking experience.
Joined BBK in 2013.

Ahmed Abdulqader Taqi
General Manager
Corporate Banking

Qualifications and Experience
Master of Business Administration (MBA) - University of Glamorgan, United Kingdom (2012).
21 years' banking experience.
Joined BBK in 2014.

Hassan Ahmed Abouzeid
Group Chief IT & Operations Officer

Qualifications and Experience
Bachelor of Social Science in Architecture Engineering, Ain Shams University, Egypt (1987).
33 years' banking experience.
Joined BBK in 2019.

Abhik Goswami
Group Chief Risk Officer Risk and Credit Management

Qualifications and Experience
Bachelor of Technology (Hons) in Mechanical Engineering, Indian Institute of Technology Kharagpur (1990).
Financial Risk Manager (FRM), The Global Association of Risk Professionals, USA (2002). Chartered Financial Analyst (CFA), CFA Institute, USA (2004).
30 years' banking experience.
Joined BBK in 2021.

Adel Abdulla Salem
General Manager
Retail Banking

Qualifications and Experience
Doctor of Philosophy in Management, Monarch Business School, Switzerland (2015).
35 years' banking experience in retail banking, business of cards and telecoms.
Joined BBK in 2017.

Ewan Stirling
General Manager
International Banking

Qualifications and Experience
Bachelor of Law (Hons), University of Wales, United Kingdom (1985).
36 years' banking experience.
Joined BBK in 2020.

Simone Carminati
Chief Business Development

Qualifications and Experience
Master in International Relations, University of Kent, United Kingdom (1998).
30 years' experience including 14 years in banking.
Joined BBK in 2014.

Nadeen Nabeel Al Shirawi
Head of Group Compliance & MLRO

Qualifications and Experience
Master of Science in Development Studies, London School of Economics, and Political Science, University of London, United Kingdom (2002).
19 years' experience including 15 years in Compliance & AML.
Joined BBK in 2008.

Sustainability review

Our commitment to sustainability is deeply rooted in our corporate culture and continues to guide our management approach as we move towards the future.
Sustainability is about meeting the needs of the present without compromising the ability of future generations to do the same. To conceptualize these crucial issues, we rely on BBK's sustainability framework to define and manage our environmental, social, and governance (ESG) impacts.

This allows us to hone and prioritize our efforts with the ultimate goal of promoting sustainable development throughout the Kingdom of Bahrain. Our framework is centered on four pillars good corporate governance; being a responsible and responsive employer; fostering long-term positive customer relationships and experiences; and instilling a social responsibility mindset.

Aligning with national and international priorities
BBK has aligned its priorities with Bahrain's National Vision 2030 and its objectives of building a robust economy and a motivated, innovative society. We have also incorporated, where possible, the United Nations Sustainable Development Goals (SDGs), within our activities.
These include:

Good corporate governance

- **16.4**: By 2030, significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organized crime.
- **16.5**: Substantially reduce corruption and bribery in all their forms.

Long-term positive customer relationships and experiences

- **9.3**: Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets.

Responsible and responsive employer

- **5.5**: Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life.
- **5.b**: Enhance the use of enabling technology, in particular information and communications technology, to promote the empowerment of women.
- **8.5**: By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.

Social responsibility mindset

- **13.3**: Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning.
- **17.17:** Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships.

BBK sustainability performance highlights in 2022

Promoting good corporate governance

41.6%

Independent Board members

16.6%

Female Board members

40.4%

Female members among total work force

BBK is also conducting board and corporate governance training for senior female employees so diverse nominees can be included in the upcoming Board elections.

The Board has included sustainability KPIs in the Executive Management's annual goals to ensure that ESG and the sustainability framework are embedded in the Bank's day-to-day activities.

100%
All employees receive annual performance reviews

100%
All frontline Employees receive annual corruption and anti-money laundering training

Being a responsible and responsive employer

Being a responsible and responsive employer

34%
Women in middle management positions

59 hrs
Of training on average for all employees

95%
Bahrainisation at BBK

18%
Women in senior management positions

BBK sustainability performance highlights in 2022 (Continued)

Fostering long-term positive customer relationships and experiences

0.8 days

to resolve all customer complaints

77%

of all transactions were conducted via e-channels

One of the Bank's key objectives is to help customers meet a social or environmental challenge, or to invest in sustainable products. Consequently, we can provide our customers with the following:

Solar panel loans for customers who wish to install solar panels in their houses to limit energy use

Lite
BANKING SOLUTIONS

BBK Lite branches offering products and services for those on low incomes and blue-collar expatriates

Mazaya loans that allow beneficiaries to own their dream homes via a real estate finance facility subsidised by the Bahraini Government.

Instilling a social responsibility mindset

BBK minimizes its environmental impact by monitoring and making investments in sustainable measures to limit energy wastage, particularly relating to electricity and water.

87%

of all sourced suppliers were local.

3.5%

of pre-tax profits were assigned for community and societal initiatives.

Ongoing Corporate Social Responsibility

Giving back to the communities in which we operate is a point of pride for BBK, and we constantly look for new opportunities to harness our resources and support initiatives that address society's most pressing needs.

In 2022 an appropriation of BHD 2.2 million was dedicated to environmental and societal investments with a special focus on 'Renewable Energy and Environment'. Initiatives included:

- Solar Panel pre-packaged loans for customers
- Support for 'Greener Bahrain' national campaign
- Adoption of energy saving solutions within the Bank's premises
- Support for public sector initiatives related to saving energy
- Sustainability Financing for business owners and retail customers who aim to switch partially or entirely from conventional to renewable energy sources.

Part II
2022 review

Reports and disclosures

Corporate Governance Report

BBK Group takes pride in ensuring that exceptional standards of corporate governance are met according to international standards of best practice. Sound corporate governance is central to achieving BBK's objectives and fundamental in maintaining a leading position within the local and regional banking sectors.

Group's Corporate governance vision

BBK and its wholly owned subsidiaries shall continue to enhance shareholders' value, protect their interests, and defend their rights by practising the pursuit of excellence in corporate life. The Bank shall not only comply with all statutory requirements – including the High-Level Controls module of the Central Bank of Bahrain (CBB) RuleBook – but also formulate and adhere to strong corporate governance practices. BBK and its wholly owned subsidiaries shall also continuously strive to best serve the interests of all other stakeholders, including clients, employees, regulators and the public at large.

The adoption and implementation of corporate governance is the direct responsibility of the Board of Directors, and this endeavour is in line with the policies of regulatory authorities and statutory requirements in the Kingdom of Bahrain and other countries where BBK operates.

Compliance with Corporate Governance regulatory requirements:

The Bank ensures compliance with the CBB requirements and has ensured full compliance with the same during 2022 with minor exceptions addressed during the year as follow:

1. Reviewing the governance framework on an annual basis instead of every three years and this was immediately addressed so that the review becomes every year
2. Non-attendance of all Board members at the General Assembly meeting due to circumstances arising from the pandemic and other work commitments. The Bank will work to ensure this requirement is implemented.
3. Obtaining the approval of the regulatory authority to appoint the External Auditor before the annual general assembly meeting. Indeed, internal procedures have been changed to achieve this.

Initiatives in 2022

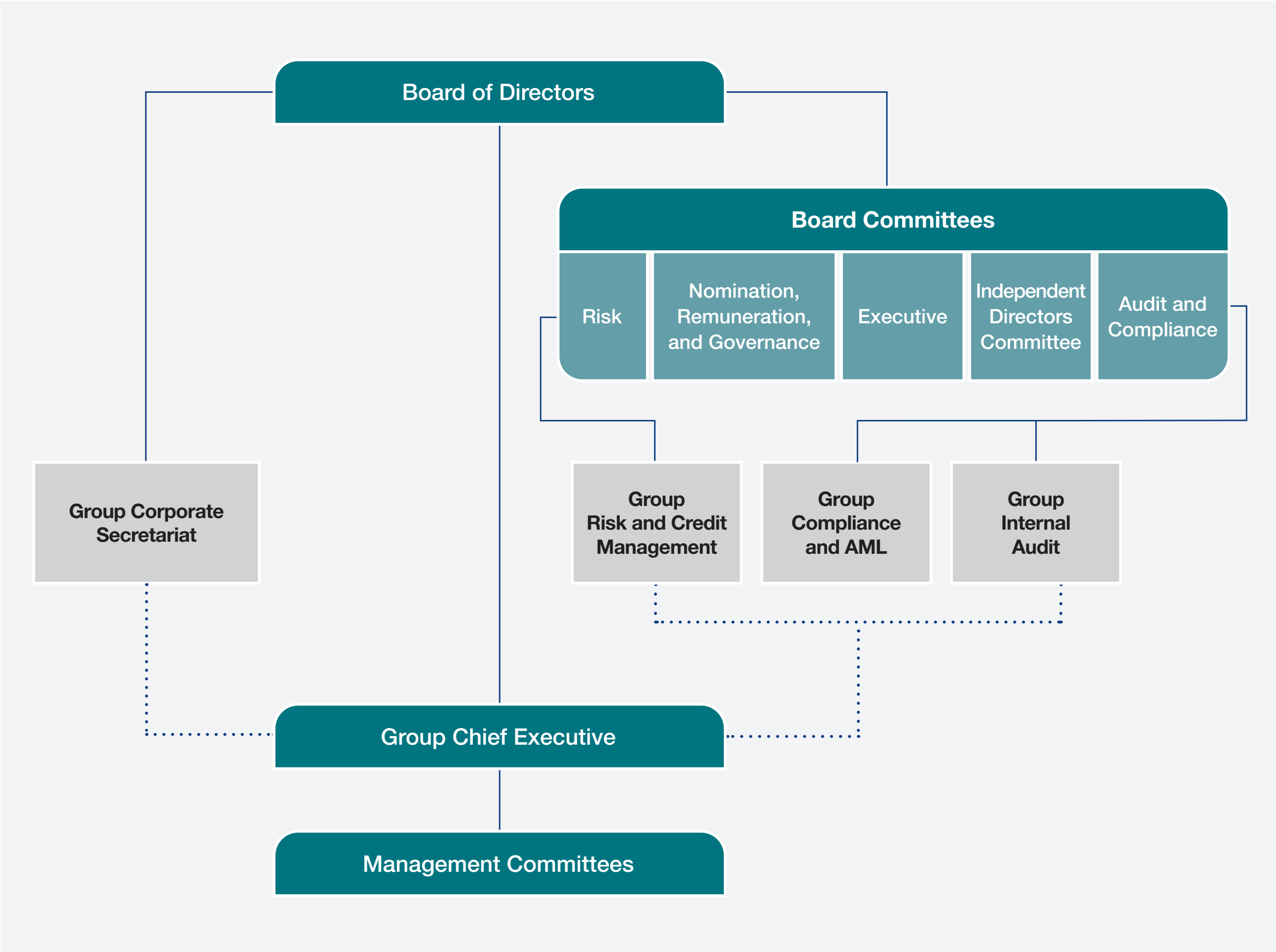
BBK Group implemented a range of initiatives in 2022 in furtherance of its corporate governance vision and other requirements. They are as follows:

- The process of evaluating the Board and its committees was successfully completed digitally using the smart application of the Board of Directors. Some recommendations for the development of the work of the Board and its committees were noted. The main recommendations under evaluation of the Board and the Committees are presented in this report.
- The Board reviewed the independence of a number of Board members.
- The Nomination, Remuneration and Governance Committee reviewed the sustainability report, which was issued independently from the Bank's annual report, and was one of the Bank's main initiatives during 2022.
- The Compliance and Group Secretariat Departments performed and completed all necessary deliverables to ensure compliance with corporate governance regulatory requirements. These were delivered in two phases. Issues related to non-compliance were noted and are mentioned in this report.
- The use of technology for the Board and its Committees has been further enhanced in the Bank and its wholly owned subsidiaries using the electronic system.
- The Bank appointed 7 women Dierctors in the Bank's subsidiaries and other shareholding companies.
- The role of the Investor Relations unit within the Group Corporate Secretariat department has been developed and the platform for shareholders and investor relations has been improved, taking into consideration international best practices to keep all investors informed of all relevant disclosures and the latest developments in the Bank.
- The unit has participated in the quarterly financial results analysts' meetings.
- The Board's directives regarding the strategy for the years 2022 to 2024 were reviewed to ensure that they were implemented.
- The Executive Committee of the Board of Directors visited the Bank's branch in the State of Kuwait to meet with its management and be briefed on the branch's business plans.
- The Bank started to prepare a female team member for the succession of the position of the Group Secretary, due to the Bank's belief in the importance of the women's role and succession alike, and on the other hand, due to the importance of the corporate governance aspect.
- The Bank established a temporary committee to study opportunities for mergers and acquisitions to grow the Group's business and provide additional value to shareholders and all other stakeholders.
- The Group Corporate Secretary held a training session for members of the Group's Board of Directors and the Bank's Executives, entitled: 'The Board of Directors and the Fundamentals of Corporate Governance.'
- The Board held a special meeting to study the activities of the overseas branches and to make the best use of the Bank's presence abroad.
- During the year 2022, compliance with regulatory requirements were aligned with remuneration of employees.

Corporate Governance Report (Continued)

Corporate Governance Structure

The Board forms the necessary Board and Management Committees to assist the Board in providing effective oversight of the Bank's operations. The Board reviews the structure periodically and modifies it if necessary. Additional committees may be formed from time to time and/ or the existing Committees could be assigned additional responsibilities. The Executive Management is an important part of the Corporate Governance structure, shown below:



The role of the Group Corporate Secretary is to assist the Board and its Committees in maintenance of relation between Executive Management and the Board, and between the Board and shareholders and vice versa. The financial control function is independent of the business lines. The Audit function is independent and reports to the Audit & Compliance Committee of the Board. The Risk Management is independent and reports to the Risk Committee of the Board.

BBK Corporate Governance model

The standard Corporate Governance model interconnects the dynamic relation between the three main stakeholders namely Shareholders, the Board and the Management. The roles of shareholders, the Board and the Management are distinctly different but complimentary to the core objectives and functioning of the institution. BBK's CG model is based on an Anglo-American model expanded to include a variety of stakeholders who have interest in the Bank and its success.

BBK's Corporate Governance practices ensure a healthy relationship with all the stakeholders while achieving core objectives of the institution.

Risk appetite statement

The Bank's risk appetite is set annually by the Board of Directors with the goal of aligning risk-taking with statutory requirements, strategic business objectives and capital planning. The Board of Directors plays a key role in the implementation of the Bank's risk appetite by steering utilization of different forms of financing, the Bank's geographical operating areas and markets, funding and liquidity management, amongst other risk management requirements. The Board of Directors also monitors BBK's adherence to the Risk Appetite Statement and makes necessary modifications to capture changes in the Bank's strategic priorities, operating environment, and risk profile.

The vision documents annual and three-year strategy, along with the Bank's internal policies, mandated framework, rules and guidelines which create the overall framework for the Bank's risk-taking. The Risk Appetite Statement complements these key documents by outlining the main considerations in the Bank's risk-taking, risk mitigation and risk avoidance.

The purpose of the Risk Appetite Statement is to state clearly the general principles for the Bank's risk-taking, to raise risk awareness across the organisation, and to guide the staff accordingly. The Risk Appetite Statement is implemented through the Bank's risk policies and procedures, monitoring metrics, limit system, Key Performance / Risk Indicators (KPIs / KRIs) and internal controls. The Risk Appetite Statement is thus embedded in the Bank's core processes and impacts affects the operations of the Bank in a holistic way.

BBK is subject to banking supervision and prudential regulations. The Bank's risk management systems and policies / procedures are reviewed and refined on an ongoing basis in order to comply strictly with regulations in all jurisdictions it operates in; as well as with what the Bank identifies as the relevant market standards, recommendations and best practices. This principle also applies to the Bank's risk appetite framework.

The basic objectives of the Risk Appetite Statement are:

- To provide a clear articulation of the Bank's risk-taking, risk mitigation and risk avoidance, and to define the risk-taking at the aggregate level. The Risk Appetite Statement creates a foundation for effective communication of risk among internal and external stakeholders;
- To increase understanding of BBK's material risk exposures and raise risk awareness across the organisation; and
- To positively impact the defined risk culture of the Bank.

The Bank's risk-taking is primarily in its core activity of lending. BBK primarily finances its activities through retail, corporate deposits, issuing bonds on the international capital markets, the market borrowings and through equity. The funding base is diversified across currencies, maturities and geographic areas. BBK's operating model is supported by the ability to obtain funding at a favorable cost, which enables lending, on attractive terms, to its clients. BBK's funding advantage builds on its sound financial profile and strong shareholder support.

To support its lending and funding operations, the Bank maintains a portfolio of liquid assets. The primary objective of the liquid portfolio is to ensure that the Bank is able to operate and continue its core activities, even during stressed market conditions. The composition and maturity profile of the liquidity portfolio are aligned with this objective, in addition to a liquidity buffer through holding High-Quality Liquid Assets (HQLA). The Risk Appetite Statement sets the tolerance for risk-taking in BBK's operations within the Bank's Risk capacity. Risk limits and risk profile assessment are other key elements in the implementation of the Bank's risk appetite framework.

Risk capacity is limited by the financial and non-financial resources that the Bank has at its disposal. The risk appetite is set to a level within the risk capacity to ensure that the Bank's risk exposure remains sustainable.

Financial resources mainly consist of the Bank's paid-in capital and retained earnings, together with customer deposits, funds raised through bonds, borrowings from Central Bank and other Financial Institutions. Non-financial resources are the skills and competences of the employees, IT systems, internal procedures and control systems. The Bank's risk-bearing capacity builds on a careful customer selection process, individual credit mandate reviews and a thorough credit-granting process. Therefore, financial resources and robust governance contribute both to maintaining the Bank's competitive position and its strong capital and liquidity position.

Risk limits are used to allocate the aggregate risk-taking mandate to business lines and portfolios. The main risk limits are established in the Bank's risk management policies and approved by the Board of Directors. The limit system sets boundaries for the accepted level of credit, market, liquidity, earnings, capital and operational risk within the established risk appetite. The actual position through the risk limits are reviewed at various levels (Board Risk Committee, Risk Management Committee 'RMC', Asset Liability Management Committee 'ALMC', Country Risk Committee 'CRC', Senior Management, etc.) depending on the nature of limits and as specified in the relevant Risk Policies. The Board and Senior Management have overall responsibility for determining the Risk Appetite of the Bank, which will be measured and monitored by the Business verticals in their operational activities.

Risk profile assessment aims to ascertain that the Bank's risk profile is within Risk limits and consequently within the Risk Appetite and Risk Capacity. Risk profile assessment is a point-in-time evaluation of the level and types of the Bank's risk exposures. The assessment includes an evaluation of the Bank's material risks, such as, credit, market, liquidity, earnings, capital and operational risk.

Credit Risk

BBK is exposed to risk primarily in its core activity of lending to individuals, corporations, small/medium enterprises, governments, public sector entities, financial institutions, etc. Lending exposes the Bank to credit and concentration risks and to variations in the business cycle. Each lending is thoroughly analysed from several perspectives (for example: default risk, financial risks, customer due diligence, legal risk, currency risks, etc.) to ensure that financing decisions have sound foundations. The overall target of the credit risk management is to maintain high portfolio quality with appropriate risk diversification in order to avoid excessive risk concentrations. Account grade rating, industry concentration limits, risk pricing, etc. are set and monitored.

Market Risk and Treasury

Funding, asset and liability management, and management of the portfolio of liquid assets are an integral part of the Bank's business operations.

The funding base of BBK is diversified across currencies, maturities and geographic areas. The Bank effectively manages the risk exposures arising mainly through maturity mismatches between assets (loans and treasury investments) and liabilities (deposits, borrowings and equity). The Bank maintains a robust liquidity portfolio to ensure that it is able to operate and continue its core activities, even during stressed market conditions.

BBK manages its interest rate risk by financing/investing in a combination of fixed or floating-rate assets, and this allows the Bank to generate stable earnings and preserve its capital base in the long-term. BBK's liquidity portfolio is invested in high quality assets and in doing so, BBK takes limited credit risk (credit default and spread risk).

BBK mitigates its currency risk and most of its interest rate risk arising from funding and lending operations by hedging with derivatives. The use of derivatives exposes BBK to counterparty credit risk, liquidity risk, currency basis risk, and operational risks. BBK uses netting and collateral agreements to manage its risk towards derivatives counterparties.

Triggers/policy limits are set as per the Bank's internal risk policies and procedures. This includes FX Net Open Position and VAR, Market Risk VAR, Interest Rate Risk (Gap, Stop Loss & VAR), Earnings at Risk, and Economic Value of Equity, amongst others.

Operational Risk

In order to manage operational risk, BBK has put in place a framework that consists of tools such as Risk Events reporting, Risk and Control Self-Assessment and Key Risk Indicators. This framework ensures that operational risk is managed within the established risk appetite of the Bank. The framework is effected through appropriate governance documentation including suitable policy and procedures. The framework was established with a view to help the business and support areas of the Bank in maintaining a strong process of validating and addressing control deficiencies, and having in place corrective measures to avoid recurrence of key issues, as the related tools help in identifying the risks and reviewing the effectiveness of the controls in all areas of the Bank's operations. The implementation of the framework is carried out by an independent Operational Risk Management department reporting to the Group Chief Risk Officer and is separately governed by the Operational Risk Management Committee (ORMC). Key risks are also escalated to the Risk Management Committee (RMC) of the Bank (consisting of the Bank's Executive Senior Management) and to the Risk Committee of the Board.

Earnings

Banking involves well-judged risk-taking, where all transactions should provide a reasonable margin to compensate for the risk taken. BBK offers financing on competitive market terms and aims for stable earnings, enabling the formation of capital reserves, organic growth, and reasonable return on capital in the long-term. Lending operations, the primary source of credit risk, should provide appropriate return for the level of risk assumed.

Treasury operations, through cost-effective funding and prudent asset and liability management, should contribute to the Bank's overall returns in line with the defined business objectives and the core objective of safeguarding the Bank's liquidity.

Earning targets are set and monitored at global, division and business unit level.

Capital

An adequate capital management framework, with an Internal Capital Adequacy Assessment Process (ICAAP), is an essential part of BBK's operations. BBK is committed to maintaining a strong risk-based capital position.

The Bank complements risk-based capital adequacy measures with a volume-based leverage ratio measure. It protects the Bank from risks that relate to excessive growth of the balance sheet.

BBK aims to maintain a strong capital position in relation to the aggregate risk exposure at all times. The Bank uses risk-based approaches to assess the capital needs, including stress testing, and the Bank holds robust capital buffers on top of the minimum capital requirement.

The growth of the Bank's balance sheet should be stable in the long run, while some variation is accepted in the medium term to account for natural changes in the business cycles.

Liquidity

The Bank maintains a robust liquidity portfolio. The primary objective of the liquidity portfolio is to ensure that the Bank is able to operate and continue its core activities without disruption, even during stressed market conditions. BBK maintains a liquidity portfolio where a large majority of the assets are of high quality to support the Bank's operations and liquidity position. Having a strong liquidity position enables the Bank to carry out our core activities under severely stressed market conditions without access to new funding.

BBK diversifies funding in terms of currencies, maturities, instruments and investor types in order to avoid excessive reliance on individual markets and funding sources.

Liquidity parameters are set to maintain minimum levels as per regulatory guidelines.

Implementation and Review

The primary responsibility for the correct implementation of the Risk Appetite Statement remains with the Risk Management Division.

This Risk Appetite Statement is reviewed at least annually.

Internal Audit

The Internal Audit Department ("IAD") is an essential part of the overall corporate governance at the Bank, established by the Board of Directors to independently examine and evaluate the activities of the BBK Group. The Internal Audit function is headed by the Group Chief Internal Auditor, who reports directly to the Board Audit & Compliance Committee on functional matters, and with day-to-day administrative reporting to the Group Chief Executive.

Guided by the approved IA Procedural Manual, IA Charter and applicable regulatory directives, IA assignments are conducted across all functions in the Group towards the accomplishment of its objectives - reviewing the reliability, adequacy and effectiveness of the respective governance, risk management, and internal control systems. Final Audit Reports are issued to the Audit & Compliance Committee and relevant Senior Management members. On a quarterly basis, the internal audit activity report is compiled along with follow up status updates of previously reported audit observations, and is submitted as a regular agenda item at the quarterly Audit & Compliance committee meeting.

IAD adopts a risk based methodology for each assignment, including the preparation of its annual risk-based audit plan that is approved by the Board's Audit and Compliance Committee. Such audit plan is developed by identifying the total population of audit entities and evaluating associated business and control risks parameters amongst others, to objectively determine the respective audit cycle; while also prioritizing regulatory audits at all times.

IAD is subject to periodic internal and external quality assurance reviews in its pursuit of continuous enhancement. Majority of IAD staff hold at least one professional qualification from well-known professional associations such as CIA, CRMA, CA, ACCA, CISA, and CFA. Internal audit staff periodically acknowledge adherence with the Bank's code of conduct & IIA Code of Ethics.

Compliance and anti-money laundering

Compliance with regulatory and statutory requirements is an ongoing process. The Bank is conscious of its responsibilities in observing all regulatory provisions and best international practices in its functioning. The Bank has established an independent compliance function in keeping with Basel and CBB guidelines. The Compliance and AML Department at BBK consists of four primary functional areas, including; (a) Financial Crime; (b) Fraud Management; (c) Regulatory Compliance and Advisory, part of which is the responsibilities of Data Privacy and Protection; and (d) Compliance Assurance. The function performs its duties and responsibilities in accordance to the established Annual Risk Based Plan approved by the Audit and Compliance Committee of the Board. The Compliance and AML Function is independent from the other functions of the Bank. It has sufficient seniority and authority and reports directly to the Board of Directors through the Board's Audit and Compliance Committee.

The Compliance and AML function acts as a focal point for all regulatory compliance and for adapting other best practice compliance principles. The Bank continuously strives to improve the level of compliance in all its activities. The Bank's adopted corporate philosophy is: 'BBK shall continue its endeavour to enhance shareholders' value, protect their interests, and defend their rights by practising pursuit of excellence in corporate life.' Anti-money laundering measures form an important area of the compliance function, in addition to corporate governance, disclosure standards, insiders'/key persons' trading, conflict of interest, and adherence to best practices.

Starting in 2014, BBK implemented an automated compliance system for the monitoring and management of regulatory requirements across the Bank. This system facilitates the prompt reporting of any compliance concerns or non-compliance incidents as and when they arise, as well as monitoring the status of compliance with CBB Rulebook requirements as applicable to BBK.

The Bank is committed to combating money-laundering and, towards this end, implements all 'Prevention of Money Laundering Regulations' as stipulated in the Financial Crimes Module of the CBB Rulebook and other guidelines issued by the CBB. These regulations and guidelines are consistent with the revised FATF recommendations, 'Customer Due Diligence for Banks' paper of the Basel Committee, and best international practices.

The Bank has a documented anti-money laundering programme, including periodic awareness training for employees, record-keeping, and a designated Money Laundering Reporting Officer (MLRO). The AML policy and procedures are updated annually and were last approved by the Board of Directors in October 2022.

The Bank's anti-money laundering measures are regularly audited by internal auditors, who report to the Audit and Compliance Committee of the Board. The Central Bank performs periodic inspections of the Bank's compliance with anti-money laundering regulations. Additionally, the Bank's anti-money laundering measures are reviewed by independent external auditors every year. The respective Group external review reports have been issued and submitted to the CBB in June 2022, and included a review of BBK, its subsidiary and overseas branches. Furthermore, as a Domestic Systemically Important Bank, BBK is subject to annual inspections by the CBB.

In 2021, BBK has successfully implemented fraud monitoring systems for scrutiny of customers' payments and card transactions in order to proactively and effectively protect our customers against fraud. A 24/7 fraud monitoring team is established to monitor and promptly handle any fraud suspicions.

The overseas branches in India and Kuwait and the subsidiary, CrediMax, have designated compliance and MLRO functions to ensure implementation of applicable regulatory requirements.

Penalties paid during the year to Regulators

On Dec 19th 2022, The Reserve Bank of India (RBI) advised 21 financial institutions of fines, for various reasons. BBK received an advice of a INR 26.6 million fine (approximately BHD 121 thousand) in relation to historical omissions in the cyber security framework of the bank's Indian operations. While the majority of issues have been closed, the RBI highlighted delays in some instances. Over the past months, BBK India, supported by BBK's Head Office, has implemented a comprehensive IT and IT Information Security programme with capital and recurrent investment in excess of INR 37 million (approximately BHD 168K), has appointed two new senior leaders (Head of IT and the Chief Information Security Officer) and has implemented advanced 24/7 monitoring and detection solutions to protect against cyber security threats, together with enhanced infrastructure across the four branches in India.

Shareholder information

In 2022, the ownership of Ithmaar Holding Company in BBK was acquired by Al Salam International, a subsidiary of Al Salam Bank.

BBK's shares are listed on the Bahrain Bourse. The Bank has issued 1,647,700,962 equity shares, each with a face value of 100 fils. All shares are fully paid.

During 2022, BBK distributed bonus shares to its shareholders at 10% of the paid-up capital, equivalent to 1 share for every 10 share held, for a total of BD 14,979,100. Therefore, the Bank's paid-up capital after the distribution increased to BD 164,770,096.200 divided into 1,647,700,962 shares.

External Auditors

The Audit and Compliance Committee of the Board has continued to oversee the work carried out by external auditors. On an annual basis, the management conducts an annual assessment of the work and services provided by external auditors, taking into consideration:

1. Quality of audit services;
2. Required skills, experience and adequacy of resources;
3. Communication and interaction with Audit and Compliance Committee, Management and internal audit;
4. Independence, objectivity, and professional skepticism; and
5. Audit firm's reputation.

Hence, the management will share the results of the assessment and recommend to the Audit and Compliance Committee of the Board the appointment or the re-appointment of the external auditors in which the committee will submit its recommendations to the Board of Directors and accordingly to the annual general meeting (AGM) to appoint / re-appoint the external auditors subject to regulatory approvals.

In 2022, annual audit and quarterly review services amounted to BD 158 thousand and other attestation services amounted to BD 122 thousand.

Annual Ordinary General Meeting, Extraordinary General Meeting

The Annual Ordinary General Meeting (AGM) and an Extraordinary General Meeting (EGM) were held virtually on 28 March 2022 under high level precautionary measures as required by the relevant authorities due to the COVID-19 pandemic.

Apart from normal AGM discussions, the AGM discussed and took decisions regarding the below mentioned items:

1. Disclosing any transactions during the year ended 31 December 2021 with related parties as per note No.26 of the financial statements and in line with Article 189 of the CCL.
2. Discussing the Bank's Corporate Governance report for the year 2021 and the compliance to the requirements of the Central Bank of Bahrain (CBB).
3. Approving the Board's recommendation of allocating BD 552,500 as Board membership remunerations for 2021.
4. Appointing External Auditors for the Bank for the financial year 2022 upon receiving the approval of the CBB and delegating the Board to determine their fees.
5. Absolving the Board Members of liability for any of their actions during the year ended 31 December 2021.

The EGM held on 28 March 2022 approved the following:

The Board's recommendation to the EGM of increasing the issued and paid-up capital from BD 149,790,996.500 divided into 1,497,909,965 shares to BD 164,770,096.200 divided into 1,647,700,962 shares as a result of distributing bonus shares.

The Board's recommendation to the EGM by increasing the Bank's authorized capital from BD 150,000,000 to BD 250,000,000 based on the increase in issued and paid up due to the distribution of bonus shares and the Bank's need for the same in the future.

The Board's recommendation to amend a number of articles in the Bank's articles of association to comply with the recent amendments to the Commercial Companies Law (21) of 2001. The full set of the AGM and EGM minutes and the decisions made at the meeting are published in this annual report.

Annual disclosures at the AGM:

The Bank submits a Corporate Governance Report to the AGM annually, covering the status of compliance with the related regulatory requirements and international best practice.

At the AGM, the Bank discloses and reports to shareholders the details under the Public Disclosure module of the CBB's rulebook. These disclosures include the total remuneration paid to the Directors, Executive Management, and the External Auditor and other important disclosures as elaborated hereunder. The individual remunation amount paid to each Director and the top 6 Executive Management is also included in the annual report.

Shareholder's composition

Name	Country of origin	Number of shares	% holding
Al Salam International W.L.L	Kingdom of Bahrain	431,550,793	26.19
Social Insurance Organisation (SIO) (GOSI, Civil Pension Fund and Military Pension Fund)	Kingdom of Bahrain	543,252,627	32.97
Kuwait Investment Authority	State of Kuwait	316,317,864	19.20
Public		356,579,678	21.64

Distribution schedule of each class of equity

Category	Number of shares	Number of shareholders	% of outstanding shares
Less than 1%	359088618	2666	21.79
1% to less than 5%	–	–	–
5% to less than 10%	107022932	1	6.50
10% to less than 20%	750038619	3	45.52
20% to less than 50%	431550793	1	26.19
50% and above	–	–	–

Board of Directors' information

Board composition

The Board's composition is based on the Bank's Memorandum of Association and Articles of Association, and comprises 12 members. The Board represents a mix of high-level professional skills and expertise.

The representation of women on the Board is taken into consideration. There are currently two women directors as follows:

	Men Members	Women Members
Number	10	2
Percentage	83.3%	16.7%

Furthermore, in compliance with corporate governance requirements, the Board Committees consist of members with the appropriate professional experience. Consequently, the Board has five Independent Directors. The independence requirements are reviewed on an annual basis taking into consideration the CBB criteria and Board of Directors determination of the same. The Board periodically reviews its composition and the contribution of Directors and Committees.

The appointment of Directors is subject to CBB approval. The classification of Executive Directors, Non-executive Directors, and Independent Non-executive Directors follows the definitions stipulated by the CBB. The current term of the Board began in March 2020 and ends in March 2023. Directors are elected/appointed by the shareholders at the AGM. The election or re-election of a Director at the AGM is accompanied by a recommendation from the Board based on a recommendation from the Nomination, Remuneration and Governance Committee, with specific information such as biographical and professional qualifications and other directorships.

During 2022 a new director Mr. Aref Rahimi was inducted to replace Mr. Hani Al Maskati due to a change in one of the Bank controllers from Ithmaar Holding to Al Salam International.

Group Corporate Secretary

The Board is supported by the Group Corporate Secretary, who provides professional and administrative support to the General Assembly, the Board, its Committees, and members. The Group Corporate Secretary also assumes the responsibilities of the Group Corporate Governance Officer and in this context, supports the processes of performance evaluation for the Board, Board Committees, and individual Directors as well as the process of access to independent advice and other relevant issues on a Group level. The appointment of the Group Corporate Secretary is subject to the approval of the Board.

BBK's Group Corporate Secretary is Ahmed A. Qudoos Ahmed, who joined the Bank in 2009. His qualifications include a Bachelor of Science in Commerce in Engineering from the University of Bahrain in 1996. He is qualified in Board Secretarial practices from George Washington University. He has attended many advance training programmes in corporate governance both in Bahrain and abroad, accumulating over 26 years of experience in the financial sector.

Directors' roles and responsibilities

The Board of Directors approves and oversees the implementation of the Bank's strategic initiatives and its functioning within the agreed framework, in accordance with relevant statutory and regulatory structures. The Board ensures the adequacy of financial and operational systems and internal controls, as well as the implementation of corporate ethics and the Code of Conduct.

The Board exercises its judgment in establishing and revising the delegation of authority for Board Committees and the Executive Management. This delegation may be for authorisation of expenditure, approval of credit facilities, or for other corporate actions. Such delegation may be approved and expressed under various policies of the Bank. The thresholds for the identified authorities depend upon the operating requirements of the Bank.

The issues of major capital expenditure, divestitures, mergers and acquisitions, and certain strategic investments are within the Board's authority.

Each Director holds the position for three years, after which he must present himself to the AGM for re-appointment. The majority of BBK Directors (including the Chairman and/or Deputy Chairman) are required to attend Board meetings to ensure a quorum. The Board Charter is published on the Bank's website.

Material transactions that need Board approval

Lending transactions to Directors, at a certain level of exposure, require Board approval. Credit and investment applications exceeding certain pre-defined exposure levels also require Board approval.

Similarly, related party transactions involving members of the Board require Board approval.

Independent professional assistance

The Bank has procedures approved by the Board for allowing Board members to obtain independent professional advice related to the affairs of the Bank or to their individual responsibilities as members, subject to approval by the Board.

Directors' induction

The Board is required to be up to date with current business, industry, regulatory, and legislative developments and trends that affect the Bank's business operations. Immediately after appointment, the Bank provides formal induction for a full day. Meetings are also arranged with the Executive Management.

Directors' professional development

A continuing awareness programme is essential and may take many forms, through the distribution of publications, workshops, presentations at Board meetings, and attendance at conferences encompassing topics on directorship, business, industry, and regulatory developments. In terms of the Training and Competency module of the CBB rulebook, each approved person (including members of the Board) is required to complete 15 hours of continued professional development. The full list of programs prepared for the Board of Directors of the Bank and its wholly owned subsidiaries during 2022 is disclosed in this report.

Board and Committee evaluation

The Board performs a self-evaluation process annually. The Board annually reviews its Charter and its own effectiveness, initiating suitable steps for any amendments. The Board will also review self-evaluations of individual Board members and the Board Committees and consider any recommendations arising out of such evaluation. The relevant policy is published on the Bank's website.

The recommendation emanating from the evaluation process during 2022 were as follows:

- Developing a follow-up process to what has been achieved in the strategy, and after discussion, the Board agreed to continue discussing the matter on a semi-annual basis, and the Management should present any important developments to the Board at any time.
- The Board emphasized on the importance of protecting the interests of minority shareholders and discussing matters that may concern them in the meeting of the Independent Directors Committee.
- The Board proposed to the major shareholders to nominate women for membership of the Board in the upcoming sessions in line with the Bank's framework for sustainability and the Bank's continued appointment of women who have proven their competence in the boards of directors of the Bank's subsidiaries and associates.
- Work on developing the Department of Compliance and Anti-Money Laundering and strengthening the team entrusted with this task due to the importance of this for the Bank.

Remuneration of Directors

The Bank has adopted a policy approved by the Board of Directors to apply to the Directors' remunerations and compensation for their involvement in the activities of the Board of Directors and its ad hoc, temporary and permanent committees. For details, please refer to the remuneration report.

Insurance coverage

The Bank provides personal accident insurance coverage for Board Members during travel on Bank assignments. The Bank also has a Directors and Officers liability insurance policy for Directors.

Whistle-blowing policy

The Bank has a whistle-blowing policy with designated officials that employees can approach. The policy provides protection to employees for any reports made in good faith. The Board's Audit and Compliance Committee oversees this policy. The whistle-blowing policy is published on the Bank's website.

Key persons (KP) policy

The Bank has established a KP policy to ensure that KP are aware of the legal and administrative requirements regarding the holding and trading of BBK shares, with the objective of preventing abuse of inside information. KP are defined to include the Directors, Executive Management, designated employees, and persons under guardianship or control of KP. The KP policy is entrusted to the Board's Audit Committee and posted on the Bank's website.

Code of Conduct

The Board has approved a Code of Conduct for BBK Directors and a Code of Ethics for the Executive Management and employees. These codes outline areas of conflict of interest, confidentiality, and the responsibilities of signatories to adhere to best practices. The high-level responsibility for monitoring the codes lies with the Board of Directors. The Directors' Code of Conduct is published on the Bank's website.

Relative recruitment/appointment policy

BBK has in place policies that govern the recruitment and appointment of relatives to the Bank and across its wholly-owned subsidiaries. The policies are:

1. Employment of relatives of first and second degrees are prohibited, whereas employment of relatives of third and fourth degree may be approved by the Executive Management provided it does not lead to a conflict of interest.
2. Employment of relatives at the Bank's wholly-owned subsidiaries of first and second degree are prohibited for senior managers and above. Any exception must be approved by the Group Chief Executive.
3. As part of the annual reporting, the Group Chief Executive must disclose to the Board those individuals who are occupying controlled functions and who are relatives of any other approved persons within the Bank and its wholly-owned subsidiaries.

Conflict of interest

The Bank has clear policies based on domestic laws and regulations and international best practices to deal with issues related to conflict of interest. This is also stipulated in the Directors Appointment Letters signed between the Board members and the Bank. These policies are posted on the Bank's website and reviewed periodically or whenever needed.

During Board meetings or Board committees and during discussions on topics related to credit applications, investment or other transactions where there may be conflict of interest, the concerned Board member is required to leave the meeting room and any correspondence or documents related to the application will not be sent to him/her. Decisions are made by the Board of Directors or its Committees without the presence of the member concerned and such transactions are recorded in the minutes of the Board meeting or its committees.
In addition, it is the responsibility of the member of the Board and he/she must immediately disclose to the Board that there is a conflict of interest related to his / her activities and obligations with other parties and not to participate in the discussion and voting, and these disclosures include documents relating to contracts or transactions related to the member concerned.

Development programmes arranged for board members during 2022

1. Mergers and Acquisitions dated 30/01/2022
2. Cyber Resilience dated 22/02/2022
3. The Future of Decentralized Finance, dated 06/06/2022
4. Global Economic Outlook dated 28/07/2022
5. Managing climate related risks dated 11/09/2022
6. Operational Risk Management for Board and Senior Management dated 25/10/2022
7. Sustainable Banking and Financial Technology dated 06/12/2022

Number of development programme hours attended by board members, arranged by the Bank or otherwise:

Board members	Total no. of hours
Murad Ali Murad	20.5
Sh. Abdulla bin Khalifa bin Salman Al-Khalifa	34
Mohamed Abdulrahman Hussain	17.5
Aref Haider Rahimi	15
Jassem Hasan Ali Zainal	17.5
Sh. Khalifa bin Duaij Al Khalifa	17.5
Edrees Musaed Ahmad	20.5
Ashraf Adnan Bseisu	23
Mishal Ali Al Hellow	26.5
Naser Khaled Al Raee	27.5
Nour Nael Al Jassim	20.5
Ghaneya Mohsen Al Durazi	20.5

Environmental, Social and Governance (ESG)

With the global push towards broader sustainability, the Bank prioritises ESG initiatives according to identifiable and measurable targets to promote sustainable development within the Bank and throughout the Kingdom of Bahrain. For details, please refer to the sustainability review section in part 1.

In 2022, BBK further developed its Sustainability and ESG strategy to meet pressing community needs, support inclusive SME development, boost job creation, enhance customer services, support and develop our employees, and apply relevant corporate governance protocols.

BBK has aligned its priorities with the goals of Bahrain's National Vision 2030 to build a robust economy and a motivated and innovative society. We have also aligned our priorities with the United Nations Sustainable Development Goals (SDGs), a set of 17 areas spearheaded by the UN to end poverty, fight inequality, and tackle climate change.

Corporate Governance Report (Continued)

Disclosures relating to the Board of Directors

Directors' external appointments

Murad Ali Murad		
Chairman of the Board	Bahrain Kuwait Insurance Company B.S.C.	Kingdom of Bahrain
Chairman of the Committee	Nomination Remuneration and Governance Committee – Bahrain Kuwait Insurance Company B.S.C.	Kingdom of Bahrain
Deputy Chairman	Bahrain Institute of Banking and Finance (BIBF)	Kingdom of Bahrain
Chairman of the Committee	Audit and Risk Committee – Bahrain Institute of Banking and Finance (BIBF)	Kingdom of Bahrain
Chairman of the Board	Al Janabeya Company W.L.L. (Family company)	Kingdom of Bahrain

Sh. Abdulla bin Khalifa bin Salman Al Khalifa		
Chief Executive Officer	Osool Asset Management B.S.C.	Kingdom of Bahrain
Chairman	Securities and Investment Company (SICO) B.S.C.	Kingdom of Bahrain
Chairman	Bahrain Telecommunication Company (Batelco)	Kingdom of Bahrain
Board Member	Supreme Council for Youth and Sports	Kingdom of Bahrain

Mohamed Abdulrahman Hussain		
Vice-Chairman and Chairman of Executive Committee	Eskan Bank B.S.C.	Kingdom of Bahrain
Independent Board Member	A.M. Yateem Brothers W.L.L.	Kingdom of Bahrain

Aref Haider Ali Ismaeel Rahimi		
Chairman	Bahrain International Circuit Company W.L.L	Kingdom of Bahrain
Chairman	BIC Holding Company B.S.C. (Closed)	Kingdom of Bahrain
Chairman, Chairman of Nomination & Remuneration Committee, Chairman of Executive Committee	Gulf Aluminium Rolling Mill Co. B.S.C. Closed (GARMCO)	Kingdom of Bahrain
Committee Member	Supreme Judicial Council – Ministry of Justice, Islamic Affairs and Waqf The Committee for Stalled Real Estate	Kingdom of Bahrain
Managing Partner	Masar Professional Services W.L.L	Kingdom of Bahrain

Jassem Hasan Ali Zainal		
Vice Chairman and CEO	Arzan Financial Group for Financing and Investment	State of Kuwait
Chairman and CEO	Addax B.S.C. Closed	Kingdom of Bahrain
Board Member	Kuwait International Bank	State of Kuwait
Board Member	Miami International Securities Exchange L.L.C. (MIAX)	United States of America

Sh. Khalifa bin Duaij Al Khalifa		
President Adviser	Court of HRH the Crown Prince, the Prime Minister	Kingdom of Bahrain
Board Member	Crown Prince's International Scholarship Programme	Kingdom of Bahrain
Board Member	Isa Bin Salman Educational Charitable Trusts	Kingdom of Bahrain
Board Member	Palm Capital Company W.L.L.	Kingdom of Bahrain
Board Member	Arab Thought Foundation	Republic of Lebanon
Chairman	Bahrain Financial Markets Associations (ACI)	Kingdom of Bahrain
Chairman	Bahrain Middle East Bank	Kingdom of Bahrain

Edrees Musaed Ahmad		
Manager	Marketable Securities Sector, European Equities Division Kuwait Investment Authority (KIA)	State of Kuwait

Ashraf Adnan Bseisu		
Group Chief Executive	Solidarity Group Holding Company B.S.C. (c)	Kingdom of Bahrain
Chairman	Solidarity First Insurance Company (P.L.C.)	Hashemite Kingdom of Jordan
Board Member	Solidarity Bahrain Company (B.S.C.)	Kingdom of Bahrain
Board Member	Aljazira Takaful Taawuni Co.	Kingdom of Saudi Arabia
Board Member	Bahrain Institute of Banking & Finance (BIBF)	Kingdom of Bahrain
Board Member	United Insurance Company B.S.C. (c)	Kingdom of Bahrain

Mishal Ali Al Hellow		
Board Member	Social Insurance Organization (SIO)	Kingdom of Bahrain
Board Member	Osool Asset Management B.S.C.	Kingdom of Bahrain
Chairman	Technology and Business Society	Kingdom of Bahrain

Naser Khaled Al Raee		
Executive Director-Internal Audit	Osool Asset Management B.S.C.	Kingdom of Bahrain

Nour Nael Al Jassim		
Acting Manager Fixed Income and Portfolios Division	Kuwait Investment Authority (KIA)	State of Kuwait

Dr. Ghaneya Mohsin Al Derazi		
Chief Executive Officer and founder of the company	Brands outlet village	United Arab Emirates

Directors and related parties' interests

The number of securities held by Directors was as follows:

Name of Director	Type of shares	31 December 2021	31 December 2022	Bonds*
Murad Ali Murad	Ordinary	1,557,427	1,713,169	–
Sh. Abdulla bin Khalifa bin Salman Al Khalifa	Ordinary	6,987	7,685	–
Jassem Hasan Ali Zainal	Ordinary	306,405	337,045	–
Mohamed Abdulrahman Hussain	Ordinary	206,054	226,659	–
Sh. Khalifa bin Duaij Al Khalifa	Ordinary	159,766	175,742	–

* No bonds held with other Directors.

Related parties

1. Al Janabeya Company W.L.L. (a family company owned by Mr Murad Ali Murad and his family) owns 1,545,105 shares, and is related to the Chairman of the Board.

Approval process for related parties' transactions

The Bank has a due process for dealing with transactions involving Directors and related parties. Any such transaction will require the approval of the Board of Directors.

Nature and extent of transactions with related parties

None.

Material contracts and loans involving Directors

Name of the Director	Relationship with Director	Purpose of loan	Amount of loan	Interest rate	Terms of payment of interest	Repayment of the principal	Security
Murad Ali Murad	Chairman	Personal banking needs	BD 400,000	Fixed deposit rate over 1% p.a.	On demand	On demand	100% cash collateral
Jassem Hasan Ali Zainal	Board Member	Personal banking needs	USD 66,000 BD 115,000	LIBOR + 3% BIBOR + 3%	On demand	On demand	Shares +FD is 123%

Notes: 1. The materiality amount for such disclosures is considered above BD 100,000.
2. 10 Board members hold CrediMax Credit cards with a total limit of BD 309,500 /- and outstanding amounts at 31 December 2022 of BD 118,886.623

Directors' trading of BBK shares during 2022

There was no Directors trading of BBK shares during 2022

Board meetings

The Board of Directors meets at the summons of the Chairman (or Deputy Chairman in the event of his absence or disability) or, if requested to do so, by at least two Directors. The Board meets at least four times a year. A meeting of the Board of Directors is deemed valid if attended by more than half of the members.

Meetings of Independent Directors

Since 2012, the Board of Directors has held separate meetings for Independent Directors. In terms of the Board Charter, minority shareholders look to Independent Directors for representation. For this purpose, regular Board meetings are preceded by a meeting of Independent Directors, unless the Independent Directors decide that there are no issues to discuss.

The agendas for these meetings are the same as those for the regular Board meetings. During these meetings the Independent Directors express their views about certain issues, especially those relating to minority shareholders. The summary of the proceedings of such meetings is recorded by the Group Corporate Secretary and shared with the Independent Directors and there is an Independent Directors' Committee.

Board meeting attendance

During 2022, 9 Board meetings were held in the Kingdom of Bahrain in the following manner:

Key: ● Attended × Absent ☐ was not a member during this period ⊝ did not attend due to conflict of interest.

Board meeting 2022

	Quarterly meetings				Other meetings				
Members	23 Feb	27 Apr	27 Jul	26 Oct	24 Mar*	28 Mar*	18 May*	13 Oct*	7 Dec
Murad Ali Murad	●	●	●	●	●	●	●	●	●
Sh Abdulla bin Khalifa bin Salman Al Khalifa	●	●	●	×	●	×	●	●	●
Mohamed Abdulrahman Hussain	●	●	●	●	●	●	●	●	●
Hani Ali Al Maskati	●	●	☐	☐	●	●	●	☐	☐
Jassem Hasan Ali Zainal	●	●	●	●	●	●	●	●	●
Sh Khalifa bin Duaij Al Khalifa	●	●	×	●	●	●	●	●	●
Edrees Musaed Ahmad	●	●	●	●	●	●	●	●	●
Ashraf Adnan Bseisu	●	●	☐	●	●	●	●	●	●
Mishal Ali Al Hellow	●	●	●	●	●	●	●	●	●
Naser Khaled Al Raee	●	●	●	●	●	●	●	●	●
Ghaneya Mohsen Al Durazi	●	●	●	●	●	●	●	●	●
Nour Nael Al Jassim	●	●	●	●	●	●	●	●	●
Aref Haider Ali Ismaeel Rahim	☐	☐	☐	●	☐	☐	☐	●	●

* Unscheduled meeting

Major issues discussed by the Board during 2022

(Subjects that fall under the Board Committees' scope are recommended by the respective Committee for the Board's approval.)

Date of meeting	Subject
23/02/2022	1. Year end 2021 financials as announced earlier and appropriations 2. Reviewing the Bank's Corporate Governance Report 3. Review of Employee related matters 4. Review some of Bank polices 5. Business Continuity exercises reports
24/03/2022	Performance of Bank Branches in the Republic of India
28/03/2022	1. Board and Board Committees' Composition that is done after the AGM on annual basis 2. Business Continuity Report 2021 3. Management Objectives 2022
27/04/2022	1. Review Of Stressed Credit Exposures 2. Q1 2022 financials 3. Investment strategy for 2022
18/05/2022	Discussing matters relating to the Bank's overseas branches
27/07/2022	1. Q2 and half yearly 2022 financials 2. Reviewing a number of Bank policies 3. Reviewing the Bi-Annual Investment performance 4. Reviewing a number of external validation reports requested by the regulatory body
13/10/2022	Follow-up on the Bank's Strategy 2022-2024
26/10/2022	1. Q3 2022 financials 2. Reviewing a number of Bank risk policies 3. Reviewing a number of policies related to Human Resources
07/12/2022	1. Operating Budget 2023 2. Reviewing policies related to Human Resources

Board committees

Board Committees are formed and their members appointed by the Board of Directors each year, after the AGM. They are considered the high-level link between the Board and the Executive Management. The objective of these Committees is to assist the Board in supervising the operations of the Bank by reviewing any issues that are submitted by the Executive Management and making recommendations to the Board for their final review.

The Board reserves the right to form temporary committees and discontinue them from time to time, as necessary.

Members of the Board are provided with copies of the meeting minutes of the committees, as required by the regulators. During 2022, the Board ad-hoc committee was established by the Board to study mergers and acquisitions opportunities in general. The terms of reference for the Board committees (Executive; Audit and Compliance; Nomination, Remuneration and Governance; Risk; and Independent Members) are available on the Bank's website. There were no significant issues pertaining to the work of the Board Committees during 2022.

Board Committees' composition, roles and responsibilities

Executive Committee

Members	Summary terms of reference, roles and responsibilities	Summary of responsibilities
Mohamed Abdulrahman Hussain Chairman (Independent) **Sh. Abdulla bin Khalifa bin Salman Al Khalifa** Deputy Chairman **Ashraf Adnan Bseisu** Member **Mishal Ali Al Hellow** Member **Nour Nael Al Jassim** Member	• No fewer than five members are appointed for a one-year term. • Minimum number of meetings required each year: eight (actual meetings in 2022: 10) • The Chairman and Deputy Chairman must be a Director and elected by the members of the Committee in the first meeting following the appointment of its members. • The quorum shall be more than half of the members and must include the Chairman or the Deputy Chairman; attendance by proxies is not permitted. • The Chairman or Deputy Chairman shall be available at the AGM to answer questions relating to the Committee's functions. • The Committee conducts an annual self-assessment of the performance of the Committee/members, and reports conclusions and recommendations to the Board.	Reviews, approves and directs the executive management on matters raised to the Board of Directors such as business plans, donations, credit/investment applications, and such other proposals within its authority, and the periodic review of the Bank's achievements.

Audit and Compliance Committee

Members	Summary terms of reference, roles and responsibilities	Summary of responsibilities
Murad Ali Murad Chairman (Independent) **Jassem Hasan Ali Zainal** Deputy Chairman (Independent) **Sh. Khalifa bin Duaij Al Khalifa** Member (Independent) **Edrees Musaed Ahmad** Member	• The Board appoints no fewer than four members for a one-year term. • The Chairman must be elected by the members of the Committee, from among the Independent non-Executive Directors in its first meeting after the appointment of the members; the majority of members should also be independent. • Minimum number of meetings required each year: four (actual meetings in 2022: 5). • Quorum shall be more than half of the members and must include the Chairman; attendance by proxies is not permitted. • The Chairman or Deputy Chairman shall be available at the AGM to answer questions relating to the Committee's functions. • The Committee conducts an annual self-assessment of the performance of the Committee/members, and reports conclusions and recommendations to the Board. • To review the effectiveness of the Bank's system for monitoring compliance with relevant laws and regulations and the measures taken by the Management.	Reviews the internal audit programme and internal control system; considers major findings of internal audit reviews, investigations, and management's response. Ensures coordination among internal and external auditors. Monitors trading activities of key persons and ensures prohibition of the abuse of inside information and disclosure requirements. Approves and periodically reviews the Internal Audit Charter, which defines the purpose, authority, responsibilities and other aspects of internal audit activity. The Internal Audit Charter is available to internal and external stakeholders on request addressed to the Board Secretary.

Nomination, Remuneration and Governance Committee

Members	Summary terms of reference, roles and responsibilities	Summary of responsibilities
Murad Ali Murad Chairman (Independent) **Sh. Khalifa bin Duaij Al Khalifa** Deputy Chairman (Independent) **Edrees Musaed Ahmad** Member **Mohamed Abdulrahman Hussain** Member (Independent)	• The Board appoints no fewer than three members for a one-year term. The Chairman is an Independent Director and the majority of members should also be independent. • The Chairman and the Deputy Chairman must be elected by members of the Committee in its first meeting after the appointment of the members. • Minimum number of meetings required each year: three (actual meetings in 2022: 6). • Quorum shall be more than half of the members and must include the Chairman or the Deputy Chairman; attendance by proxies is not permitted. • The Chairman or Deputy Chairman shall be available at the AGM to answer questions relating to the Committee's functions. • The Committee conducts an annual self-assessment of the performance of the Committee/members, and reports conclusions and recommendations to the Board.	Assess, evaluate and advise to the Board on all matters associated with nominations and remunerations of Directors and Executive Management. Also, ensure that the Bank adopts and enhances sound corporate governance practices, which are consistent with the Corporate Governance Code of the Kingdom of Bahrain and the regulatory requirements, and which also reflect best market practices in corporate governance, and makes recommendations to the Board as appropriate.

Risk Committee

Members	Summary terms of reference, roles and responsibilities	Summary of responsibilities
Jassem Hasan Ali Zainal Chairman (Independent) **Hani Ali Al Maskati** Deputy Chairman *(until 7-7-2022)* **Ghaneya Mohsen Al Durazi** Member **Naser Khaled Al Raee** Member **Sh. Khalifa Bin Duaij Al Khalifa** Member (Independent) **Aref Haider Ali Ismaeel Rahim** Member *(since 26-10-2022)*	• At least four members are appointed for a one-year term. • The Chairman and Deputy Chairman must be a Director and elected by the members of the Committee in its first meeting following the appointment of its members. • Minimum number of meetings required each year: 4 (actual meetings in 2022: 4). • The quorum shall be more than half of the members and must include the Chairman or the Deputy Chairman; attendance by proxies is not permitted. • The Chairman or Deputy Chairman shall be available at the AGM to answer questions relating to the Committee's functions. • The Committee conducts an annual self-assessment of the performance of the Committee/members and reports conclusions and recommendation to the Board.	Reviews risk policies and recommends to the Board for approval. Also examines and monitors the risk issues to the Bank's business and operations and directs the management appropriately.

Independent Directors Committee

Members	Summary terms of reference, roles and responsibilities	Summary of responsibilities
Murad Ali Murad (Independent) **Jassem Hasan Ali Zainal** Member (Independent) **Sh. Khalifa bin Duaij Al Khalifa** Member (Independent) **Mohammed Abdulrahman Hussain** Member (Independent) **Ghaneya Mohsen Al Durazi** Member (Independent)	• The Committee comprises Independent Directors. • The Committee meets at least once a year. • The meetings are attended by Independent Directors and the Group Corporate Secretary only. • Attendance should be in person. • The Committee discusses issues on the Board agenda according to its terms of reference.	Provides independent views on certain issues, especially pertaining to minority shareholders.

Note: The full text for the Board Committees' terms of reference is available on the bank's website **www.bbkonline.com**

Board Committee meetings and record of attendance

Key: ● Attended × Absent ☐ was not a member during this period ⊝ did not attend due to conflict of interest.

Executive Committee meetings in 2022

	15 Feb*	13 Mar	19 Apr	29 May*	5 Jun*	19 Jul	24 Aug	4 Sep	5 Oct	27 Nov
Mohamed Abdulrahman Hussain	●	●	●	●	●	●	●	●	●	●
Sh. Abdulla bin Khalifa bin Salman Al Khalifa	●	●	●	●	●	●	●	●	●	●
Ashraf Adnan Bseisu	●	●	●	●	●	☐	●	●	●	●
Mishal Ali Al Hellow	●	●	●	●	●	●	●	●	●	●
Nour Nael Al Jassim	●	×	●	●	●	●	●	●	●	●

* Unscheduled meeting

Audit and Compliance Committee meetings in 2022

Members	16 Feb	2 Mar *	20 Apr	20 Jul	19 Oct
Murad Ali Murad	●	●	●	●	●
Jassem Hasan Ali Zainal	●	●	●	●	●
Sh. Khalifa bin Duaij Al Khalifa	●	●	●	×	●
Edrees Musaed Ahmad	●	●	●	●	●

* Unscheduled meeting

Nomination, Remuneration and Governance Committee meetings in 2022

Members	2 Feb*	16 Feb	27 Feb	21 Jun*	6 Sep*	18 Oct
Murad Ali Murad	●	●	●	●	●	●
Sh. Khalifa bin Duaij Al Khalifa	●	●	●	●	×	●
Mohamed Abdulrahman Hussain	●	●	●	●	●	●
Edrees Musaed Ahmed	●	●	●	●	●	●

* Unscheduled meeting

Risk Committee meetings in 2022

Key: ● Attended × Absent ☐ was not a member during this period ⊝ did not attend due to conflict of interest.

Members	15 Feb	24 Apr	20 Jul	19 Oct
Jassem Hasan Ali Zainal	●	●	●	●
Hani Ali Al Maskati	●	●	☐	☐
Naser Khaled Al Raee	●	●	●	●
Ghaneya Mohsen Al Durazi	●	●	●	●
Sh. Khalifa Bin Duaij Al Khalifa	●	●	×	●

Independent Directors' Committee meetings in 2022

Members	23 Feb
Murad Ali Murad	●
Jassem Hasan Ali Zainal	●
Sh. Khalifa bin Duaij Al Khalifa	●
Mohamed Abdulrahman Hussain	●
Ghaneya Mohsen Al Durazi	●

Notes: The full text of the Board Committees are published on the bank's website www.bbkonline.com.

Other meetings

Mr Murad Ali Murad, Chairman of the Board, attended the periodical CBB prudential meetings on 17 February 2022 and Mr Mohamed A.Rahman Hussain, Board Member, attended the same on 17 November 2022

Shariah Supervisory Board disclosures

In 2016, the Bank established a Shariah Supervisory Board as the Bank conducts some of its transactions according to the Islamic Shariah and must ensure that these transactions are within Shariah standards and norms as required by the regulatory authority in the Kingdom. The AGM in its meeting on 24 March 2020 approved forming the Shariah Supervisory Board and nomination of its members for three renewable years. The Shariah Supervisory Board members and the meetings during 2022 are as follows:

Shariah Supervisory Board attendance in 2022

Members	31 May	29 Nov	12 Dec
Dr. Osama Bahar (Chairman)	●	●	●
Sh. Abdulnasser Al Mahmood (Member)	●	●	●
Dr. Adel Al Marzooqi (Member)	●	●	●

Communication strategy

The Bank has an open policy on communication with its stakeholders, and has adopted a communication disclosure policy consistent with Basel II requirements. Shareholders are invited by the Chairman to attend the AGM. The Chairman and other Directors attend the AGM and are available to answer any questions. The Bank is at all times mindful and conscious of its regulatory and statutory obligations regarding dissemination of information to its stakeholders.

The Bank provides information on all events that merit announcement, either on its website – www.bbkonline.com – or through other forms of publication. The Bank's annual report and three years' financial statements are also published on the website, as well as the Bank's Corporate Governance Report, Corporate Governance Framework, Whistle-Blowing Policy, Board Charter, Code of Conduct, Key Persons' Dealing Policy, and Terms of Reference of all Board Committees. Shareholders can complete an online form, which can be found on the website, to forward any queries they may have.

The Bank uses a bulletin board for communicating with its employees on general matters, and sharing information of common interest and concern.

Remuneration Report

The Bank follows a total compensation approach to remuneration. This includes the Bank's variable remuneration policy for rewarding performance as well as providing competitive fixed remuneration for attracting and retaining talent.

The Bank adopted regulations concerning sound remuneration practices issued by the Central Bank of Bahrain in 2014, and consequently revised its variable remuneration framework. The revised policy framework and incentive components were approved by the shareholders in the Annual General Meeting on 10 March 2015 and reviewed on 28 March 2022.

Remuneration strategy

The Bank's basic compensation philosophy is to provide a competitive level of total compensation to attract and retain qualified and competent employees. The Bank's variable remuneration policy is driven primarily by a performance-based culture that aligns employee interests with those of the shareholders of the Bank. These elements support the achievement of the objectives through balancing rewards for both short-term results and long-term sustainable performance. The strategy is designed to share the success of the Bank and to align employees' incentives with the risk framework and risk outcomes.

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

1. Fixed pay
2. Benefits
3. Annual (short term) performance bonus
4. Annual (long term) performance bonus

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

The Bank's remuneration policy, in particular, considers the role of each employee and sets the criteria to determine whether an employee is a material risk-taker and/or an approved person in a business line, control or support function.

An approved person is an employee whose appointment requires prior regulatory approval because of the significance of his role within the Bank, and an employee is considered a material risk- taker if they are the head of a significant business line or any individuals within their control who have a material impact on the Bank's risk profile.

In order to ensure alignment between what we pay our people and our business strategy, we assess individual performance against annual and long-term financial and non-financial objectives, summarised in our performance management system.

This assessment also takes into account adherence to the Bank's values, risks and compliance measures, and, above all, integrity. Altogether, performance is therefore judged not only on what is achieved over the short and long term but, importantly, also on how it is achieved in order to ensure the long-term sustainability of the business.

Nomination, Remuneration and Governance Committee (NRG) role and focus

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

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

- Approve, monitor, and review the remuneration system to ensure the system operates as intended.
- Evaluate the approved persons' and material risk-takers' performance in light of the Bank's corporate goals, agreed strategy, objectives and business plans.
- Review and recommend remuneration for the approval of the Board.
- Approve the remuneration amounts for each approved person and material risk-taker, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, contributions, expenses, bonuses, and other employee benefits.
- Recommend the Group Chief Executive's remuneration for the Board of Directors' approval.
- Ensure remuneration is adjusted for all types of risks and that the remuneration system takes into consideration employees that generate the same short-run profit but take a different amount of risk on behalf of the Bank.
- Ensure that for material risk-takers, variable remuneration forms a substantial part of their total remuneration.
- Review the stress testing and backtesting results before approving the total variable remuneration to be distributed, including salaries, fees, expenses, bonuses, and other employee benefits.
- Carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The NRG will question payouts for income that cannot be realised or whose likelihood of realisation remains uncertain at the time of payment.
- Ensure that for approved persons in risk management, internal audit, operations, financial control, and compliance functions, the mix of fixed and variable remuneration is weighted in favor of fixed remuneration.
- Recommend Board member remuneration based on their attendance and performance and in compliance with Article 188 of the Bahrain Commercial Companies Law.
- Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves not to use personal hedging strategies or remuneration and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

NRG Members

As outlined in the Corporate Governance section of the annual report, the Board is satisfied that all Directors are non-executive and that the majority of the NRG members are independent including the Chairman of the Committee. The NRG comprises the following members:

NRG member name	Appointment date	Number of meetings attended	
		2022	2021
Murad Ali Murad	20 June 2004	**6**	4
Sh Khalifa bin Duaij Al Khalifa	6 March 2011	**5**	4
Mohamed Abdulrahman Hussain	29 March 2017	**6**	4
Edrees Musaed Ahmad	24 March 2020	**6**	4

The aggregate remuneration paid to NRG members during the year in the form of sitting fees amounted to BD 13,000 [2021: BD 9,000].

Scope of application of the remuneration policy

The variable remuneration policy is adopted on a group basis covering BBK Bahrain, BBK Kuwait and the representative offices in Dubai & Turkey. BBK India compensation practices are aligned with the Principles for Sound Compensation Practices issued by the Financial Stability Board (FSB) in April 2009 and adopted by the Reserve Bank of India. Invita and CrediMax are excluded because the remuneration guidelines are not applicable to them.

Board remuneration

The Bank's Board remuneration is determined in line with the provisions of Article 188 of the Bahrain Commercial Companies Law, 2001. The Board of Directors' remuneration will be capped so that total remuneration (excluding sitting fees) does not exceed 10 percent of the Bank's net profit after all required deductions in any financial year. Board remuneration is subject to approval of the shareholders in the AGM. Remuneration of non-executive Directors does not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses, or pension benefits.

The Bank has adopted a policy approved by the Board of Directors to apply to the Directors' remunerations and compensation for their involvement in the activities of the Board of Directors and its ad hoc, temporary and permanent committees. The following are established bases relating to the directors' compensation and Remuneration:

- Members of the Board should be treated equitably when they are compensated for additional work or effort in their participation in Board ad hoc, temporary or permanent committees.
- The principle of participation is to attend meetings as much as possible and therefore no payment will be made for non-attendance of meetings of committees. Attendance of the meeting via Telephone/Video conference shall be considered an attendance of the meeting.
- The payment of Director's remuneration is governed by Commercial Companies Law No. 21 for the year 2001 and any amendments thereto and therefore such payment must comply with the provision of the Law.
- The Director's Remuneration which is a recommendation by the Board of Directors to the Annual General Assembly will be paid equally to the members with the exception of the Chairman of the Board who will receive 200% of that paid to ordinary directors due to his additional responsibility. The Director is entitled for a one time excuse for not attending a meeting during a year. BD 500/- will be deducted for each additional absence of the scheduled meetings.
- Directors shall receive BD 500 as sitting fees for attending any Board Committee meeting. The Chairman of a Board Committee shall receive 150% of the said amount due to his additional responsibility. Directors shall receive BD 600 for any Bank related assignment up to 3 days within the region covering all expenses during travel other than return flight air fare.
- There are no other remuneration methods for Board members and salaries, performance shares, bonuses are not applicable to Board members.

Board of Directors Remuneration

Name	Fixed remunerations					Variable remunerations					End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
	Remunerations of the chairman and BOD	Total allowance for attending Board and committee meetings	Salaries	Others (Travel Allowance only)	Total	Remunerations of the chairman and BOD	Bonus	Incentive plans	Others	Total			
First: Independent Directors:													
Mr. Murad Ali Murad	85,000	9,000	–	–	94,000	–	–	–	–	–	–	94,000	–
Sh. Abdulla Bin Khalifa Al Khalifa	42,500	5,000	–	600	48,100	–	–	–	–	–	–	48,100	–
Mr. Jassem Hasan Ali Zainal	42,000	6,000	–	4,200	52,200	–	–	–	–	–	–	52,200	–
Sh. Khalifa Bin Duaij Al Khalifa	42,500	6,500	–	–	49,000	–	–	–	–	–	–	49,000	–
Mr. Mohamed A.Rahman Hussain	42,500	11,000	–	600	54,100	–	–	–	–	–	–	54,100	–
Dr. Ghaneya Mohsin Al Derazi	42,500	2,500	–	–	45,000	–	–	–	–	–	–	45,000	–
Second: Non-Executive Directors:													
Mr. Hani Ali Rashed Al Maskati	27,130	1,000	–	–	28,130	–	–	–	–	–	–	28,130	–
Mr. Edrees Musaed Ahmed	* 42,500	* 5,500	–	7,800	55,800	–	–	–	–	–	–	55,800	–
Mr. Arif Haider Rahimi	15,370	–	–	–	15,370	–	–	–	–	–	–	15,370	–
Mr. Mishal Ali Al Hellow	** 42,500	5,000	–	600	48,100	–	–	–	–	–	–	48,100	–
Mr. Nasser Khalid Al Ravee	** 42,500	2,000	–	–	44,500	–	–	–	–	–	–	44,500	–
Mrs. Noor Nael Al Jassim	*42,500	* 4,500	–	6,000	53,000	–	–	–	–	–	–	53,000	–
Third: Executive Directors:													
Mr. Ashraf Adnan Bseisu	42,500	4,500	–	600	47,600	–	–	–	–	–	–	47,600	–
Total	**552,000**	**62,500**		**20,400**	**634,900**	**–**	**–**	**–**	**–**	**–**	**–**	**634,900**	**–**

Note:
1. All amounts are in Bahraini Dinars.
2. The remuneration for membership of the Board of Directors was paid in the year 2022 after obtaining the approval of the Ordinary General Assembly.

* Amount paid to Kuwait Investment Authority (KIA).

** Amount paid to Social Insurance Organization (SIO).

Employees’ variable remuneration

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

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

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

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

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

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

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

This year the Bank has modified the performance management system to align employees’ remuneration with their level of compliance, in line with Central Bank directives.

Remuneration Report (Continued)

Remuneration of control and support functions

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

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

Variable compensation for business units

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

Risk assessment framework

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

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

Risk adjustments take into account all types of risk, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The Bank undertakes risk assessments to review financial and operational performance against business strategy and risk performance prior to distribution of the annual bonus.

The Bank ensures that total variable remuneration does not limit its ability to strengthen its capital base. The extent to which capital needs to be built up is a function of the Bank's current capital position and its ICAAP.

The Risk Assessment Framework is subject to periodic review in order to bring it in line with the latest trends and practices in risk assessment and reflect more focus on the Bank's risk strategy. The last review was conducted and approved by the Board of Directors in October 2022. The review incorporated enhancements of existing risk parameters and adding new measures related to Compliance & Cyber Security.

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

(a) The cost and quantity of capital required to support the risks taken.

(b) The cost and quantity of the liquidity risk assumed in the conduct of business.

(c) Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

Risk adjustments

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

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

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

  The NRG, with the Board's approval, can rationalise and make the following discretionary decisions:
- Increase/reduce the ex-post adjustment.
- Consider additional deferrals or increase in the quantum of non-cash awards.
- Recovery through malus and claw back arrangements.

Malus and claw back framework

The Bank's malus and claw back provisions allow the Bank's Board of Directors to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited/adjusted or the delivered variable remuneration recovered in certain situations. The intention is to allow the Bank to respond appropriately if the performance factors on which reward decisions were based turn out not to reflect the corresponding performance in the longer term. All deferred compensation awards contain provisions that enable the Bank to reduce or cancel the awards of employees whose individual performance has had a materially detrimental impact on the Bank during the concerned performance year.

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

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

- Reasonable evidence of wilful misbehaviour, material error, negligence or incompetence of the employee causing the Bank/ the employee's business unit to suffer material loss in its financial performance, material misstatement of the Bank's financial statements, material risk management failure or reputational loss or risk due to such employee's actions, negligence, misbehaviour or incompetence during the concerned performance year.
- The employee deliberately misleads the market and/or shareholders in relation to the financial performance of the Bank during the concerned performance year.

Claw back can be used if the malus adjustment on the unvested portion is insufficient given the nature and magnitude of the issue.

Components of variable remuneration

Variable remuneration has the following main components:

Upfront cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred cash	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over three years.
Upfront short-term share awards	The portion of variable compensation that is awarded and issued in the form of shares on conclusion of the performance evaluation process for each year.
Deferred short-term share awards	The portion of variable compensation that is awarded and paid in the form of shares on a pro-rata basis over three years.
Long-term performance share awards	Share-based reward schemes, under which the Bank allocates certain numbers of shares every year to executive management and senior employees based on performance, potential, and job criticality level. Following the assessment of the performance of the Bank against the target performance conditions stipulated for the period, the ownership of the vested shares is transferred to the individual employee.

All deferred and long-term awards are subject to malus provisions. All share awards and related dividends are released to the benefit of the employee after a six-month retention period from the date of vesting. The number of equity share awards is linked to the Bank's share price as per the rules of the Bank's Share Incentive Scheme.

All the shares and deferred cash components of the variable remuneration are being held and administered in a trust registered in the Kingdom of Bahrain.

Deferred compensation

All employees at senior management level and above or earning BD 100,000 per annum in Bahrain and overseas branches, excluding India, are subject to the following rules of deferral:

1. Group CE, and 5 highest paid business line employees:

Element of variable remuneration	Payout percentages	Vesting period	Retention	Malus	Claw back
Upfront cash	40%	immediate	–	–	Yes
Deferred cash	10%	3 years	–	Yes	Yes
Deferred share awards	50%	3 years	6 months	Yes	Yes

2. All other covered staff:

Element of variable remuneration	Payout percentages	Vesting period	Retention	Malus	Claw back
Upfront cash	50%	immediate	–	–	Yes
Deferred cash	10%	immediate	6 months	Yes	Yes
Deferred share awards	40%	3 years	6 months	Yes	Yes

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

Remuneration Report (Continued)

Details of remuneration paid

(a) Board of Directors

	2022 BD	2021 BD
Sitting fees and travel allowance	**95,713**	83,300
Remuneration*	**552,000**	552,500
Others	**32,147**	16,737

(b) Board of Directors of subsidiaries

	2022 BD	2021 BD
Sitting fees and travel allowance	**7,800**	8,100
Remuneration*	**95,250**	91,399
Others	**–**	-

* The amount received during the year for the performance of the previous year.

(c) Employees

1. Employee remuneration

BD 000's	2022									
		Fixed remuneration	Sign on bonuses	Guaranteed bonuses	Variable remuneration					Total
					Upfront		Deferred			
	Number of staff	Cash	(Cash/ shares)	(Cash/ shares)	Cash	Shares	Cash	Shares	Others	
Approved Persons Business lines	**11**	**2,228**	**–**	**–**	**762**	**10**	**143**	**785**	**–**	**3,928**
Approved Persons Control and support	**12**	**1,824**	**–**	**–**	**572**	**98**	**–**	**408**	**–**	**2,903**
Other material risk-takers	**43**	**3,721**	**–**	**–**	**867**	**173**	**–**	**694**	**–**	**5,456**
Other Staff Bahrain Operations	**579**	**14,311**	**–**	**–**	**1,949**	**3**	**–**	**14**	**–**	**16,277**
Other Staff Branches and Subsidiaries	**650**	**8,584**	**–**	**–**	**693**	**–**	**–**	**–**	**–**	**9,277**
Total	**1,295**	**30,667**	**–**	**–**	**4,843**	**285**	**143**	**1,900**	**–**	**37,839**

The number of headcount includes BBK, its overseas branches and direct wholly owned subsidiaries.

Other Indirect adjustments to staff cost accruals amounting to BD 166,132 have been included in the table above.

Other Indirect staff cost amounting to BD 45,075 have not been included in the table above.

Board Representation Allowance paid during 2022 to Members of Executive Management for representing the Bank in the boards of wholly owned subsidiaries and / or associate companies of BBK amounting BD 183,505 have been included in the table above.

The total amount of remuneration includes severance payments during the year amounted to BD 372,866 of which the highest paid to a single person amounted to BD 83,450.

An amount of BD 281,044 related to last year carried forward in variable remuneration is included in the table above.

BD 000's	2021									
		Fixed remuneration	Sign on bonuses	Guaranteed bonuses	Variable remuneration					Total
					Upfront		Deferred			
	Number of staff	Cash	(Cash/ shares)	(Cash/ shares)	Cash	Shares	Cash	Shares	Others	
Approved Persons Business lines	13	2,152	–	–	741	20	126	729	–	3,768
Approved Persons Control and support	10	1,669	–	–	427	72	-	301	–	2,469
Other material risk-takers	33	3,344	–	–	672	128	8	562	–	4,715
Other Staff Bahrain Operations	563	13,625	–	–	2,161	4	–	16	–	15,806
Other Staff Branches and Subsidiaries	663	8,785	–	–	578	1	–	3	–	9,367
Total	1,282	29,575	–	–	4,580	225	134	1,611	–	36,124

The number of headcount includes BBK, its overseas branches and direct wholly owned subsidiaries.

Other Indirect adjustments to staff cost accruals amounting to BD 370,191 have not been included in the table above.

Board Representation Allowance paid during 2021 to Members of Executive Management for representing the Bank in the boards of wholly owned subsidiaries and / or associate companies of BBK amounting BD 187,234 have been included in the table above.

The total amount of remuneration includes severance payments during the year amounted to BD 565,776 of which the highest paid to a single person amounted to BD 226,944.

The amount of total variable remuneration has been adjusted by BD 281,044 to reflect the actual payment.

2. Deferred awards

	2022			
		Shares		
	Cash BD '000	Number	BD '000	Total BD '000
Opening balance	**445**	**14,918,647**	**6,015**	**6,460**
Awarded during the period*	**143**	**4,330,070**	**2,165**	**2,308**
Paid out/released during the period	**(168)**	**(3,999,980)**	**(1,828)**	**(1,996)**
Service, performance and risk adjustments	**–**	**–**	**–**	**–**
Bonus share adjustment	**–**	**956,500**	**–**	**–**
Closing balance	**421**	**16,205,237**	**6,352**	**6,773**

* The number of shares for the 2022 Deferred Awards has been calculated using the year-end closing share price at BD 0.500 fils per share, as the award price will be determined 14 days after the AGM.

	2021			
		Shares		
	Cash BD '000	Number	BD '000	Total BD '000
Opening balance	509	14,744,157	6,257	6,765
Awarded during the period*	134	3,657,002	1,836	1,969
Paid out/released during the period	(197)	(4,580,897)	(2,078)	(2,275)
Service, performance and risk adjustments	–	–	–	–
Bonus share adjustment	–	1,098,385	–	–
Closing balance	445	14,918,647	6,015	6,460

** The number of shares for the 2021 Deferred Awards have been recomputed based on the share price 14 days after the AGM of the Bank at BD 0.502 per share, and updated for the actual awards distributed to staff during 2021.

In the case of long-term incentive plan awards, the shares awarded have been included for the purposes of the table above, assuming the probability of vesting.

Information on share awards included above also include components of long-term performance-based incentive awards (LTIP shares). The amounts included in the tables are based on total awards granted for the performance year and may not necessarily match the accounting charge which factors probability of vesting.

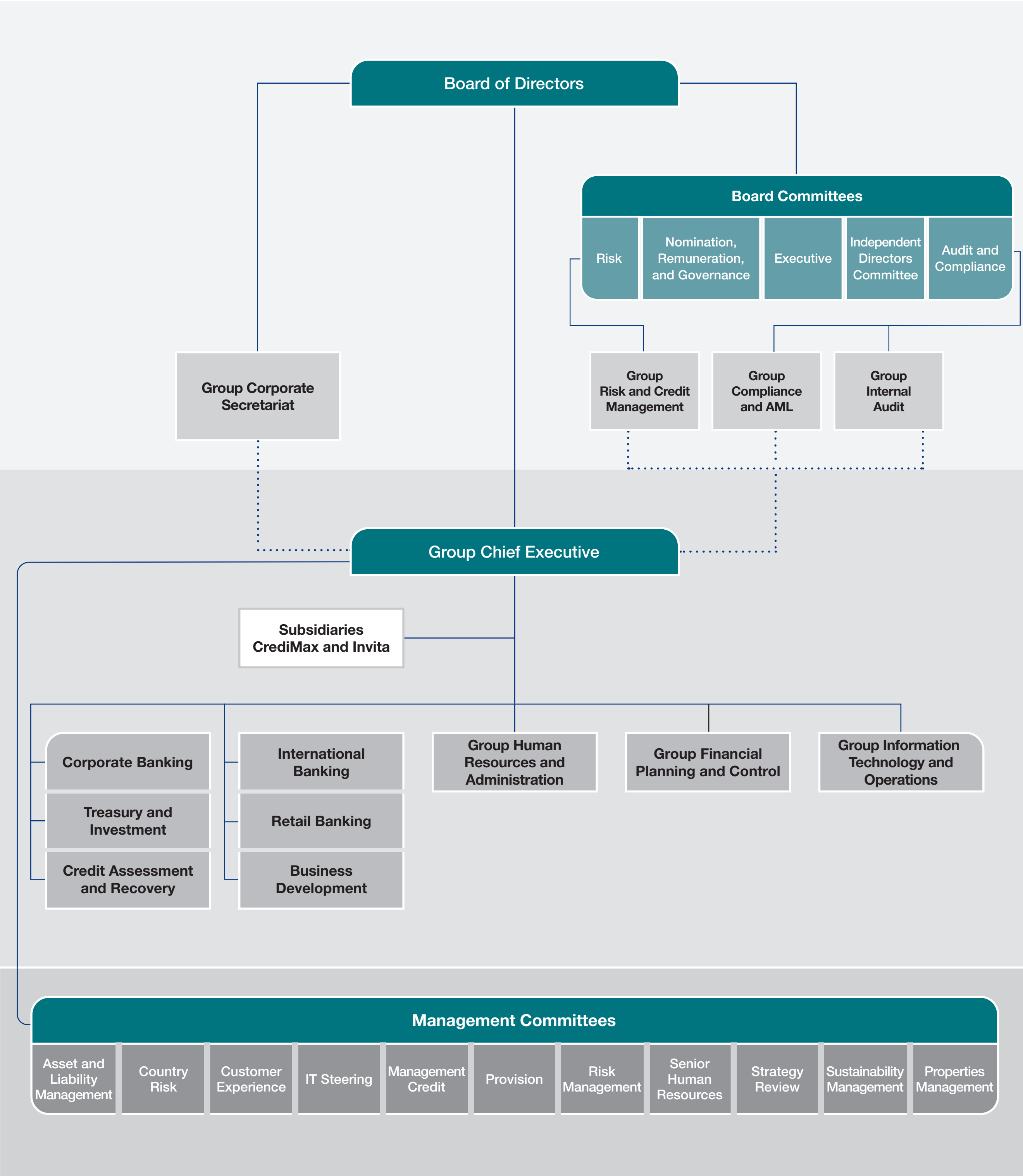
3. Top 6 Remuneration for Executives, Including Group Chief Executive and Group Chief Financial Officer

Executive management	Total paid salaries and allowances 2022	Total paid remuneration (bonus) 2022	Any other cash/ in kind remuneration for 2022	Aggregate Amount 2022
Top 6 remunerations for executives, including CE and Chief Financial Officer	1,741,994	1,320,365 *	154,430 **	3,216,789

Note: All amounts are in Bahraini Dinars.
* Out of this amount, BD 802,486 was paid in Cash and BD 517,879 was paid in Shares during the year 2022.
** This represents the value of number of long term shares vested during the year 2021.

Organisation Information

Organisation structure



The above organisational structure was approved by the Board of Directors on 26th April 2021.

Executive management interests

The number of shares and bonds held by members of the Executive Management team was as follows:

Name	Type of shares	31 Dec 2022	31 Dec 2021	Bonds 31 Dec 2022	Bonds 31 Dec 2021
Dr. Abdulrahman Ali Saif	Ordinary	**1,727,326**	1,077,882	**–**	–
Hassaan Mohammed Burshaid	Ordinary	**668,785**	789,805	**–**	–
Mohammed Abdulla Isa	Ordinary	**–**	80,047	**–**	–
Hassan Mohamed Abouzeid	Ordinary	**–**	–	**–**	–
Abhik Goswami	Ordinary	**–**	–	**–**	–
Nadeem A. Aziz Kooheji	Ordinary	**200,000**	181,134	**–**	–
Adel Abdulla Salem	Ordinary	**–**	279,021	**–**	–
Raj Dugar	Ordinary	**222,979**	121,608	**–**	–
Mohamed Ahmed Noor AlRayes	Ordinary	**72,580**	30,165	**–**	–
Alexandar Ewan Stirling	Ordinary	**–**	–	**–**	–
Ahmed Taqi	Ordinary	**215,190**	143,794	**–**	–
Simone Carminati	Ordinary	**553,307**	219,688	**–**	–
Nadeen Al Shirawi	Ordinary	**183,781**	136,650	**–**	–

Executive Senior Management trading of the Bank's shares and bonds during 2022

Name	Trading through Bahrain Bourse	Date of trading
Hassaan Mohammed Burshaid	Sold 200,000 shares	06 September 2022
Mohammed Abdulla Isa	Sold 80,047 Shares	09 March 2022
Nadeem Al Kooheji	Sold 10,000 Shares	23 March 2022
	Sold 29,247 Shares	10 April 2022
	Sold 19,000 Shares	15 May 2022
	Sold 20,000 Shares	23 August 2022
	Sold 17,364 Shares	17 October 2022
Adel Abdulla Salem	Sold 306,923 shares	06 September 2022

Management Committees

Management Committees are chaired by the Group Chief Executive. Committee members are heads of the relevant divisions appointed by the Committee Chairman.

Committee	Summary terms of reference, roles and responsibilities:	Frequency of meetings:
Asset and Liability Management – ALMC	Establishes policies and guidelines for the overall management of the statement of financial position and its associated risks.	At least once a month
Country Risk – CRC	Reviews and approves the country wise strategy and exposure limits for currency, industry sector, type, secured/unsecured exposures.	Minimum 6 meetings in a year
Customer Experience	Customer Experience Committee to monitor customer satisfaction, feedback, complaints, and suggestions across all channels, including in-branch, social media, call center, website, and mobile, to identify key business drivers and improve customer satisfaction loyalty.	Once every quarter
IT Steering	Direct, review, and approve IT strategic plans, oversee major initiatives, prioritizes initiatives across the Bank as a whole, and review/assess the Bank's technology maturity on an ongoing basis.	Every two months
Management Credit – MCC	Approves credit and investment proposals above a specific limit. Also reviews and recommends any proposal is requiring Executive Committee or Board approval.	Once a week
Provision – PC	Reviews and establishes provisioning requirements for loans, advances, and investments.	Once every quarter
Risk Management – RMC	Identifies, measures, monitors, and controls risk by establishing risk policies and procedures.	Once every quarter
Senior Human Resources – SHRC	Establishes appropriate policies, procedures, and guidelines for the management of human resources.	Once every other month
Strategy Review	Reviews and monitors progress on strategic initiatives.	Twice a year
Sustainability Management	Implement policies, strategies, and programs related to sustainability, set and review KPIs on key sustainability topics and ensure their incorporation in the Banks strategies, capture material issues affecting the business from an unexpected risks and opportunities perspective, and provide data and information to support the production of an annual sustainability report.	Quarterly
Properties Management	Review and recommend property-related policies, management of liquidation processes of acquired properties, monitoring compliance to internal policies and regulations	Quarterly

Organisation Information (Continued)

Major BBK shareholdings as of 31 December 2022

The company's ownership in other companies listed on the Bahrain Bourse (5% and above):

Name/Entity	Nationality/ Headquarters	Legal status	Ownership date	%	Number of shares	
					31 Dec 2022	31 Dec 2021
Bahrain Kuwait Insurance (BKIC)	Bahrain	B.S.C.	2006	6.82	**10,237,379**	10,237,379
Securities Investment Company (SICO)	Bahrain	B.S.C. (c)	2006	7.91	**34,913,024**	33,896,140
Bahrain Commercial Facilities Company (BCFC)	Bahrain	B.S.C.	1994	23.03	**47,023,363**	47,023,363

Major shareholders of the company's outstanding shares (5% and above):

Name/Entity	Nationality/ Headquarters	Legal status	Ownership date	%	Number of shares	
					31 Dec 2022	31 Dec 2021
Al Salam International W.L.L	Bahrain	W.L.L	2022	26.19	**431,550,793**	–
Social Insurance Organization (Pension Fund Commission)	Bahrain	Governmental Institution	1986	19.27	**317,554,008**	288,685,463
Kuwait Investment Authority (KIA)	Kuwait	Investment Company	1990	19.20	**316,317,864**	287,561,695
Social Insurance Organization (GOSI)	Bahrain	Governmental Institution	1986	13.70	**225,698,619**	205,180,563

The Bank's holdings in other companies (Quoted / unquoted in / out Kingdom of Bahrain) (10% and above):

Name/Entity	Nationality/ Headquarters	Legal status	Ownership date	%	Number of shares	
					31 Dec 2022	31 Dec 2021
CrediMax	Bahrain	B.S.C. (c)	1999	100.00%	**10,000,000**	10,000,000
Invita	Bahrain	B.S.C. (c)	2006	100.00%	**1,000,000**	1,000,000
973 Labs Co. W.L.L[(1)]	Bahrain	W.L.L	2022	100.00%	**500,000**	500,000
Global Payment Services[(2)]	Bahrain	W.L.L	2005	70.00%	**12,728**	12,728
The Benefit Company	Bahrain	B.S.C. (c)	1997	22.00%	**6,843**	6,843
Naseej Company	Bahrain	B.S.C.	2009	15.15%	**130,909,096**	130,909,096
Alosra Bank	Bahrain	B.S.C.	2009	10.00%	**2,000,000**	2,000,000
Diyyar Al Harameen Al Ola Limited	Cayman Island	W.L.L	2011	35.00%	**16,450,000**	16,450,000
BBK Geojit Securities KSC	Kuwait	K.S.C.	2012	40.00%	**2,000,000**	2,000,000
Invita - Kuwait[(3)]	Kuwait	K.S.C. (c)	2014	40.00%	**400,000**	400,000
Aegila Capital Management Limited	London	L.T.D.	2015	50.00%	**2,800,000**	2,800,000
Bahrain Liquidity Fund	Bahrain	L.T.D.	2016	24.27%	**9,046**	9,046
Magnum Partners Holding Limited	Jersey	L.T.D.	2018	49.96%	**6,958,001**	6,958,001
Evoque Holdings Jersey Limited	Jersey	L.T.D.	2018	24.99%	**6,082,500**	6,082,500
LSE Jersey Holdings Limited Partnership	Jersey	L.T.D.	2019	45.00%	**1**	1

(1) Shareholding through Credimax & Invita
(2) Shareholding through Credimax
(3) Shareholding through Invita

BBK offices and overseas branches

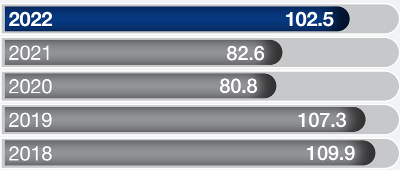
For contact details of our local and international offices and branches, please visit our website www.bbkonline.com. The Bank is headquartered in Bahrain and also operates in Dubai, Turkey, Kuwait and India.

Part III

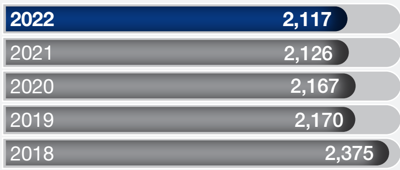
Financial Information

Financial review

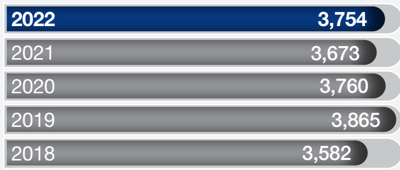
Net interest income
BD millions



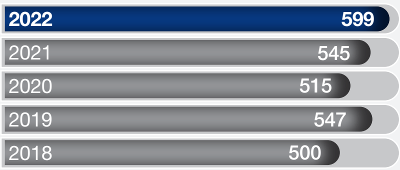
Customer deposits
BD millions



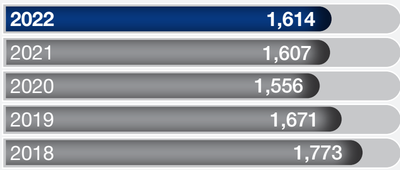
Total assets
BD millions



Total equity
BD millions



Loans and advances
BD millions



The key financial indicators of the Bank remain healthy with a return on average assets of 1.7 percent and a return on average equity of 11.7 percent.

Overview

The Group achieved a net profit, attributable to the owners of the Bank, of BD 64.4 million for the year ended 31 December 2022, an increase of 21.3 percent over the 2021 results.

The Group's key financial indicators remain strong, with a return on average assets of 1.7 percent and a return on average equity of 11.7 percent. The basic and diluted earnings per share amounted to 39 fils compared to 32 fils during the previous year. The Group also maintained a comfortable liquidity position with its liquid to total assets standing at 31.7 percent by the end of 2022 compared to 32.6 percent the previous year.

This section provides a review of our Group's financial performance, focusing on the consolidated operating results and BBK's consolidated statement of financial position, including its overseas branches, subsidiaries, joint ventures, associated companies, and indirect investment in associates through subsidiaries.

The consolidated financial statements are prepared and presented in accordance with International Financial Reporting Standards, and in conformity with the Bahrain Commercial Companies Law, the CBB and Financial Institutions law, and the CBB's rulebook, directives, regulations, and associated resolutions, as well as the rules and procedures of the Bahrain Bourse and the terms of the Bank's memorandum and articles of association.

Operating results

The net profit attributable to the owners of the Bank increased by 21.3 percent from last year, amounting to BD 64.4 million. The total operating income (including share of results from associated companies and joint ventures) reported for the year increased by BD 20.9 million or 17.8 percent (standing at BD 138.2 million), mainly due to the interest rate hikes and the active balance sheet management followed by the Bank.

Net provision charges increased from BD 2.9 million in 2021 to BD 8.0 million in 2022. This is due to the Bank's prudent risk management approach, and to further strengthen the Bank's financial resilience given the challenging economic environment.

Net interest income

Net interest income increased by 24.1 percent to BD 102.5 million (2021: 82.6 million) mainly due to interest rate hikes during the year, as well as active balance sheet management.

Other income

Other operating income consists of non-interest income derived from business activities such as dealing in foreign currencies, investing in funds other than fixed-income funds, the sale of corporate banking and retail banking services, investment trading, and income from associated companies and joint ventures.

Total other income (including the share of results from associated companies and joint ventures) reported for 2022 stood at BD 35.7 million compared to BD 34.7 million in 2021. Net fee and commission, being the main component of total other income, stood at BD 18.6 million, compared to BD 15.9 million last year. The increase is mainly due to the release of regulatory caps on fees and charges that were in place during 2021 to ease the impact of COVID-19 on local businesses. Other income relating to foreign exchange and investment decreased from BD 17.1 million to BD 15.8 million during the year. The Bank's share of profit from associated companies and joint ventures decreased from BD 1.7 million last year to BD 1.3 million in 2022.

Summary of the consolidated statement of profit or loss

BD millions	2022	2021	Variance BD millions	Change percent
Net interest income	**102.5**	82.6	19.9	24.1%
Other income	**35.7**	34.7	1.0	2.9%
Total income (including share of profit from associated companies and joint ventures)	**138.2**	117.3	20.9	17.8%
Operating expenses	**(64.5)**	(60.8)	(3.7)	6.1%
Net provisions	**(8.0)**	(2.9)	(5.1)	175.9%
Profit before taxation	**65.7**	53.6	12.1	22.6%
Taxation and non-controlling interest	**(1.3)**	(0.5)	(0.8)	160.0%
Net profit attributable to owners of the Bank	**64.4**	53.1	11.3	21.3%

Operating expenses

Due to the continuous investment in human capital, technologies, the implementation and achievement of strategic initiatives, including digitalization and enhancing banking channels to improve the customer experience, the Group's operating expenses increased by 6.1 percent, from BD 60.8 million to BD 64.5 million. Staff costs increased by 2.8 percent, and non-staff related costs increased by 11.0 percent, reaching BD 27.2 million (2021: BD 24.5 million). Backed by its prudent cost control policy and strong revenue-generating capability, the cost to income ratio improved to 46.7 percent (2021: 51.8 percent).

Net provisions

The Group applies a three-stage approach to measuring expected credit losses on financial assets carried at amortised cost and debt instruments classified as fair value through other comprehensive income (FVOCI). Assets migrate through three stages, based on the significant change in credit risk since initial recognition. This approach of provisioning for impairment of the Bank's financial assets is aimed at providing more realistic estimates of the impairment in the value of assets.

In 2022, net provision charges increased to BD 8.0 million, compared to BD 2.9 million in 2021. This was due to the Bank's prudent risk management approach, and strengthens the Bank's financial resilience given the challenging economic environment.

Comprehensive income

The Bank's total comprehensive income, attributable to the owners of the Bank, stood at BD 84.5 million for the year ended 31 December 2022, compared to BD 59.5 million for the year ended 31 December 2021. The increase is due to positive market valuations and higher net profit from core activities.

Financial position

The Group maintained its strong financial position and comfortable liquidity.

Assets

Total assets stood at BD 3,753.9 million as at 31 December 2022, an increase of 2.2 percent over BD 3,672.7 million the previous year. Net loans and advances stood at BD 1,614.0 million (2021: BD 1,607.2 million), while the investment securities portfolio registered a decrease of 7.3 percent, standing at BD 914.2 million compared to BD 985.8 million as of end of December 2021.

Liabilities

The funding structure of the Group remains strong with minimal reliance on the interbank market. Customer deposits remained the main source of funding, representing 67.1 percent of total liabilities. The Group continued to grow its retail customer base, increasing its retail liabilities to BD 1,133.3 million (2021: BD 1,112.2 million), while total customer deposits stood at BD 2,116.6 million as of end of December 2022 (2021: BD 2,125.6 million). Borrowing under repurchase agreements and term borrowings remain integral parts of the Bank's medium and stable funding sources, with the former standing at BD 377.4 million at the end of the year (2021: BD 383.2 million), and the latter standing at BD 263.9 million at the end of the year (2021: BD 245.1 million). This is due to the introduction of a new term debt facility of USD 50 million during the second quarter of 2022.

Consolidated statement of financial position

BD millions	2022	2021	Variance BD millions	Change percent
Assets				
Cash and balances with central banks	**416.9**	284.8	132.1	46.4%
Treasury bills	**277.9**	279.2	(1.3)	-0.5%
Deposits and amounts due from banks and other financial institutions	**276.6**	337.5	(60.9)	-18.0%
Loans and advances to customers	**1,614.0**	1,607.2	6.8	0.4%
Investment securities	**914.2**	985.8	(71.6)	-7.3%
Interest receivable, derivative and other assets	**154.5**	78.5	76.0	96.8%
Investments in associated companies and joint ventures	**62.3**	65.0	(2.7)	-4.2%
Premises and equipment	**37.5**	34.7	2.8	8.1%
Total assets	**3,753.9**	3,672.7	81.2	2.2%
Liabilities and Equity				
Liabilities				
Deposits and amounts due to banks and other financial institutions	**289.4**	254.9	34.5	13.5%
Borrowings under repurchase agreement	**377.4**	383.2	(5.8)	-1.5%
Term borrowings	**263.9**	245.1	18.8	7.7%
Customers' current, savings and other deposits	**2,116.6**	2,125.6	(9.0)	-0.4%
Interest payable, derivative and other liabilities	**107.6**	118.7	(11.1)	-9.4%
Total liabilities	**3,154.9**	3,127.5	27.4	0.9%
Equity attributable to the owners of the Bank	**596.3**	542.8	53.5	9.9%
Non-controlling interests	**2.7**	2.4	0.3	12.5%
Total equity	**599.0**	545.2	53.8	9.9%
Total liabilities and equity	**3,753.9**	3,672.7	81.2	2.2%

Capital adequacy

Total equity, attributable to the owners of the Bank, stood at BD 596.3 million at the end of 2022 (2021: BD 542.8 million). The increase of 9.9 percent comes on the back of the current year's profit and improvements in the valuation of investment securities. The Group's capital adequacy ratio stood at 27.3 percent, compared to 23.6 percent at the end of the previous year, well above CBB's minimum regulatory requirement of 14.0 percent for Domestic Systemically Important Banks (D-SIBs). The Group is keen to maintain strong capitalisation through the adoption of a dynamic profit retention policy, to support its future strategic plans.

The strong results achieved by the Group once again demonstrated the Group's ability to withstand challenging economic cycles and reflect BBK's clear vision, robust business model, and adaptive strategies.

Independent auditor's report to the shareholders

Building a better
working world

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of Bank of Bahrain and Kuwait B.S.C. ("BBK B.S.C." or "the Bank") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2022. 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. For the matters below, our description of how our audit addressed the matters is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Expected credit loss on loans and advances

Key audit matter	How the key audit matter was addressed in the audit
The process for estimating Expected Credit Loss ("ECL") on credit risk associated with loans and advances in accordance with IFRS 9 - Financial Instruments ("IFRS 9") is a significant and complex area. IFRS 9 requires use of the ECL model for the purposes of calculating loss allowances. The key areas of judgement applied by the management in the determination of the ECL include: • Determining whether the risk of default on a customer has increased significantly; and • Choosing appropriate models and assumptions for the measurement of ECL, including the changes in forward-looking macroeconomic variables. Due to the complexity of the requirements under IFRS 9, the significance of judgments and estimations applied in the ECL calculations, and the Group's exposure to loans and advances, which account for 43% of the Group's total assets, the audit of ECL for loans and advances is a key area of focus. As at 31 December 2022, the Group's gross loans and advances amounted to BD 1,693.2 million and the related ECL amounted to BD 79.2 million, comprising BD 37.9 million of ECL against Stage 1 and 2 exposures and BD 41.3 million against exposures classified under Stage 3.	Our approach included testing the controls associated with the relevant processes for estimating the ECL and performing substantive procedures on such estimates. With the involvement of our internal specialists, our key audit procedures focused on the following: • We obtained an understanding of the design and tested the operating effectiveness of relevant controls over the ECL model, including approvals for any changes to the model, ongoing monitoring / validation, model governance and mathematical accuracy. We have also tested the completeness and accuracy of the data used in the measurement of the ECL. • We assessed and evaluated: o the Group's IFRS 9 based ECL policy including the Group's determination of the significant increase in credit risk and its' impact on the staging criteria with the requirements of IFRS 9 and regulatory guidelines; o the basis of determination of the management overlays; and o the key management assumptions related to the determination of the future macroeconomic scenarios including forward-looking information and assigning probability weights.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS continued

Key audit matters (continued)

Expected credit loss on loans and advances (continued)

Key audit matter	How the key audit matter was addressed in the audit
Refer to the summary of significant accounting policies, estimates and judgments applied in the measurement of the ECL, disclosures of loans and advances and credit quality in notes 3, 7 and 33 to the consolidated financial statements.	• We reviewed a sample of credit files and performed procedures to assess: o timely identification of exposures with a significant increase in credit risk and appropriateness of the staging; o the process of collateral valuation; and o the ECL recalculation. • We considered the adequacy of the disclosures in the consolidated financial statements in relation to ECL on loans and advances as per the applicable financial reporting standards.

Other information included in the Group's 2022 Annual Report
Other information consists of the information included in the Group's 2022 Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information. Prior to the date of this auditor's report, we obtained the Board of Directors' report, which will form part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available 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 obtained prior to the date of the auditor's 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 the Board of Directors for the consolidated financial statements
The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs 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.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

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

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

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

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

From the matters communicated with the Audit and Compliance Committee, 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 auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by the Bahrain Commercial Companies Law and Volume 1 of the Central Bank of Bahrain Rule Book, 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 report of the Board of Directors’ is consistent with the consolidated financial statements;

c) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the Central Bank of Bahrain (CBB) Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank’s memorandum and articles of association during the year ended 31 December 2022 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position; and

d) satisfactory explanations and information have been provided to us by Management in response to all our requests.

The partner in charge of the audit resulting in this independent auditor’s report is Mr. Essa Al-Jowder.

Ernst & Young

Partner's registration no. 45
22 February 2023
Manama, Kingdom of Bahrain

Consolidated statement of financial position

As at 31 December 2022

	Notes	2022 BD millions	2021 BD millions
ASSETS			
Cash and balances with central banks	4	**416.9**	284.8
Treasury bills	5	**277.9**	279.2
Deposits and amounts due from banks and other financial institutions	6	**276.6**	337.5
Loans and advances to customers	7	**1,614.0**	1,607.2
Investment securities	8	**914.2**	985.8
Interest receivable, derivative and other assets	9	**154.5**	78.5
Investments in associated companies and joint ventures	10	**62.3**	65.0
Premises and equipment	11	**37.5**	34.7
TOTAL ASSETS		**3,753.9**	3,672.7
LIABILITIES AND EQUITY			
Liabilities			
Deposits and amounts due to banks and other financial institutions		**289.4**	254.9
Borrowings under repurchase agreement		**377.4**	383.2
Term borrowings	12	**263.9**	245.1
Customers' current, savings and other deposits	13	**2,116.6**	2,125.6
Interest payable, derivative and other liabilities	14	**107.6**	118.7
Total liabilities		**3,154.9**	3,127.5
Equity			
Share capital	15	**164.8**	149.8
Treasury stock	15	**(4.7)**	(5.0)
Share premium	15	**105.6**	105.6
Statutory reserve	15	**78.5**	72.1
General reserve	15	**64.2**	64.2
Cumulative changes in fair values	16	**14.8**	(7.9)
Foreign currency translation adjustments		**(15.3)**	(12.2)
Retained earnings		**128.9**	129.3
Proposed appropriations	17	**59.5**	46.9
Attributable to the owners of the Bank		**596.3**	542.8
Non-controlling interests		**2.7**	2.4
Total equity		**599.0**	545.2
TOTAL LIABILITIES AND EQUITY		**3,753.9**	3,672.7

Murad Ali Murad
Chairman

Abdulla bin Khalifa bin Salman Al-Khalifa
Deputy Chairman

Dr. AbdulRahman Saif
Group Chief Executive

The attached notes 1 to 49 form part of these consolidated financial statements

Consolidated statement of profit or loss

For the year ended 31 December 2022

	Notes	**2022 BD millions**	2021 BD millions
Interest and similar income	18a	**152.3**	118.4
Interest and similar expense	18b	**(49.8)**	(35.8)
Net interest and similar income		**102.5**	82.6
Fee and commission income – net	19	**18.6**	15.9
Investment and other income	20	**15.8**	17.1
TOTAL OPERATING INCOME		**136.9**	115.6
Staff costs		**(37.3)**	(36.3)
Other operating expenses		**(27.2)**	(24.5)
TOTAL OPERATING EXPENSES		**(64.5)**	(60.8)
Net provisions and credit losses	21	**(8.0)**	(2.9)
NET OPERATING INCOME		**64.4**	51.9
Share of profit from associated companies and joint ventures	10	**1.3**	1.7
PROFIT FOR THE YEAR BEFORE TAX		**65.7**	53.6
Tax expense	22	**(0.7)**	(0.1)
NET PROFIT FOR THE YEAR		**65.0**	53.5
Attributable to:			
Owners of the Bank		**64.4**	53.1
Non-controlling interests		**0.6**	0.4
		65.0	53.5
Basic and diluted earnings per share (BD)	23	**0.039**	0.032

Murad Ali Murad
Chairman

Abdulla bin Khalifa bin Salman Al-Khalifa
Deputy Chairman

Dr. AbdulRahman Saif
Group Chief Executive

The attached notes 1 to 49 form part of these consolidated financial statements

Consolidated statement of other comprehensive income

For the year ended 31 December 2022

	Notes	**2022 BD millions**	2021 BD millions
Net profit for the year		**65.0**	53.5
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Net change in fair value of equity investments measured at fair value through other comprehensive income		**(2.6)**	8.7
Items that are or may be reclassified subsequently to profit or loss			
Movement in translation reserve:			
Foreign currency translation adjustments		**(3.1)**	0.6
Movement in hedging reserve:			
Effective portion of changes in fair value	16	**1.2**	0.5
Movement in fair value reserve:			
Net change in fair value of debt instruments measured at fair value through other comprehensive income	16	**27.0**	0.3
Net amount transferred to profit or loss	16	**(2.4)**	(3.7)
Other comprehensive income for the year		**20.1**	6.4
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**85.1**	59.9
Attributable to:			
Owners of the Bank		**84.5**	59.5
Non-controlling interests		**0.6**	0.4
		85.1	59.9

The attached notes 1 to 49 form part of these consolidated financial statements

Consolidated statement of changes in equity

For the year ended 31 December 2022

		Attributable to the owners of the Bank											
	Notes	Share capital BD millions	Treasury stock BD millions	Share premium BD millions	Statutory reserve BD millions	General reserve BD millions	Cumulative changes in fair values BD millions	Foreign currency translation adjustments BD millions	Retained earnings BD millions	Proposed appropriations BD millions	Total BD millions	Non-controlling interests BD millions	Total equity BD millions
Balance at 1 January 2021		136.2	(5.2)	105.6	66.8	61.6	(11.4)	(12.8)	125.6	45.4	511.8	2.7	514.5
Profit for the year		–	–	–	–	–	–	–	53.1	–	53.1	0.4	53.5
Other comprehensive income		–	–	–	–	–	3.5	0.6	2.3	–	6.4	–	6.4
Total comprehensive income		–	–	–	–	–	3.5	0.6	55.4	–	59.5	0.4	59.9
Share-based payments	42	–	–	–	–	–	–	–	0.5	–	0.5	–	0.5
Dividends paid	17	–	–	–	–	–	–	–	–	(27.0)	(27.0)	(0.2)	(27.2)
Stock dividends	17	13.6	–	–	–	–	–	–	–	(13.6)	–	–	–
Donations	17	–	–	–	–	–	–	–	–	(2.2)	(2.2)	–	(2.2)
Movement in treasury stock	15	–	0.2	–	–	–	–	–	–	–	0.2	–	0.2
Transfer to statutory reserve	15	–	–	–	5.3	–	–	–	(5.3)	–	–	–	–
Transfer to general reserve	15	–	–	–	–	2.6	–	–	–	(2.6)	–	–	–
Movement in non-controlling interests		–	–	–	–	–	–	–	–	–	–	(0.5)	(0.5)
Proposed appropriations	17	–	–	–	–	–	–	–	(46.9)	46.9	–	–	–
Balance at 31 December 2021		149.8	(5.0)	105.6	72.1	64.2	(7.9)	(12.2)	129.3	46.9	542.8	2.4	545.2
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**64.4**	**–**	**64.4**	**0.6**	**65.0**
Other comprehensive income / (loss)		**–**	**–**	**–**	**–**	**–**	**22.7**	**(3.1)**	**0.5**	**–**	**20.1**	**–**	**20.1**
Total comprehensive income / (loss)		**–**	**–**	**–**	**–**	**–**	**22.7**	**(3.1)**	**64.9**	**–**	**84.5**	**0.6**	**85.1**
Share-based payments	42	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**0.6**	**–**	**0.6**	**–**	**0.6**
Dividends paid	17	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(29.7)**	**(29.7)**	**(0.4)**	**(30.1)**
Stock dividends	17	**15.0**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(15.0)**	**–**	**–**	**–**
Donations	17	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2.2)**	**(2.2)**	**–**	**(2.2)**
Movement in treasury stock	15	**–**	**0.3**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**0.3**	**–**	**0.3**
Transfer to statutory reserve	15	**–**	**–**	**–**	**6.4**	**–**	**–**	**–**	**(6.4)**	**–**	**–**	**–**	**–**
Movement in non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**0.1**	**0.1**
Proposed appropriations	17	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(59.5)**	**59.5**	**–**	**–**	**–**
Balance at 31 December 2022		**164.8**	**(4.7)**	**105.6**	**78.5**	**64.2**	**14.8**	**(15.3)**	**128.9**	**59.5**	**596.3**	**2.7**	**599.0**

The attached notes 1 to 49 form part of these consolidated financial statements

Consolidated statement of cash flows

For the year ended 31 December 2022

	Notes	2022 BD millions	2021 BD millions
OPERATING ACTIVITIES			
Profit for the year before tax		**65.7**	53.6
Adjustments for non-cash items:			
Depreciation	11	**8.1**	7.0
Net provisions and credit losses	21	**8.0**	2.9
Share of profit from associated companies and joint ventures	10	**(1.3)**	(1.7)
Change in unrealised fair values - associated companies	10	**(1.2)**	(0.5)
Investment income		**(0.1)**	(1.0)
Realised gain on sale of investment securities	20	**(2.7)**	(3.6)
Accrual on term borrowings		**10.4**	10.4
Operating profit before changes in operating assets and liabilities		**86.9**	67.1
(Increase) / decrease in operating assets			
Mandatory reserve deposits with central banks		**(37.9)**	(2.5)
Treasury bills having original maturity of ninety days or more		**1.3**	208.6
Deposits and amounts due from banks and other financial institutions		**(1.2)**	5.0
Loans and advances to customers		**(14.2)**	(54.0)
Interest receivable, derivative and other assets		**(74.8)**	5.0
Increase / (decrease) in operating liabilities			
Deposits and amounts due to banks and other financial institutions		**34.5**	(75.4)
Borrowings under repurchase agreements		**(5.8)**	(16.0)
Customers' current, savings and other deposits		**(9.0)**	(41.8)
Interest payable, derivative and other liabilities		**(21.6)**	(52.2)
Income tax paid		**(0.2)**	(0.1)
Net cash flows (used in) / from operating activities		**(42.0)**	43.7
INVESTING ACTIVITIES			
Purchase of investment securities		**(211.5)**	(370.7)
Proceeds from redemption / sale of investment securities		**304.6**	350.3
Net investment in associated companies and joint ventures	10	**2.5**	1.3
Dividends received from associated companies and joint ventures	10	**3.5**	1.0
Purchase of premises and equipment		**(10.9)**	(6.2)
Net cash flows from / (used in) investing activities		**88.2**	(24.3)
FINANCING ACTIVITIES			
Payment of dividends and other appropriations	17	**(31.9)**	(29.2)
Payment of dividends to non-controlling interests		**(0.4)**	(0.2)
Additional term borrowings	12	**18.8**	56.6
Movement in treasury stock	15	**0.3**	0.2
Movement in share-based payments	42	**0.6**	0.5
Net cash flows from / (used in) financing activities		**(12.6)**	27.9
NET CHANGE IN CASH AND CASH EQUIVALENTS		**33.6**	47.3
Foreign currency translation adjustments – net		**(1.4)**	1.9
Cash and cash equivalents at beginning of the year		**566.9**	517.7
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	25	**599.1**	566.9
Additional cash flow information:			
Interest received		**143.4**	118.7
Interest paid		**42.2**	31.5

The attached notes 1 to 49 form part of these consolidated financial statements

1 ACTIVITIES

Bank of Bahrain and Kuwait B.S.C. ("BBK" or "the Bank"), a public shareholding company, was incorporated in the Kingdom of Bahrain by an Amiri Decree in March 1971 and registered with the Ministry of Industry and Commerce ("MOIC") under Commercial Registration ("CR") number 1234 dated 16 March 1971. The Bank operates in the Kingdom of Bahrain under a conventional retail banking license under Volume 1 issued by the Central Bank of Bahrain ("CBB") and its shares are listed at Bahrain Bourse.

The Bank is engaged in commercial banking activities through its branches in the Kingdom of Bahrain, State of Kuwait and Republic of India. It also engages in credit card operations and business process outsourcing services through its subsidiaries. The Bank's registered office is at 43 Government Avenue, P.O. Box 597, Manama, Kingdom of Bahrain.

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors of the Bank on 22 February 2023.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with the IFRS and in conformity with the Bahrain Commercial Companies Law and the CBB and Financial Institutions Law, the CBB Rule Book and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse and the terms of the Bank's memorandum and articles of association. The comparative information included in the 31 December 2021 consolidated financial statements were reported in accordance with IFRS as modified by CBB. The transition from "IFRS as modified by CBB" to IFRS as issued by IASB has not resulted in any material changes to the previously reported numbers in the consolidated financial statements for the year ended 31 December 2021.

2.2 Accounting convention

The consolidated financial statements are prepared on a historical cost basis, except for derivative financial instruments, investment securities at Fair Value Through Other Comprehensive Income (FVTOCI), trading investments and financial assets designated at Fair Value Through Profit and Loss (FVTPL), that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in fair values attributable to risks that are being hedged.

The consolidated financial statements are prepared in Bahraini Dinars (BD), which is also the functional and presentation currency of the Group. Furthermore, all values are rounded-off to the nearest millions, unless otherwise indicated.

2.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries (the "Group"). The year end of the Bank and all of its subsidiaries is 31 December. The Bank has the following principal subsidiaries:

Held directly by the Bank	Ownership 2022	Ownership 2021	Country of incorporation	Activity
CrediMax B.S.C. (c)	**100%**	100%	Kingdom of Bahrain	Credit card operations
Invita Company B.S.C. (c)	**100%**	100%	Kingdom of Bahrain	Business process outsourcing services

The following are the subsidiaries held indirectly through the principal subsidiaries of the Bank:

Held indirectly by the Bank	Effective ownership 2022	Effective ownership 2021	Subsidiary held through	Country of incorporation	Activity
Global Payment Services W.L.L.	**70%**	70%	CrediMax B.S.C. (c)	Kingdom of Bahrain	Cards processing and backup services
973LABS W.L.L.	**100%***	-	CrediMax B.S.C. (c)	Kingdom of Bahrain	Computer consultancy and computer facilities management activities
Invita Claims Management Company B.S.C.(c)**	**-**	70%	Invita Company B.S.C. (c)	Kingdom of Bahrain	Third party administrators services

* CrediMax B.S.C. (c) and Invita Company B.S.C (c) hold 60% and 40% ownership in 973Labs W.L.L., respectively.

** During the year ended 31 December 2022, the Group liquidated its holding in a subsidiary, Invita Claims Management Company B.S.C. (c).

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved when the Group is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed-off during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and Other Comprehensive Income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated on consolidation.

2 BASIS OF PREPARATION (continued)

2.3 Basis of consolidation (continued)

A change in the ownership interest of a subsidiary without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

3 ACCOUNTING POLICIES

3.1 Standards and amendments effective for the year

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2021, except as disclosed in note 2.1 and the adoption of new standards or amendments to existing standards that have become applicable effective from 1 January 2022, which are disclosed below. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

(a) Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The amendments did not have any impact on the consolidated financial statements of the Group.

(b) Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board of Directors (the "Board") also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The amendments did not have any impact on the consolidated financial statements of the Group.

(c) Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and was applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments did not have any impact on the consolidated financial statements of the Group.

(d) IFRS 9 Financial Instruments - Fees in the '10 per cent' test for derecognition of liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received by the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group has applied the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the amendment is applied.

(e) IAS 41 Agriculture – Taxation in fair value measurements

The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

These amendments had no impact on the consolidated financial statements of the Group as it did not have assets in scope of IAS 41 as at the reporting date.

3.2 New and amended standards and interpretations issued but not yet effective

New and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

(a) IFRS 17 Insurance Contracts

Comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach); and
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

(b) Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right; and
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

(c) Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Group.

(d) Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary. The amendments are not expected to have a material impact on the Group.

(e) Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognised for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

The Group is currently assessing the impact of these amendments.

3.3 Summary of significant accounting policies

(a) Financial assets and financial liabilities

i. Recognition and initial measurement

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. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

ii. Classification

Financial assets

On initial recognition, a financial asset is classified as at amortised cost, FVTOCI or FVTPL. A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVTOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVTOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets designation at fair value through profit or loss

The Group designated certain financial assets as at FVTPL because the assets were managed, evaluated and reported internally on a fair value basis.

3 ACCOUNTING POLICIES (continued)

3.3 Summary of significant accounting policies (continued)

(a) Financial assets and financial liabilities (continued)

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 interest revenue, realising cash flows through the sale of the assets and holding it for liquidity purposes;
- 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.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition, which may change over the life of the financial asset. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

iii. Derecognition

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

A financial asset (in whole or in part) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of ownership or (b) when it has neither transferred or retained substantially all the risks and rewards and when it no longer has control over the financial asset, but has transferred control of the asset.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

Derecognition of financial instruments in the context of IBOR reform

The Group derecognises financial assets and financial liabilities if there has been a substantial modification of their terms and conditions. In the context of IBOR reform, many financial instruments have already been amended or will need amendment as they transition from Interbank Offered Rates (IBORs) to Risk-Free Benchmark Reference Rates (RFRs). In addition to the interest rate of a financial instrument changing, there may be other changes made to the terms of the financial instrument at the time of transition.

For financial instruments measured at amortised cost, the Group first applies the practical expedient as described in note 3.3 (ad), to reflect the change in the referenced interest rate from IBOR to RFR. Second, for any changes not covered by the practical expedient, the Group applies judgement to assess whether the changes are substantial and if they are, the financial instrument is derecognised and a new financial instrument is recognised. If the changes are not substantial, the Group adjusts the gross carrying amount of the financial instrument by the present value of the changes not covered by the practical expedient, discounted using the revised Effective Interest Rate (EIR).

(b) Deposits and amounts due from banks and other financial institutions

These are stated at cost, adjusted for effective fair value hedges (if any), less any amounts written-off and related expected credit losses.

(c) Loans and advances

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest rate method, and adjusted for effective fair value hedges (if any) and net of interest suspended, expected credit losses and any amounts written-off.

(d) Investment securities

The investment securities includes:

- Debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest rate method;
- Debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are carried at fair value with changes recognised immediately in profit or loss;
- Debt securities measured at FVTOCI; and
- Equity investment securities designated as at FVTOCI.

For debt securities measured at FVTOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- Interest revenue using the effective interest rate method;
- Expected Credit Loss (ECL) allowances and reversals; and
- Foreign exchange gains and losses.

When debt securities measured at FVTOCI are impaired or derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from statement of changes in equity to statement of profit or loss.

The Group elects to present as OCI changes in the fair value of certain investments in equity instruments. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss, and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss, unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised as OCI. Cumulative gains and losses recognised as OCI are transferred to retained earnings on disposal of the investment.

(e) Fair value measurement

The Group measures financial instruments, such as, derivatives at fair value at each balance sheet date.

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

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability, subject to the principal or the most advantageous market being accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest. The fair value of financial instruments that are quoted in an active market is determined by reference to market bid priced respectively at the close of business on the statement of financial position date.

In case of unquoted investments, the Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

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

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the assets or liabilities and the level of the fair value hierarchy as explained above.

(f) Impairment of financial assets

The Group recognises allowances for ECL on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments;
- Loans and advances at amortised cost;
- Financial guarantee contracts issued; and
- Loan commitments issued.

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

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

(g) Measurement of ECL

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

i) Financial 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);

ii) Financial 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;

iii) Undrawn loan commitments and letters of credit: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and

iv) Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

The determination of the IFRS 9 provision results from a two-step approach:

Step 1, the facilities will have to be allocated to one of the three impairment stages by determining whether a significant increase in credit risk has occurred since initial recognition or whether the facility has been credit impaired.

Step 2, the expected credit loss is calculated i.e., 12-month expected loss for all facilities in Stage 1 and lifetime expected credit loss for all facilities in Stage 2. The facilities in Stage 3 are covered by specific provisions.

Refer to note 33 for further details.

(h) Credit-impaired financial assets

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

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

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- It is becoming 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.

3 ACCOUNTING POLICIES (continued)

3.3 Summary of significant accounting policies (continued)

(h) Credit-impaired financial assets (continued)

In making an assessment of whether an investment in sovereign debt, other than that of the home country sovereign (i.e. Kingdom of Bahrain), is credit-impaired, the Group considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields; or
- The rating agencies' assessments of creditworthiness.

The exposure to the home country sovereign i.e. Kingdom of Bahrain is considered to be low risk and fully recoverable. Refer to note 33 for further details.

(i) Presentation of allowances for ECL in the consolidated statement of financial position

Allowances for ECL are presented in the consolidated statement of financial position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of such assets;
- Loan commitments and financial guarantee contracts as a provision;
- Where a financial instrument includes both a drawn and an undrawn component, and the Group has identified the ECL on the loan commitment / off-balance sheet component separately from those on the drawn component, the Group presents a loss allowance for drawn components. The amount is presented as a deduction from the gross carrying amount of the drawn component. Loss allowance for undrawn components is presented as a provision in other liabilities; and
- For debt instruments measured at FVTOCI, no loss allowance is recognised in the statement of financial position because the carrying amount of such assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve as a provision.

(j) Write-off

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

(k) Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any ECL is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. Refer to note 33.3 (e) and note 34 for further details.

(l) Term borrowings

Financial instruments or their components issued by the Group, which are not designated at fair value through consolidated statement of profit or loss, are classified as liabilities under 'term borrowings', where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, term borrowings are subsequently measured at amortised cost using the effective interest rate. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

(m) Investment in associated companies and joint ventures

The Group's investments in its associate and joint venture are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost.

Subsequently, the carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

An associate is an entity over which the Group has significant influence. It is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is charged to the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint ventures.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in associates or joint ventures. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognises the loss in the consolidated statement of profit or loss.

(n) Premises and equipment

All items of premises and equipment are initially recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of all premises and equipment, other than freehold land which is deemed to have an indefinite life. The estimated useful lives of the assets for the calculation of depreciation are as follows:

- Properties and buildings	4 to 35 years
- Furniture and equipment	3 to 5 years
- Motor vehicles	4 years

(o) Collateral pending sale

The Group occasionally acquires real estate in settlement of certain loans and advances to customers. Such real estate is stated at the lower of the carrying value of the related facility and the current fair value of the collateral acquired, assessed on an individual basis. If the current fair value for any individual asset is lower, a provision is created. Gains or losses on disposal, and unrealised losses on revaluation, are recognised in the consolidated statement of profit or loss.

(p) Deposits

These are carried at amortised cost, less amounts repaid.

(q) Repurchase and resale agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate. When the counterparty has the right to sell or repledge the securities, the Group reclassifies those securities in its consolidated statement of financial position, as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the consolidated statement of financial position. The consideration paid, including accrued interest, is recorded in the consolidated statement of financial position, reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded as interest income and is accrued over the life of the agreement using the effective interest rate. If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale and measured at fair value with any gains or losses included in 'net interest or similar income'.

(r) Taxation

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on foreign operations is provided in accordance with the fiscal regulations of the respective countries in which the Group operates.

In India, the Bank makes provision for income tax after considering both current and deferred taxes. The tax effect of timing differences between the book profit and taxable profits are reflected through Deferred Tax Asset (DTA) / Deferred Tax Liability (DTL). Current tax is determined in accordance with the provisions of Income Tax Act, 1961 and rules framed there under after considering the contested past adjustments on a prudent basis based on management estimates.

(s) Employees' end of service benefits

Costs relating to employees' end of service benefits are accrued in accordance with actuarial and other valuations as required by regulations applicable in each jurisdiction where the Group operates.

(t) Share-based payment transactions

For equity-settled shared-based payment transactions, the Group measures the services received and the corresponding increase in equity at the fair value of the services received by reference to the fair value of the equity instruments granted. The fair value of those equity instruments is measured at grant date. The fair value so calculated at the grant date is recognised as an expense in the consolidated statement of profit or loss over the vesting period, with a corresponding credit to retained earnings. When an employee leaves the Group during the vesting period, the shares granted stand forfeited and any amount recognised in respect of these forfeited shares is reversed through the consolidated statement of profit or loss.

(u) Provisions

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

(v) Treasury stock

Treasury stock is deducted from equity and is stated at consideration paid. No gain or loss is recognised in the consolidated statement of profit or loss on the purchase, sale, issue or cancellation of own equity instruments.

(w) Non-controlling interests

Non-controlling interests represents the portion of profit or loss and net assets in the subsidiaries not attributable to the Bank's equity shareholders. Any change in Group's ownership interest in the subsidiary that does not result in a loss of control is accounted for as an equity transaction.

(x) Proposed dividends

Proposed dividends are included as part of equity and only recognised as liabilities when approved by the shareholders. The payment of a dividend also requires the prior approval of the CBB.

(y) Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. All such guarantees are treated as memorandum liabilities and are disclosed as part of contingent liabilities. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'interest payable, derivative and other liabilities', being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is taken to the consolidated statement of profit or loss. The premium received is recognised in the consolidated statement of profit or loss in on a straight line basis over the life of the guarantee.

(z) Derivatives

The Group enters into derivative instruments including futures, forwards, swaps, and options in the foreign exchange and capital markets. Derivatives are stated at fair value. Derivatives with positive market values are included in 'interest receivable, derivative and other assets' and derivatives with negative market values are included in 'interest payable, derivative and other liabilities' in the consolidated statement of financial position.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through the consolidated statement of profit or loss. These embedded derivatives are measured at fair value with the changes in fair value recognised in the consolidated statement of profit or loss.

(aa) Hedge accounting

The Group makes use of derivative instruments to manage exposures to interest rate and foreign currency risks. In order to manage particular risks, the Group applies hedge accounting for transactions which meet the specified criteria.

Hedge accounting model introduced under IFRS 9 is designed to better align hedge accounting with risk management activities; permit a greater variety of hedging instruments and risks eligible for hedge accounting; and removed rule based thresholds for testing hedge effectiveness by bringing principle based criteria. Retrospective assessment of hedge effectiveness is no longer required and current accounting treatments of fair value, cashflow and net investment hedge accounting have been retained.

IFRS 9 provides an accounting choice to continue to apply IAS 39 hedge accounting rules until the IASB finalizes its macro hedge accounting project. The Group has adopted IFRS 9 hedge accounting and has determined that all hedge relationships that were designated as effective hedging relationships under IAS 39 would continue to qualify for hedge accounting under IFRS 9.

At inception of the hedging relationship, the management undertakes a formal designation and documentation. This includes the Group's risk management objective underlying, the hedging relationship and how that fits within the overall risk management strategy. The documentation also includes an identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements. IFRS 9 also requires documentation of the hedge ratio and potential sources of ineffectiveness.

3 ACCOUNTING POLICIES (continued)

3.3 Summary of significant accounting policies (continued)

(aa) Hedge accounting (continued)

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

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

The Group performs a hedge effectiveness assessment in a similar manner as at the inception of the hedging relationship and subsequently on every reporting period.

Classification of hedge accounting

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges, which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges, which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

i) Fair value hedges

In relation to fair value hedges, which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value is recognised immediately in the consolidated statement of profit or loss. The hedged item is adjusted for fair value changes and the difference relating to the risk being hedged is recognised in the consolidated statement of profit or loss.

Hedge ineffectiveness can arise from:

- Differences in timing of cash flows of hedged items and hedging instruments;
- Different interest rate curves applied to discount the hedged items and hedging instruments; or
- Derivatives used as hedging instruments having a non-nil fair value at the time of designation.

ii) Cash flow hedges

In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of any gain or loss on the hedging instrument, that is determined to be an effective hedge is recognised initially in the consolidated statement of changes in equity and the ineffective portion is recognised in the consolidated statement of profit or loss.

The gains or losses on effective cash flow hedges recognised initially in the consolidated statement of changes in equity are either transferred to the consolidated statement of profit or loss in the period in which the hedged transaction impacts the consolidated statement of profit or loss or included in the initial measurement of the cost of the related asset or liability.

For hedges which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the consolidated statement of profit or loss.

Discontinuation of hedges

A hedging relationship is discontinued in its entirety when as a whole it ceases to meet the qualifying criteria of the hedging relationship. Voluntary discontinuation when the qualifying criteria are met is prohibited. In the event of discontinuation, any subsequent changes in fair value of the hedging instrument are recognized in the consolidated statement of profit or loss. For effective fair value hedges of financial instruments with fixed maturities any adjustment arising from hedge accounting is amortised over the remaining term to maturity. For effective cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in the consolidated statement of changes in equity remains in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the consolidated statement of profit or loss.

IBOR reform phase 1 and 2 impact on hedge accounting

The Group applies temporary reliefs to hedging relationships directly affected by IBOR reform during the year before the replacement of an existing interest rate benchmark with an Alternate Rate of Return (ARR). A hedging relationship is affected if IBOR reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

IBOR reform phase 1 requires that for hedging relationships affected by IBOR reform, the Group must assume that for the purpose of assessing expected future hedge effectiveness, the interest rate is not altered as a result of IBOR reform.

The Group has adopted IBOR reform phase 2 on its effective date. IBOR reform phase 2 provides temporary reliefs that allow the Group's hedging relationships to continue upon the replacement of an existing interest rate benchmark with an ARR. The reliefs require the Group to amend the hedge designations and hedge documentation.

Under one of the reliefs under IBOR reform phase 2, the Group may elect for individual ARRs designated as hedging the fair value or cash flows of the hedged item for changes due to a non-contractually specified component of interest rate risk, to be deemed as meeting the IFRS 9 requirement to be separately identifiable. For each ARR to which the relief has been applied, the Group judges that both the volume and market liquidity of financial instruments that reference the ARR and are priced using the ARR will increase during the 24-month period with the result that the hedged ARR risk component will become separately identifiable in the change in fair value or cash flows of the hedged item

(ab) Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and are, accordingly, not included in the consolidated statement of financial position.

(ac) Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to settle on a net basis.

(ad) Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest income and loan commitment fees, which are considered an integral part of the effective yield of a financial asset, are recognised using the effective yield method unless collectability is in doubt. The recognition of interest income is suspended when loans become non-performing i.e. are classified under Stage 3 (when overdue by ninety days or more). Notional interest is recognised on impaired loans and other financial assets based on the rate used to discount future cash flows to their net present value based on the original effective interest rate.

Interest expense is recognised using the effective yield method, which is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or a short period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The Group earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Group expects to be entitled to in exchange for provision of services. The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Group's revenue contracts do not include multiple performance obligations. When the Group provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time. The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Fees and commissions that are linked to certain performance obligations are recognised after fulfilling those obligations.

Performance obligations satisfied over time include asset management and other services, where the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

The fee and commission linked to performance obligation include fees earned for the provision of asset management services, which include portfolio diversification and rebalancing, typically over defined periods. These services represent a single performance obligation comprised of a series of distinct services which are substantially the same, being provided continuously over the contract period. Asset management fees consist of management and performance fees that are considered variable consideration.

The Group recognises dividend income when the right to receive payment is established.

Where the Group enters into an interest rate swap to change interest from fixed to floating (or vice versa), the amount of interest income or expense is adjusted by the net interest on the swap until the hedges are effective.

The Group adopted IBOR reform Phase 2 from its effective date, which allows as a practical expedient for changes to the basis for determining contractual cash flows to be treated as changes to a floating rate of interest, provided certain conditions are met. The conditions include that the change is necessary as a direct consequence of IBOR reform and that the transition takes place on an economically equivalent basis.

(ae) Foreign currencies

(i) Transactions and balances

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. All differences arising on non-trading activities are recorded in the consolidated statement of profit and loss, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in a foreign operation. These differences are taken directly to equity until the disposal of the net investment, at which time they are recognised in the consolidated statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

(ii) Group companies

As at the reporting date, the assets and liabilities of subsidiaries and overseas branches are translated into the Group's presentation currency at the rate of exchange as at the statement of financial position date, and their statements of profit or loss are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity through the consolidated statement of comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated statement of profit or loss.

(af) Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with central banks (excluding mandatory reserve deposits), treasury bills, deposits and due from banks and other financial institutions having original maturities of ninety days or less. These cash and cash equivalent are readily convertible to a known amount of cash and subject to an insignificant risk of change in value.

(ag) Leases - Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

a) Right of use assets

The Group recognises right of use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment. The carrying value of right-of-use assets are recognised under premises and equipment in the consolidated statement of financial position.

b) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable, in this case BIBOR. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset and is recognised under other liabilities in the consolidated statement of financial position.

3.4 Significant accounting judgment and estimates

In the process of applying the Group's accounting policies, management has exercised judgment and estimates in determining the amounts recognised in the consolidated financial statements. The most significant uses of judgment and estimates were as follows:

(i) Going concern

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

3 ACCOUNTING POLICIES (continued)

3.4 Significant accounting judgment and estimates (continued)

(ii) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, these are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is applied to establish fair values.

These judgment include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities.

(iii) Business model

In making an assessment of whether a business model's objective is to hold assets in order to collect contractual cash flows, the Group considers at which level of its business activities such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to management. In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows, the Group considers:

- Management's stated policies and objectives for the portfolio and the operation of those policies in practice;

- Management's evaluation of the performance of the portfolio and liquidity requirements in the current market conditions; and

- Management's strategy in terms of earning contractual interest revenues or generating capital gains.

(iv) Measurement of ECL

Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

The measurement of the ECL for financial assets measured at amortised cost and FVTOCI is an area that requires the use of complex models and significant assumptions about future economic conditions, credit behavior (e.g. the likelihood of customers defaulting and the resulting losses), estimation of the amount and timing of the future cash flows and collateral values. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculation are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- Internal credit rating model, which assigns PDs to the individual ratings;
- The Group calculates PiT PD estimates under three scenarios, a best case, base case and worst case. An appropriate probability weighted ECL is then calculated by assigning probabilities, based on current market conditions, to each scenario;
- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Determination of associations between macroeconomic scenarios and, economic inputs, and collateral values, and the effect on PDs, EADs and LGDs;
- Selection and relative weightings of forward-looking scenarios to derive the economic inputs into the ECL models;
- Establishing groups of similar financial assets for the purposes of measuring ECL; and
- Determining relevant period of exposure with respect to the revolving facilities and facilities undergoing restructuring at the time of the reporting date.

  COVID-19 has caused disruption to business and economic activities. It has brought about uncertainties in the global economic environment. The fiscal and monetary authorities, both domestic and international, announced various support measures across the globe to counter possible adverse implications. Central banks across the world stepped in with measures to protect the stability of the global economy with a wide range of measures from easing of interest rates, to asset purchase programme besides infusing significant liquidity into the economy. With the easing of COVID-19 impact, these measures are getting reversed and further increases in interest rates are seen to control the unprecedented high global inflation.

In preparing the consolidated financial statements, significant judgments were made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were impacted by the potential impacts of the current economic volatility in determination of the reported amounts of the Group's financial and non-financial assets and these are considered to represent management's best assessment based on available or observable information. Markets however remain volatile and the recorded amounts remain sensitive to market fluctuations.

When determining whether the risk of default on a financial instrument 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 Group uses its internal credit risk grading system, external risk ratings, delinquency status of accounts, expert credit judgment and, where possible, relevant historical experience. The Group may also determine that an exposure has undergone a Significant Increase in Credit Risk ("SICR") 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.

Refer to note 33.3 for further details.

4 CASH AND BALANCES WITH CENTRAL BANKS

	2022 BD millions	2021 BD millions
Cash in hand and vaults	**28.6**	23.4
Current accounts and placements with central banks	**296.4**	207.4
Mandatory reserve deposits with central banks	**91.9**	54.0
	416.9	284.8

Mandatory reserve deposits are not available for use in the Group's day-to-day operations.

5 TREASURY BILLS

These are short-term treasury bills issued by the Government of the Kingdom of Bahrain, which are carried at amortised cost, amounting to BD 277.9 million (31 December 2021: BD 279.2 million). At 31 December 2022, treasury bills issued by Government of the Kingdom of Bahrain included short-term Islamic Sukuk amounting to BD 15.2 million (31 December 2021: BD 9.3 million).

6 DEPOSITS AND AMOUNTS DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2022 BD millions	2021 BD millions
Deposits with banks and other financial institutions	**167.9**	264.9
Nostro and other amounts due from banks	**108.7**	72.8
Less: Expected credit losses	**-**	(0.2)
	276.6	337.5

7 LOANS AND ADVANCES TO CUSTOMERS

At 31 December 2022	**Stage 1: 12-month ECL BD millions**	**Stage 2: Lifetime ECL not credit-impaired BD millions**	**Stage 3: Lifetime ECL credit impaired BD millions**	**Total BD millions**
At amortised cost:				
Commercial loans and overdrafts	**710.6**	**275.4**	**47.4**	**1,033.4**
Consumer loans	**628.9**	**20.6**	**10.3**	**659.8**
	1,339.5	**296.0**	**57.7**	**1,693.2**
Less: Expected credit losses	**(6.7)**	**(31.2)**	**(41.3)**	**(79.2)**
	1,332.8	**264.8**	**16.4**	**1,614.0**

At 31 December 2021	Stage 1: 12-month ECL BD millions	Stage 2: Lifetime ECL not credit-impaired BD millions	Stage 3: Lifetime ECL credit impaired BD millions	Total BD millions
At amortised cost:				
Commercial loans and overdrafts	673.2	274.4	79.5	1,027.1
Consumer loans	651.7	10.7	9.0	671.4
	1,324.9	285.1	88.5	1,698.5
Less: Expected credit losses	(4.7)	(26.4)	(60.2)	(91.3)
	1,320.2	258.7	28.3	1,607.2

Ageing analysis of past due but not impaired loans is as follows:

2022	**Up to 30 days BD millions**	**31 to 60 days BD millions**	**61 to 89 days BD millions**	**Total BD millions**
Commercial loans and overdrafts	**178.8**	**3.5**	**11.7**	**194.0**
Consumer loans	**19.6**	**5.2**	**15.4**	**40.2**
	198.4	**8.7**	**27.1**	**234.2**

2021	Up to 30 days BD millions	31 to 60 days BD millions	61 to 89 days BD millions	Total BD millions
Commercial loans and overdrafts	69.8	11.1	4.3	85.2
Consumer loans	15.0	2.5	11.2	28.7
	84.8	13.6	15.5	113.9

None of the above past due loans are considered to be credit impaired.

The distribution of loans and advances by geographic region and industry sector is as follows:

	2022 BD millions	2021 BD millions
Geographic region:		
Gulf Co-operation Council countries	**1,445.1**	1,412.8
Asia	**71.2**	99.1
Europe	**66.8**	69.8
Others	**30.9**	25.5
	1,614.0	1,607.2
Industry sector:		
Individuals	**559.9**	588.6
Trading and manufacturing	**425.9**	489.9
Construction and real estate	**290.8**	281.0
Banks and other financial institutions	**98.5**	117.5
Government and public sector	**132.1**	7.3
Others	**106.8**	122.9
	1,614.0	1,607.2

7 LOANS AND ADVANCES TO CUSTOMERS (continued)

Movements in allowances for ECL on loans and advances are as follows:

(i) Commercial loans and overdrafts

2022	Stage 1: 12-month ECL BD millions	Stage 2: Lifetime ECL not credit – impaired BD millions	Stage 3: Lifetime ECL credit – impaired BD millions	Total BD millions
Balance at 1 January	**3.7**	**23.5**	**52.8**	**80.0**
Transferred to 12 month ECL	**0.8**	**(0.8)**	**-**	**-**
Transferred to lifetime ECL not credit-impaired	**(0.2)**	**0.9**	**(0.7)**	**-**
Transferred to lifetime ECL credit-impaired	**-**	**(0.8)**	**0.8**	**-**
Net remeasurement of loss allowance	**0.5**	**2.4**	**2.5**	**5.4**
Amounts written off during the year	**-**	**-**	**(22.3)**	**(22.3)**
Foreign exchange and other movements	**0.2**	**-**	**0.2**	**0.4**
Balance at 31 December	**5.0**	**25.2**	**33.3**	**63.5**
2021				
Balance at 1 January	2.9	21.3	56.2	80.4
Transferred to 12 month ECL	1.7	(1.7)	-	-
Transferred to lifetime ECL not credit-impaired	(3.0)	3.2	(0.2)	-
Transferred to lifetime ECL credit-impaired	-	(0.1)	0.1	-
Net remeasurement of loss allowance	1.6	1.2	2.8	5.6
Amounts written off during the year	-	-	(6.9)	(6.9)
Re-allocated during the year	-	-	(0.7)	(0.7)
Foreign exchange and other movements	0.5	(0.4)	1.5	1.6
Balance at 31 December	3.7	23.5	52.8	80.0

ii) Consumer loans

2022	Stage 1: 12-month ECL BD millions	Stage 2: Lifetime ECL not credit – impaired BD millions	Stage 3: Lifetime ECL credit – impaired BD millions	Total BD millions
Balance at 1 January	**1.0**	**2.9**	**7.4**	**11.3**
Transferred to 12 month ECL	**0.2**	**(0.2)**	**-**	**-**
Transferred to lifetime ECL not credit-impaired	**(0.5)**	**0.5**	**-**	**-**
Transferred to lifetime ECL credit-impaired	**(0.1)**	**(0.7)**	**0.8**	**-**
Net remeasurement of loss allowance	**1.1**	**3.5**	**0.9**	**5.5**
Amounts written off during the year	**-**	**-**	**(1.1)**	**(1.1)**
Balance at 31 December	**1.7**	**6.0**	**8.0**	**15.7**
2021				
Balance at 1 January	3.4	1.5	7.1	12.0
Transferred to 12 month ECL	0.4	(0.4)	-	-
Transferred to lifetime ECL not credit-impaired	-	0.1	(0.1)	-
Transferred to lifetime ECL credit-impaired	(0.2)	(0.4)	0.6	-
Net remeasurement of loss allowance	(2.6)	2.1	0.6	0.1
Amounts written-off during the year	-	-	(1.5)	(1.5)
Re-allocated during the year	-	-	0.7	0.7
Balance at 31 December	1.0	2.9	7.4	11.3

The fair value of the collateral consisting of cash, securities and real estate that the Group holds relating to loans individually determined to be credit impaired at 31 December 2022 amounts to BD 32.5 million (31 December 2021: BD 50.2 million).

At 31 December 2022, gross loans and advances include Islamic financing facilities provided by the Group to corporates amounting to BD 23.9 million (31 December 2021: BD 77.7 million). These mainly consists of Murabaha and Ijarah financing facilities.

At 31 December 2022, interest in suspense for past due loans that are credit impaired was BD 22.0 million (31 December 2021: BD 28.5 million).

The contractual amount outstanding on financial assets that have been written-off by the Group as at 31 December 2022 and that were still subject to enforcement activity was BD 83.3 million (2021: BD 90.8 million).

A reconciliation of changes in gross carrying amount by stage is as follows:

2022	**Stage 1: 12-month ECL BD millions**	**Stage 2: Lifetime ECL not credit – impaired BD millions**	**Stage 3: Lifetime ECL credit – impaired BD millions**	**Total BD millions**
1 January 2022	**1,324.9**	**285.1**	**88.5**	**1,698.5**
New assets originated	**483.6**	**66.0**	**-**	**549.6**
Payments and assets derecognised	**(457.8)**	**(64.0)**	**(6.5)**	**(528.3)**
Transfers between stages	**(13.5)**	**9.2**	**4.3**	**-**
Amounts written-off during the year	**-**	**-**	**(23.4)**	**(23.4)**
Foreign exchange adjustments	**2.3**	**(0.3)**	**(5.2)**	**(3.2)**
Balance at 31 December	**1,339.5**	**296.0**	**57.7**	**1,693.2**
2021				
1 January 2021	1,231.1	313.7	103.4	1,648.2
New assets originated	480.7	43.3	-	524.0
Payments and assets derecognised	(392.5)	(64.0)	(1.7)	(458.2)
Transfers between stages	13.9	(9.1)	(4.8)	-
Amounts written-off during the year	-	-	(8.4)	(8.4)
Foreign exchange adjustments	(8.3)	1.2	-	(7.1)
Balance at 31 December	1,324.9	285.1	88.5	1,698.5

8 INVESTMENT SECURITIES

31 December 2022	**FVTPL BD millions**	**FVTOCI BD millions**	**Amortised cost BD millions**	**Total BD millions**
Quoted investments:				
Government bonds	**–**	**374.0**	**39.6**	**413.6**
Other bonds	**–**	**232.4**	**7.3**	**239.7**
Equities	**–**	**41.3**	**–**	**41.3**
	–	**647.7**	**46.9**	**694.6**
Unquoted investments:				
Government bonds	**–**	**–**	**186.0**	**186.0**
Other bonds	**–**	**3.9**	**–**	**3.9**
Equities	**–**	**29.3**	**–**	**29.3**
Managed funds	**1.1**	**–**	**–**	**1.1**
	1.1	**33.2**	**186.0**	**220.3**
Total gross investments	**1.1**	**680.9**	**232.9**	**914.9**
Less: Expected credit losses	**–**	**(0.7)**	**–**	**(0.7)**
	1.1	**680.2**	**232.9**	**914.2**

31 December 2021	FVTPL BD millions	FVTOCI BD millions	Amortised cost BD millions	Total BD millions
Quoted investments:				
Government bonds	–	389.9	36.4	426.3
Other bonds	–	286.3	–	286.3
Equities	–	45.5	–	45.5
	–	721.7	36.4	758.1
Unquoted investments:				
Government bonds	–	–	192.0	192.0
Other bonds	–	7.1	–	7.1
Equities	–	27.9	–	27.9
Managed funds	1.3	–	–	1.3
	1.3	35.0	192.0	228.3
Total gross investments	1.3	756.7	228.4	986.4
Less: Expected credit losses	–	(0.6)	–	(0.6)
	1.3	756.1	228.4	985.8

At 31 December 2022, investment securities include government and other bonds of BD 444.2 million (31 December 2021: BD 480.5 million), which are pledged against the borrowings under repurchase agreements.

At 31 December 2022, investment securities include long-term Islamic Sukuk amounting to BD 50.0 million (31 December 2021: BD 84.2 million).

Movements in allowances for ECL on investment securities (government and other bonds at FVTOCI and amortised cost) are as follows:

	Stage 1: 12-month ECL BD millions	**Stage 2: Lifetime ECL not credit – impaired BD millions**	**Stage 3: Lifetime ECL credit – impaired BD millions**	**Total BD millions**
2022				
Balance at 1 January	**0.3**	**0.3**	**–**	**0.6**
Net remeasurement of loss allowance	**0.1**	**0.2**	**–**	**0.3**
Foreign exchange and other movements	**(0.1)**	**(0.1)**	**–**	**(0.2)**
Balance at 31 December	**0.3**	**0.4**	**–**	**0.7**
2021				
Balance at 1 January	0.2	0.5	–	0.7
Net remeasurement of loss allowance	0.1	(0.2)	–	(0.1)
Balance at 31 December	0.3	0.3	–	0.6

9 INTEREST RECEIVABLE, DERIVATIVE AND OTHER ASSETS

	2022 BD millions	2021 BD millions
Interest receivable	**27.7**	18.8
Accounts receivable*	**44.3**	24.8
Collateral pending sale**	**17.6**	15.0
Prepaid expenses	**2.4**	2.3
Deferred tax asset (note 22)	**1.1**	1.4
Positive fair value of derivatives (note 28)	**60.5**	3.8
Other assets	**0.9**	12.4
	154.5	78.5

* This includes a fully provided receivable balance of BD 6.2 million (2021: BD 6.2 million) pertaining to payment made by the Group on an invoked financial guarantee.

** During the year ended 31 December 2022, an impairment charge of BD 0.2 million (2021: BD 0.4 million) was recorded against collateral pending sale, which were acquired on settlement of loans and advances. Refer note 21.

10 INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES

The Group has a 23.03% (2021: 23.03%) equity interest in Bahrain Commercial Facilities Company B.S.C. ("BCFC"), incorporated in the Kingdom of Bahrain, which is engaged in consumer financing, insurance, dealing in real estate and automobiles.

The Group has a 22.00% (2021: 22.00%) shareholding in The Benefit Company B.S.C. (c) incorporated in the Kingdom of Bahrain, which is engaged in ancillary services to provide payment systems and other related financial services for the benefit of commercial banks and their customers in the Kingdom of Bahrain.

The Group has a 40.00% (2021: 40.00%) stake in BBK Geojit securities K.S.C., a jointly controlled company incorporated in the State of Kuwait.

The Group has a 24.27% (2021: 24.27%) stake in Bahrain Liquidity Fund, an investment vehicle established in the Kingdom of Bahrain to enhance liquidity in the market and to close the valuation gap between securities listed on Bahrain Bourse and their regional peers.

The Group has a 50.00% (2021: 50.00%) stake in Aegila Capital Management Limited, a joint venture company incorporated in the United Kingdom which is engaged in capital market advisory services for alternative investments with particular focus in the real estate.

The Group has a 49.96% (2021: 49.96%) stake in Magnum Partners Holding Limited, a joint venture company incorporated in Jersey to indirectly acquire real estate investment in Netherlands.

The Group has a 24.99% (2021: 24.99%) stake in Evoque Holdings Jersey Limited, a joint venture company incorporated in Jersey to indirectly acquire real estate investment in Germany.

The Group has a 45.00% (2021: 45.00%) stake in LSE Jersey Holdings Limited Partnership, a joint venture company registered in Jersey to facilitate the indirect real estate investment in the United Kingdom.

The Group has a 40.00% (2021: 40.00%) indirect stake in Invita Kuwait K.S.C.C. through Invita Company B.S.C. (c), incorporated in Kuwait and engaged in business processing and outsourcing services.

	2022 BD millions	2021 BD millions
Carrying amount of investment in associated companies and joint ventures		
At 1 January	**65.0**	65.5
Share of profit for the year	**1.3**	1.7
Dividends received	**(3.5)**	(1.0)
Change in unrealised fair values – associated companies (note 16)	**1.2**	0.5
Foreign currency translation adjustments	**(1.7)**	(0.8)
Capital distribution	**–**	(0.9)
At 31 December	**62.3**	65.0

The following table illustrates the summarised most recent available financial information of the Group's interest in its non-material associated companies and joint ventures:

	2022 BD millions	2021 BD millions
Financial position related information		
Total assets	**72.0**	75.8
Total liabilities	**46.1**	49.0
Profit or loss related information		
Revenue	**8.8**	7.1
Group's share of net profit for the year	**0.7**	0.7
Total comprehensive income for the year	**0.7**	0.7

Investment in associated companies and joint ventures includes the Group's investment in BCFC, which is considered to be a material associate. The following table illustrates the summarised financial information of the Group's investment in BCFC, based on most recent available financial statements adjusted for estimated performance of the last quarter:

	2022 BD millions	2021 BD millions
Net interest income	**9.8**	20.0
Gross profit on automotive sales	**3.6**	5.9
Other operating income	**3.5**	8.0
Total operating income	**16.9**	33.9
Operating expenses	**(9.7)**	(17.7)
Other operating expenses	**(4.5)**	(12.0)
Adjusted profit for the year	**2.7**	4.2
Group's share of adjusted profit for the year	**0.6**	1.0
Other comprehensive income	**5.6**	6.5
Total comprehensive income for the year	**8.3**	10.7
Group's share of total comprehensive income for the year	**1.3**	1.5

	2022 BD millions	2021 BD millions
Assets		
Cash and balances with banks	**34.0**	33.7
Loans and advances to customers	**206.1**	235.0
Inventories	**17.5**	14.6
Other assets	**43.5**	44.4
Total assets	**301.1**	327.7
Liabilities		
Trade and other payables	**18.8**	20.6
Term loans	**145.7**	175.0
Total liabilities	**164.5**	195.6
Donation reserve	**(0.3)**	(0.3)
Adjusted equity	**136.3**	131.8
Proportion of the Group's ownership	**23.03%**	23.03%
Group's share of adjusted equity	**31.4**	30.4

The market value of the Bank's investment in BCFC based on the price quoted in the Bahrain Bourse at 31 December 2022 was BD 18.8 million (31 December 2021: BD 23.3 million).

11 PREMISES AND EQUIPMENT

	Freehold land BD millions	**Properties and buildings BD millions**	**Furniture and equipment BD millions**	**Right-of-use assets BD millions**	**Capital work in progress BD millions**	**Total BD millions**
Cost	**12.5**	**29.8**	**60.8**	**13.2**	**–**	**116.3**
Less: Accumulated depreciation	**–**	**(20.3)**	**(51.2)**	**(7.3)**	**–**	**(78.8)**
Net book value at 31 December 2022	**12.5**	**9.5**	**9.6**	**5.9**	**–**	**37.5**

	Freehold land BD millions	Properties and buildings BD millions	Furniture and equipment BD millions	Right-of-use assets BD millions	Capital work in progress BD millions	Total BD millions
Cost	8.8	29.7	57.8	11.5	0.1	107.9
Less: Accumulated depreciation	–	(19.6)	(48.0)	(5.6)	–	(73.2)
Net book value at 31 December 2021	8.8	10.1	9.8	5.9	0.1	34.7

The depreciation charge for the year amounted to BD 8.1 million (2021: BD 7.0 million).

12 TERM BORROWINGS

The term borrowings were obtained for general financing purposes and comprised:

		Carrying amount	
Rate of interest	Maturity	**2022 BD millions**	2021 BD millions
5.5% (fixed)	2024	**188.5**	188.5
LIBOR + 1.75% / SOFR + 1.85%	2023 / 2024	**75.4**	56.6
		263.9	245.1

13 CUSTOMERS' CURRENT, SAVINGS AND OTHER DEPOSITS

	2022 BD millions	2021 BD millions
Savings accounts	**743.0**	809.6
Term deposits	**737.0**	653.8
Current accounts	**542.2**	540.6
Other deposit accounts	**94.4**	121.6
	2,116.6	2,125.6

14 INTEREST PAYABLE, DERIVATIVE AND OTHER LIABILITIES

	2022 BD millions	2021 BD millions
Interest payable	**27.1**	19.5
Accrued expenses	**22.2**	29.9
Negative fair value of derivatives (note 28)	**2.8**	28.6
Accounts payable	**42.5**	27.1
Lease liability	**5.2**	6.1
ECL on financial contracts and commitments (note 29)	**2.8**	3.9
Other liabilities	**5.0**	3.6
	107.6	118.7

15 EQUITY

(i) Share capital

	2022 BD millions	2021 BD millions
Authorised		
2,500,000,000 shares (2021: 1,500,000,000 shares) of BD 0.100 each	**250.0**	150.0
Issued and fully paid		
1,647,700,962 shares (2021: 1,497,909,965 shares) of BD 0.100 each	**164.8**	149.8

Movement of ordinary share capital was as follows:

	Number of shares	
	2022	2021
Shares at 1 January	**1,497,909,965**	1,361,736,332
Add: Issuance of stock dividend	**149,790,997**	136,173,633
Shares at 31 December	**1,647,700,962**	1,497,909,965

(ii) Treasury stock

Treasury stock represents the Bank's purchase of its own shares. At the end of the year, the Bank held 12,074,562 (2021: 12,174,813) of its own shares.

	2022 BD millions	2021 BD millions
Consideration paid	**4.7**	5.0

(iii) Share premium

The share premium arising on issue of ordinary shares is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law (BCCL) and following the approval of the CBB.

(iv) Employee Performance Share Plan

The Group has an Employee Performance Share Plan (EPSP) under which shares are granted to certain eligible employees (refer to note 42).

(v) Unclaimed dividends

Following a regulatory directive issued by Bahrain Bourse per resolution no (3) of 2021, all the unclaimed dividends were transferred to a designated Bahrain Clear account held with CBB. Prior to this directive and as per the Group's policy and procedures, any unclaimed dividends outstanding for more than 10 years were transferred to equity, however were available to the respective shareholders for any future claims. The Group paid BD Nil (2021: BD 0.022 million) to its shareholders from the reserve account in the equity.

(vi) Statutory reserve

The statutory reserve has been created in accordance with the BCCL. The Bank transfers 10% of its annual profits to its statutory reserve till such time as the reserve equals 50% of the issued share capital of the Bank. During the year, the Bank transferred BD 6.4 million to statutory reserve (2021: BD 5.3 million). The reserve is not available for distribution, except in circumstances as stipulated in the BCCL and following the approval from the CBB.

(vii) General reserve

The general reserve has been built up in accordance with the provisions of the Bank's articles of association and underlines the shareholders' commitment to enhance the strong equity base of the Bank. During the year, the Bank transferred BD Nil million to general reserve (2021: BD 2.6 million). The general reserve is distributable subject to the approval from the CBB and the Annual General Assembly of the Shareholders.

16 CUMULATIVE CHANGES IN FAIR VALUES

	2022 BD millions	2021 BD millions
Fair value through other comprehensive income		
At 1 January	**(7.2)**	(10.2)
Transferred to retained earnings on sale / write-off of equity securities	**(0.5)**	(2.3)
Transferred to profit or loss on sale of investment securities (debt)	**(2.7)**	(3.6)
Transferred to profit or loss on impairment (debt)	**0.3**	(0.1)
Fair value changes on investment securities carried at FVTOCI	**24.4**	9.0
At 31 December	**14.3**	(7.2)
Cash flow hedges		
At 1 January	**(0.7)**	(1.2)
Change in unrealised fair values - associated companies (note 10)	**1.2**	0.5
At 31 December	**0.5**	(0.7)
	14.8	(7.9)

17 PROPOSED APPROPRIATIONS

	2022 BD millions	2021 BD millions
Cash dividend	**49.1**	29.7
Stock dividend	**8.2**	15.0
Donations	**2.2**	2.2
	59.5	46.9

17 PROPOSED APPROPRIATIONS (continued)

The Board of Directors proposed cash dividend of BD 0.030 per share, net of treasury stock as of 31 December 2022 and a stock dividend of BD 0.005 per share (2021: cash dividends of BD 0.020 per share, net of treasury stock as of 31 December 2021 and a stock dividend of BD 0.010 per share).

During the year, the Bank paid cash dividend of BD 0.020 per share, net of treasury stock and a stock dividend of BD 0.010 per share pertaining to 2021 (2021: BD 0.020 per share, net of treasury stock and a stock dividend of BD 0.010 per share pertaining to 2020).

The above appropriations will be submitted for approval at the forthcoming Annual General Assembly of the Shareholders. The payment of the final cash dividend is subject to the approval of the CBB.

18 NET INTEREST AND SIMILAR INCOME

	2022 BD millions	2021 BD millions
(a) Interest and similar income		
At amortised cost:		
Loans and advances to customers	**92.2**	75.6
Deposits and amounts due from banks and other financial institutions	**10.5**	4.0
Investment securities	**9.3**	5.5
Treasury bills	**7.3**	7.5
At FVTOCI:		
Investment securities	**33.0**	25.8
	152.3	118.4
(b) Interest and similar expense		
On financial liabilities carried at amortised cost:		
Deposits and amounts due to banks and other financial institutions	**(26.7)**	(18.3)
Customers' deposits	**(23.1)**	(17.5)
	(49.8)	(35.8)
Net interest and similar income	**102.5**	82.6

19 FEE AND COMMISSION INCOME – NET

	2022 BD millions	2021 BD millions
Fee and commission income	**51.2**	38.5
Fee and commission expense	**(32.6)**	(22.6)
	18.6	15.9

Included in fee and commission income is a loss of BD 0.04 million (2021: loss of BD 0.04 million) relating to trust and other fiduciary activities.

20 INVESTMENT AND OTHER INCOME

	2022 BD millions	2021 BD millions
Dividend income	**2.9**	2.6
Gain on foreign exchange	**7.1**	6.5
Realised gains on investment securities	**2.7**	3.6
Income from commercial activities *	**1.9**	2.2
Other income	**1.2**	2.2
	15.8	17.1

* This represents income arising from non-financial business process outsourcing services provided by a Bank's subsidiary.

21 NET PROVISIONS AND CREDIT LOSSES

	2022 BD millions	2021 BD millions
Loans and advances to customers (note 7)	**10.9**	5.6
Recoveries from fully provided loans and advances written-off in previous years	**(2.3)**	(2.8)
Investment securities (note 8)	**0.3**	(0.1)
Off-balance sheet exposures	**(1.1)**	(0.2)
Collateral pending sale	**0.2**	0.4
	8.0	2.9

22 TAXATION

	2022 BD millions	2021 BD millions
Consolidated statement of financial position		
Deferred tax asset (note 9)	**1.1**	1.4
Consolidated statement of profit or loss		
Deferred tax expense on foreign operations	**(0.7)**	(0.1)

Current tax is measured at the amount expected to be paid in respect of taxable income of the Group's operations in India for the year, in accordance with the Income Tax Act, 1961 enacted by Parliament of India. Deferred tax assets and liabilities are recognised for the future tax consequences of timing differences being the difference between the taxable income and the accounting income that originate in one period and are capable of reversal in one or more subsequent period. Deferred tax assets on account of timing differences are recognised only to the extent there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

The Group's tax expense includes all direct taxes that are accrued on taxable profits of entities to the authorities in the respective countries of incorporation, in accordance with the tax laws prevailing in those jurisdictions. Consequently, it is not practical to provide a reconciliation between the accounting and taxable profits together with the details of effective tax rates. Effective tax rate for the year ended 31 December 2022 is 43.68% (2021: 43.68%).

23 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the year are calculated by dividing the profit for the year attributable to the owners of the Bank by the weighted average number of shares outstanding during the year.

	2022	2021
Profit for the year attributable to the owners of the Bank for basic and diluted earnings per share computation	**64.4**	53.1
Adjusted net profit for the year attributable to the owners of the Bank	**64.4**	53.1
Weighted average number of shares, net of treasury stock, outstanding during the year	**1,635,690,160**	1,635,318,403
Basic and diluted earnings per share (BD)	**0.039**	0.032

24 OPERATING SEGMENTS

Segment information

For management purposes, the Group is organised into four major business segments:

Retail banking

Principally handling individual customers' deposits and providing consumer finance type loans, overdrafts, credit facilities and funds transfer facilities, credit cards and foreign exchange. In addition, it includes lending to and deposit accounts raising from Private Banking customers.

Corporate banking

Principally handling loans and other credit facilities, deposit and current accounts for corporate and Small-Medium business customers in Bahrain.

International banking

Principally handling loans and other credit facilities, deposit and current accounts for international corporate and financial institution customers. This also covers the operations of the overseas units.

Investment, Treasury and Other activities

Principally providing money market, trading and treasury services as well as the management of the Group's funding operations. Investment activities involve handling investments in local and international markets, investment advisory services and funds management. Other activities mainly includes business process outsourcing services.

These segments are the basis on which the Group reports its information to the chief operating decision maker. Transactions between segments are generally recorded at estimated market rates on an arm's length basis. Interest is charged / credited to business segments based on a transfer pricing rate, which approximates the marginal cost of funds on a matched funded basis.

Segment information for the year ended 31 December 2022 was as follows:

	Retail banking BD millions	Corporate banking BD millions	International banking BD millions	Investment, Treasury and other activities BD millions	Total BD millions
Interest income	**37.5**	**38.3**	**20.4**	**56.1**	**152.3**
Interest expense	**(6.0)**	**(7.4)**	**(10.3)**	**(26.1)**	**(49.8)**
Internal fund transfer price	**2.2**	**(6.2)**	**3.8**	**0.2**	**-**
Net interest and similar income	**33.7**	**24.7**	**13.9**	**30.2**	**102.5**
Other operating income	**14.9**	**2.4**	**3.9**	**13.2**	**34.4**
Operating income before results from associated companies and joint ventures	**48.6**	**27.1**	**17.8**	**43.4**	**136.9**
Net provisions and credit losses	**(4.8)**	**(6.1)**	**3.2**	**(0.3)**	**(8.0)**
Segment result	**11.3**	**6.6**	**8.0**	**37.8**	**63.7**
Share of profit from associated companies and joint ventures	**–**	**–**	**–**	**1.3**	**1.3**
Net profit for the year					**65.0**
Net profit attributable to non-controlling interests					**(0.6)**
Net profit attributable to the owners of the Bank					**64.4**
Segment assets	**818.8**	**676.0**	**467.5**	**1,630.3**	**3,592.6**
Investments in associated companies and joint ventures	**-**	**-**	**-**	**62.3**	**62.3**
Common assets	**-**	**-**	**-**	**-**	**99.0**
Total assets					**3,753.9**
Segment liabilities	**1,133.3**	**820.7**	**465.5**	**699.6**	**3,119.1**
Common liabilities	**-**	**-**	**-**	**-**	**35.8**
Total liabilities					**3,154.9**

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

	Retail banking BD millions	Corporate banking BD millions	International banking BD millions	Investment, Treasury and other activities BD millions	Total BD millions
Interest income	36.7	25.1	17.7	38.9	118.4
Interest expense	(4.4)	(3.8)	(9.7)	(17.9)	(35.8)
Internal fund transfer price	(2.9)	(4.3)	2.6	4.6	–
Net interest and similar income	29.4	17.0	10.6	25.6	82.6
Other operating income	11.3	2.4	4.0	15.3	33.0
Operating income before results from associated companies and joint ventures	40.7	19.4	14.6	40.9	115.6
Net provisions and credit losses	0.6	(3.9)	0.7	(0.3)	(2.9)
Segment result	11.8	0.7	4.1	35.2	51.8
Share of profit from associated companies and joint ventures	–	–	–	1.7	1.7
Net profit for the year					53.5
Net profit attributable to non-controlling interests					(0.4)
Net profit for the year attributable to the owners of the Bank					53.1
Segment assets	788.8	582.7	699.4	1,487.9	3,558.8
Investments in associated companies and joint ventures	-	-	-	65.0	65.0
Common assets	-	-	-	-	48.9
Total assets					3,672.7
Segment liabilities	1,112.2	675.3	647.5	624.0	3,059.0
Common liabilities	-	-	-	-	68.5
Total liabilities					3,127.5

24 OPERATING SEGMENTS (continued)

Geographic information

The Group operates in two geographic markets: Domestic (Bahrain) and International (other markets). The following tables show the distribution of the Group's revenue and assets by geographical segment, allocated based on the countries where the Bank and its Group entities are located.

	Domestic BD millions	International BD millions	Total BD millions
31 December 2022			
Total operating income and share of profit from associated companies and joint ventures	**125.8**	**12.4**	**138.2**
Total assets	**3,384.9**	**369.0**	**3,753.9**

	Domestic BD millions	International BD millions	Total BD millions
31 December 2021			
Total operating income and share of profit from associated companies and joint ventures	106.7	10.6	117.3
Total assets	3,099.3	573.4	3,672.7

25 CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the purposes of the consolidated statement of cash flows included the following as at 31 December:

	2022 BD millions	2021 BD millions
Cash in hand and vaults (note 4)	**28.6**	23.4
Current accounts and placements with central banks (note 4)	**296.4**	207.4
Deposits and amounts due from banks and other financial institutions having original maturities of ninety days or less	**274.1**	336.1
	599.1	566.9

26 RELATED PARTY BALANCES AND TRANSACTIONS

Related parties represent major shareholders, associated companies and joint ventures, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management. All the loans and advances to related parties are performing and subject to ECL allowances.

Amounts outstanding as of the statement of consolidated financial position date in respect of transactions entered into with related parties are as follows:

	Major shareholders BD millions	Associated companies and joint ventures BD millions	Directors and key management personnel BD millions	Total BD millions
31 December 2022				
Loans and advances to customers	**–**	**2.5**	**4.5**	**7.0**
Investments in associated companies and joint ventures	**–**	**62.3**	**-**	**62.3**
Customers' current, savings and other deposits	**29.6**	**1.8**	**11.4**	**42.8**
31 December 2021				
Loans and advances to customers	–	9.7	2.0	11.7
Investments in associated companies and joint ventures	–	65.0	–	65.0
Customers' current, savings and other deposits	161.2	1.4	8.7	171.3

The income and expense in respect of related parties included in the consolidated statement of profit or loss are as follows:

	Major shareholders BD millions	Associated companies and joint ventures BD millions	Directors and key management personnel BD millions	Total BD millions
31 December 2022				
Interest income	**–**	**0.3**	**–**	**0.3**
Interest expense	**2.0**	**0.1**	**0.2**	**2.3**
Share of profit from associated companies and joint ventures	**–**	**1.3**	**–**	**1.3**
31 December 2021				
Interest income	–	0.7	–	0.7
Interest expense	2.4	–	0.1	2.5
Share of profit from associated companies and joint ventures	–	1.7	–	1.7

Compensation for key management, including executive officers, comprises the following:

	2022 BD millions	2021 BD millions
Short-term employee benefits	**12.1**	10.5
Long-term employee benefits	**1.1**	1.3
	13.2	11.8

For key management personnel interest in the employee share incentive scheme, refer to note 42.

27 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The maturity profile of the assets and liabilities given below has been determined on the basis of the remaining period at the consolidated statement of financial position date to the contractual maturity date, except in the case of customer deposits. The liquidity profile of customer deposits has been determined on the basis of the effective maturities indicated by the Group's deposit retention history.

31 December 2022	Within 1 month BD millions	1 to 3 months BD millions	3 to 6 months BD millions	6 to 12 months BD millions	Subtotal BD millions	1 to 5 years BD millions	5 to 10 years BD millions	10 to 20 years BD millions	More than 20 years BD millions	Total BD millions
Assets										
Cash and balances with central banks	325.0	–	–	–	325.0	–	–	–	91.9	416.9
Treasury bills	13.0	70.5	92.4	102.0	277.9	–	–	–	–	277.9
Deposits and amounts due from banks and other financial institutions	275.5	–	–	0.3	275.8	0.8	–	–	–	276.6
Loans and advances to customers	226.0	107.3	66.8	82.9	483.0	724.5	307.9	71.7	26.9	1,614.0
Investment securities	17.3	35.3	50.4	5.8	108.8	305.5	295.5	88.5	115.9	914.2
Interest receivable, derivative and other assets	136.9	–	–	–	136.9	17.6	–	–	–	154.5
Investments in associated companies and joint ventures	–	–	–	–	–	–	–	–	62.3	62.3
Premises and equipment	–	0.1	0.1	0.2	0.4	32.7	0.4	2.6	1.4	37.5
Total assets	993.7	213.2	209.7	191.2	1,607.8	1,081.1	603.8	162.8	298.4	3,753.9
Liabilities										
Deposits and amounts due to banks and other financial institutions	200.0	47.4	26.6	15.4	289.4	–	–	–	–	289.4
Borrowings under repurchase agreement	20.9	3.6	75.5	112.7	212.7	164.7	–	–	–	377.4
Term borrowings	–	–	–	56.5	56.5	207.4	–	–	–	263.9
Customers' current, savings and other deposits	229.1	70.5	20.0	81.5	401.1	4.0	–	–	1,711.5	2,116.6
Interest payable, derivative and other liabilities	101.7	0.1	0.1	0.2	102.1	3.3	0.3	1.9	–	107.6
Total liabilities	551.7	121.6	122.2	266.3	1,061.8	379.4	0.3	1.9	1,711.5	3,154.9
Net liquidity gap	442.0	91.6	87.5	(75.1)	546.0	701.7	603.5	160.9	(1,413.1)	599.0
Cumulative liquidity gap	442.0	533.6	621.1	546.0		1,247.7	1,851.2	2,012.1	599.0	

31 December 2021	Within 1 month BD millions	1 to 3 months BD millions	3 to 6 months BD millions	6 to 12 months BD millions	Subtotal BD millions	1 to 5 years BD millions	5 to 10 years BD millions	10 to 20 years BD millions	More than 20 years BD millions	Total BD millions
Assets										
Cash and balances with central banks	230.8	–	–	–	230.8	–	–	–	54.0	284.8
Treasury bills	16.9	61.7	92.0	108.6	279.2	–	–	–	–	279.2
Deposits and amounts due from banks and other financial institutions	323.0	13.1	–	1.4	337.5	–	–	–	–	337.5
Loans and advances to customers	215.3	127.2	63.1	96.4	502.0	668.3	336.6	48.4	51.9	1,607.2
Investment securities	24.9	17.4	32.7	8.6	83.6	328.6	340.5	111.9	121.2	985.8
Interest receivable, derivative and other assets	63.4	–	–	–	63.4	15.1	–	–	–	78.5
Investments in associated companies and joint ventures	–	–	–	–	–	–	–	–	65.0	65.0
Premises and equipment	–	0.1	0.2	0.3	0.6	28.3	1.1	3.2	1.5	34.7
Total assets	874.3	219.5	188.0	215.3	1,497.1	1,040.3	678.2	163.5	293.6	3,672.7
Liabilities										
Deposits and amounts due to banks and other financial institutions	181.8	48.1	9.6	11.3	250.8	4.1	–	–	–	254.9
Borrowings under repurchase agreement	–	–	80.8	75.6	156.4	226.8	–	–	–	383.2
Term borrowings	–	–	–	–	–	245.1	–	–	–	245.1
Customers' current, savings and other deposits	296.0	49.2	46.2	11.7	403.1	0.1	–	–	1,722.4	2,125.6
Interest payable, derivative and other liabilities	112.8	0.1	0.2	0.3	113.4	2.2	0.9	2.2	–	118.7
Total liabilities	590.6	97.4	136.8	98.9	923.7	478.3	0.9	2.2	1,722.4	3,127.5
Net liquidity gap	283.7	122.1	51.2	116.4	573.4	562.0	677.3	161.3	(1,428.8)	545.2
Cumulative liquidity gap	283.7	405.8	457.0	573.4		1,135.4	1,812.7	1,974.0	545.2	

28 DERIVATIVES

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price of one or more underlying financial instrument, reference rate or index. In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. The use of derivatives is governed by the Group's policies approved by the Board of Directors. The Group enters into derivative contracts for the purpose of reducing risks from potential movements in foreign exchange rates and interest rates inherent in the Group's non-trading assets and liabilities. The Group also enters into derivative contracts for the purpose of trading.

The table below shows the positive and negative fair values of derivative financial instruments together with their notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end but are neither indicative of the market risk nor credit risk.

31 December 2022	**Positive fair value BD millions**	**Negative fair value BD millions**	**Notional amount BD millions**
Derivatives held for trading:			
Forward foreign exchange contracts	**0.4**	**2.0**	**190.5**
Derivatives held as fair value hedges:			
Interest rate swaps	**60.1**	**0.8**	**691.1**
	60.5	**2.8**	**881.6**

31 December 2021	Positive fair value BD millions	Negative fair value BD millions	Notional amount BD millions
Derivatives held for trading:			
Forward foreign exchange contracts	0.4	0.4	196.3
Derivatives held as fair value hedges:			
Interest rate swaps	3.4	28.2	582.9
	3.8	28.6	779.2

Derivative product types

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements. Forward rate agreements are effectively tailor-made interest rate futures which fix a forward rate of interest on a notional amount, for an agreed period of time starting on a specified future date.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For currency swaps, fixed or floating interest payments and notional amounts are exchanged in different currencies.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The Group does not engage in the writing of options.

Derivatives held or issued for trading purposes

Most of the Group's derivative trading activities relate to back-to-back customer deals. In addition, the Group takes certain foreign exchange positions with the expectation of profiting from favorable movements in prices, rates or indices.

Derivatives held or issued for hedging purposes

The Group has put in place systems for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange rates (currency risk) and interest rates through asset and liability management activities. It is the Group's policy to reduce its exposure to currency and interest rate risks to acceptable levels as determined by the Board of Directors. For strategies adopted to manage interest rate and currency risk, please refer notes 36 and 37 respectively.

As part of its asset and liability management, the Group uses derivatives for hedging currency and interest rate movements. This is achieved by hedging specific financial instruments, forecasted transactions as well as strategic hedging against consolidated statement of financial position exposures. In all such cases, the objective of the hedging relationship, details of the hedged item and hedging instrument are documented and the transactions are accounted for as fair value or cash flow hedges, as the case may be.

Fair value hedges

Fair value hedges are used by the Group to protect it against changes in the fair value of financial assets and financial liabilities due to movements in exchange rates and interest rates. The financial instruments hedged for interest rate risk include loans, fair value through other comprehensive income debt securities, debt issued and other borrowed funds. The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks, and interest rate swaps to hedge interest rate risk.

In these hedge relationships, the main sources of ineffectiveness is the maturity mis-matches or the hedging instruments. The hedged instruments are subject to different counterparty risks, resulting in a change to hedge effectiveness measurement elements.

The Group held the following interest rate swaps as hedging instruments in fair value hedges of interest risk:

	BD millions				
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years
Interest rate risk					
31 December 2022					
Nominal amount	**1.9**	**18.3**	**43.3**	**243.5**	**384.1**
Average fixed interest rate	**6%**	**5%**	**4%**	**5%**	**6%**
31 December 2021					
Nominal amount	1.9	–	14.9	170.6	395.5
Average fixed interest rate	5%	–	6%	5%	6%

The line item in the consolidated statement of financial position where the positive fair value of derivatives included is "Interest receivable, derivative and other assets". Refer to note 9.

The line item in the consolidated statement of financial position where the negative fair value of derivatives included is "Interest payable, derivative and other liabilities". Refer to note 14.

The amounts relating to items designated as hedged items were as follows:

	2022		2021	
	Carrying amount BD millions	**Fair value adjustments* BD millions**	Carrying amount BD millions	Fair value adjustments* BD millions
Bonds (Investment securities)	**764.5**	**(55.0)**	619.0	20.7
Borrowings under repurchase agreement	**106.3**	**(0.5)**	-	-

* Represents accumulated fair value hedge adjustments on the hedged item included in the carrying amount.

For the year ended 31 December 2022, the Group recognised a net gain of BD 54.3 million (2021: net gain of BD 34.7 million), representing the gain on the hedging instruments. The total loss on hedged items attributable to the hedged risk amounted to BD 55.0 million (2021: loss of BD 34.5 million).

For the year ended 31 December 2022, the Group recognised a net gain of BD 54.3 million (2021: net gain of BD 34.7 million), representing the gain on the hedging instruments. The total loss on hedged items attributable to the hedged risk amounted to BD 55.0 million (2021: loss of BD 34.5 million).

Fair value hedges of interest rate risk
The Group hedges interest rate risk only to the extent of benchmark interest rates because the changes in fair value of a fixed-rate note or loan are significantly influenced by changes in the benchmark interest rate. Hedge accounting is applied where economic hedging relationships meet the hedge accounting criteria.

By using derivative financial instruments to hedge exposures to changes in interest rates, the Group also exposes itself to credit risk of the derivative counterparty, which is not offset by the hedged item.

In these hedging relationships, the main sources of ineffectiveness are the effect of the counterparty and the Group's own credit risk on the fair value of the interest rate swap, which is not reflected in the fair value of the hedged item attributable to the change in interest rate; and differences in maturities of the interest rate swap and the loans or the notes.

There were no other sources of ineffectiveness in these hedging relationships.

The effective portion of fair value gains on derivatives held in qualifying fair value hedging relationships and the hedging gain or loss on the hedged items are included in other investment income.

Cash flow hedges
At 31 December 2022 and 2021, the Group did not hold any instruments to hedge exposures to changes in interest rates and foreign currency.

29 COMMITMENTS AND CONTINGENT LIABILITIES

Credit-related commitments
Credit-related commitments include commitments to extend credit, standby letters of credit, guarantees and acceptances which are designed to meet the requirements of the Group's customers.

Commitments to extend credit represent the unused portions of contractual commitments to make loans and revolving credits, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most of the commitments to extend credit are contingent upon the customer maintaining specific credit standards. Commitments generally have fixed expiration dates of less than one year or other termination clauses. Since commitments may expire without being drawn upon, the total contracted amounts do not necessarily represent future cash requirements.

Letters of credit, guarantees (including standby letters of credit) and acceptances commit the Group to make payments on behalf of customers contingent upon certain conditions. Standby letters of credit, which are included under guarantees, would have market risk if issued or extended at a fixed rate of interest. However, these contracts are primarily made at a floating rate.

	BD millions					
31 December 2022	**On demand**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**Total**
Contingencies:						
Letters of credit	**6.8**	**10.7**	**7.3**	**–**	**–**	**24.8**
Guarantees	**190.2**	**–**	**–**	**–**	**–**	**190.2**
						215.0
Commitments:						
Undrawn loan commitments	**103.2**	**–**	**–**	**–**	**–**	**103.2**
Forward Foreign Exchange Contracts	**–**	**142.9**	**47.6**	**–**	**–**	**190.5**
Interest Rate Swap	**–**	**20.2**	**43.3**	**243.4**	**384.2**	**691.1**
						984.8
						1,199.8

	BD millions					
31 December 2021	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Contingencies:						
Letters of credit	3.4	11.5	15.3	–	–	30.2
Guarantees	164.0	–	–	–	–	164.0
						194.2
Commitments:						
Undrawn loan commitments	170.1	–	–	–	–	170.1
Forward Foreign Exchange Contracts	–	149.9	46.4	–	–	196.3
Interest Rate Swap	–	1.9	14.9	170.6	395.4	582.8
						949.2
						1,143.4

The Group does not expect all its commitments to be drawn before the expiry of the commitment.

Exposure (after applying credit conversion factor) and ECL by stage was as follows:

	2022			
	Stage 1: 12-month ECL BD millions	**Stage 2: Lifetime ECL not credit - impaired BD millions**	**Stage 3: Lifetime ECL credit - impaired BD millions**	**Total BD millions**
Credit commitments and contingencies	**126.5**	**35.4**	**12.9**	**174.8**
ECL allowances (note 14)	**0.2**	**0.2**	**2.4**	**2.8**

	2021			
	Stage 1: 12-month ECL BD millions	Stage 2: Lifetime ECL not credit - impaired BD millions	Stage 3: Lifetime ECL credit - impaired BD millions	Total BD millions
Credit commitments and contingencies	210.0	19.0	14.6	243.6
ECL allowances (note 14)	0.4	0.2	3.3	3.9

A reconciliation of changes in gross carrying amount for undrawn loan commitments and contingencies by stage is as follows:

	Stage 1: 12-month ECL BD millions	**Stage 2: Lifetime ECL not credit - impaired BD millions**	**Stage 3: Lifetime ECL credit - impaired BD millions**	**Total BD millions**
1 January 2022	**290.6**	**59.0**	**14.7**	**364.3**
New exposures	**71.4**	**15.3**	**-**	**86.7**
Exposures matured/lapsed	**(119.0)**	**(14.6)**	**(1.0)**	**(134.6)**
Transfers between stages	**(8.1)**	**7.8**	**0.3**	**-**
Foreign exchange adjustments	**(0.3)**	**1.7**	**0.4**	**1.8**
At 31 December 2022	**234.6**	**69.2**	**14.4**	**318.2**

29 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Credit-related commitments (continued)

	Stage 1: 12-month ECL BD millions	Stage 2: Lifetime ECL not credit - impaired BD millions	Stage 3: Lifetime ECL credit - impaired BD millions	Total BD millions
1 January 2021	312.3	66.6	15.5	394.4
New exposures	148.2	15.2	-	163.4
Exposures matured/lapsed	(162.4)	(29.1)	(3.8)	(195.3)
Transfers between stages	(9.5)	6.6	2.9	-
Foreign exchange adjustments	2.0	(0.3)	0.1	1.8
At 31 December 2021	290.6	59.0	14.7	364.3

30 RISK MANAGEMENT

The activities of the Group entails risk taking on a regular basis through its businesses. Risk management involves the identifying, measuring, monitoring and managing of risks on a continuous basis. Efficient and timely management of risks in the Group's activities is critical for the financial soundness and profitability of the Group. The objective of risk management is to increase shareholders' value and achieve a return on equity that is commensurate with the risks assumed. To achieve this objective, the Group employs leading risk management practices with an aim to manage the overall risk profile of the Group in the most efficient and effective way.

Risk is measured, monitored and reported according to principles and policies approved by the Board of Directors. The Board Risk Committee assists the Board of Directors in fulfilling its responsibilities in terms of overseeing management and control of risk and risk frameworks. The Group Chief Risk Officer (GCRO) is head of Risk and Credit Management Division (RCMD). GCRO reports to Board Risk Committee, ensuring segregation of duties and management oversight from the business originating units – a fundamental principle of risk management process.

Whilst the Board approves and periodically reviews risk management policies and strategies based on the recommendations of the Board Risk Committee, the management establishes procedures to implement the policies and strategies. The Risk Management Committee (RMC), the Country Risk Committee (CRC) and Asset and Liability Management Committee (ALMC), comprising Executive and Senior Management, are high level management committees responsible for the overall management of the risk profile of the Group. RMC discusses important risk related issues, policies, procedures and reviews implementation of its decisions. ALMC reviews issues relating to the statement of financial position at a micro level and also reviews issues relating to asset-liability mismatches, interest rate risks and liquidity. The CRC reviews country risk, business strategies and macro-economic conditions with reference to the countries identified for doing business. The Operational Risk Management Committee (ORMC) manages the overall operational risk of the Group by instituting CBB guidelines and Basel standards and carrying out required oversight.

RCMD of the Group maintains a high standard of risk management by means of applying available techniques and methodology. The control environment is, among other things, based on the principle of segregation of duties and independence. RCMD is responsible for looking into risk characteristics inherent in new and existing products, activities, countries, regions, industries and making necessary recommendations to the appropriate authorities. It is also responsible for introducing and amending risk policies, procedures and exposure limits to mitigate these risks with approval from Board Risk Committee and Board or the Risk Management Committee, as applicable. RCMD in collaboration with Financial Control Division, prepares the Risk Appetite, stress testing and the ICAAP document for the Bank. The ICAAP document assesses the Pillar 2 risks at length and prescribes the required level of capital buffer for the Bank. RCMD is also responsible for ensuring adherence to regulatory and statutory requirements related to risk management such as introducing use of IFRS 9 guidelines, ICAAP etc. in the Bank. Group Internal Audit Department makes an independent assessment of the processes regarding risk and capital management in accordance with the annual audit plan duly approved by the Board, Audit and Compliance Committee.

The various risks to which the Group is exposed to and how the Group manages them is discussed in the notes below.

31 CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and thereby cause the other party to incur a financial loss. Credit risk in derivative financial instruments arises from potential counterparty default on contractual obligations and it is limited to the positive fair value in favor of the Group.

The business activities of the Group entail risk of loss due to failure of clients, customers or counterparties, including sovereigns, to fully honor their obligations including the whole and timely payment of principal, interest, collateral and other receivables. The failure thereby causes the Group to incur a financial loss.

The Group's credit risk management objectives are to:

- maintain a framework of controls to oversee credit risk;
- identify, assess and measure credit risk clearly and accurately across the Group and within each separate business, from the level of individual facilities up to the total portfolio;
- control and plan credit risk taking in line with the Board of Directors expectations and avoiding undesirable concentrations; and
- monitor credit risk and adherence to agreed controls.

A concentration of credit risk exists when a number of counterparties or customers are engaged in similar activities or geographies, and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions. The Group constantly reviews its concentration in a number of areas including, for example, geography, maturity and industry. Policy limits and operating limits are used to maintain concentrations at appropriate levels, which are aligned with the businesses' stated risk appetite. Limits are typically based on the nature of the lending and the amount of the underwriting criteria. Diversification, to reduce concentration risk, is achieved through setting maximum exposure limits to individual counterparties exposures. Excesses are reported to the appropriate authority as set by the Credit Risk Policy.

The Group attempts to control credit risk by monitoring credit exposures continuously, limiting transactions with specific counterparties, assessing the creditworthiness of counterparties, diversifying lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses, and by obtaining security wherever necessary and appropriate. In addition to monitoring credit limits, the Group manages credit exposures by entering into netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposures.

The Group has well defined policies and procedures for identifying, measuring, monitoring and controlling credit risk in all of the Group's activities, at the level of individual credit as well as at a portfolio level. Credit limits are approved after a thorough assessment of the creditworthiness of the borrower or counterparty, including the purpose and structure of the credit, and its source of repayment. Credit proposals are reviewed by the Designated Credit and Investment Officers in RCMD before approval of the appropriate approving authority is obtained. The Group has a tiered approval authority level matrix depending on the extent of risk, comprising individuals with proven credit and investment credentials, Management Credit Committee and Board Committees. An Executive Committee, consisting of Board of Directors, reviews and approves larger credits. All larger credits in excess of the approval authority of the Executive Committee are approved by the Board of Directors. The RCMD processes credit applications and ensures that the provisions of credit risk policies are complied with. The RCMD generates regular reports on credit risk exposures, performs credit rating reviews and monitors credit limits. The Designated Credit Officer / Designated Investment Officer in RCMD is one of the signatories in the credit / investment approval chain and provides independent view on credit and investment proposals.

Day-to-day monitoring of individual borrower or counterparty exposure is the responsibility of the respective business unit. The Group's Credit Administration Unit, a part of the RCMD, ensures that credit facilities are released after appropriate approval and against proper documentation. It also monitors excesses over limits, past dues, expired credits and escalates exceptions if any, for corrective action.

Counterparty credit limits are established for all customers after careful assessment of their creditworthiness and approval (as per the levels of authority prescribed in the policy). These are also subject to large credit exposure limit criteria of the CBB and the local regulators in overseas locations.

The credit growth, quality and portfolio composition are monitored continuously to maximize the risk adjusted return, reduce the level of incidence of impairment and accretion of marginal credits. The Group monitors concentration risk by establishing limits for maximum exposure to individual borrower or counterparty, country, bank and industry. Such limits are also stipulated for certain products. These limits are approved after detailed analysis and are reviewed and monitored regularly.

The table below shows the gross maximum exposure to credit risk for the components of the statement of financial position and for commitments and contingent liabilities. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements, but after provision for credit losses, where applicable.

	2022 BD millions	2021 BD millions
Balances with central banks	**388.3**	261.4
Treasury bills	**277.9**	279.2
Deposits and amounts due from banks and other financial institutions	**276.6**	337.5
Loans and advances to customers	**1,614.0**	1,607.2
Investment securities	**842.5**	911.1
Interest receivable, derivative and other assets	**133.4**	59.8
Total	**3,532.7**	3,456.2
Contingent liabilities	**215.0**	194.2
Commitments	**984.8**	949.2
Total credit related commitments	**1,199.8**	1,143.4
Total credit risk exposure	**4,732.5**	4,599.6

32 CONCENTRATION RISK

The distribution of assets, liabilities and credit commitments and contingencies by geographic region and industry sector was as follows:

	2022			2021		
	Assets BD millions	Liabilities BD millions	Credit commitments and contingencies BD millions	Assets BD millions	Liabilities BD millions	Credit commitments and contingencies BD millions
Geographic region:						
Gulf Co-operation Council countries	**3,170.3**	**2,654.8**	**617.7**	3,096.6	2,622.5	695.1
North America	**108.8**	**7.9**	**1.0**	92.9	9.1	1.1
Europe	**227.9**	**343.3**	**462.2**	208.6	303.3	367.3
Asia	**180.0**	**130.4**	**87.8**	220.8	175.9	78.2
Others	**66.9**	**18.5**	**31.1**	53.8	16.7	1.7
	3,753.9	**3,154.9**	**1,199.8**	3,672.7	3,127.5	1,143.4
Industry sector:						
Trading and manufacturing	**517.8**	**178.7**	**150.1**	600.2	115.9	169.7
Banks and other financial institutions	**587.6**	**934.6**	**895.4**	689.8	880.6	791.0
Construction and real estate	**320.5**	**47.3**	**129.8**	317.7	72.0	106.4
Government and public sector	**1,397.5**	**270.6**	**0.3**	1,168.8	389.1	3.6
Individuals	**559.9**	**1,201.5**	**0.2**	588.6	1,228.1	0.5
Others	**370.6**	**522.2**	**24.0**	307.6	441.8	72.2
	3,753.9	**3,154.9**	**1,199.8**	3,672.7	3,127.5	1,143.4

33 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS

The credit quality of financial assets is managed by the Group using internal and external credit risk ratings.

The Group follows an internal rating mechanism for grading relationships under loans and advances.

The Group utilises a scale ranging from 1 to 10 for credit relationships, with 1 to 8 denoting performing grades and 9 and 10 as non-performing grades, in line with Basel III guidelines. Grades 1 to 3 represent high grade (undoubted through to good credit risk), 4 to 6 represent standard grade (satisfactory through to adequate credit risk) and 7 to 8 represent sub-standard grade (sub-standard through to high credit risk and loss).

The Group's rating method comprises 19 rating levels for debt instruments. The master scale maps the external credit ratings of rating agencies for debt instruments in to high, standard, substandard and past due or individually impaired. Grades 1 to 7 represent high grade (AAA to A-), 8 to 16 represent standard grade (BBB+ to B-) and 17 to 19 represent sub-standard grade (CCC+ to CCC-).

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

All lending relationships are reviewed at least once a year and more frequently in the case of non-performing assets.

33 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS (continued)

33.1 Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVTOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

	Stage 1: 12-month ECL BD millions	Stage 2: Lifetime ECL not credit-impaired BD millions	Stage 3: Lifetime ECL credit -impaired BD millions	Total BD millions
31 December 2022				
Loans and advances to customers – Commercial loans and overdrafts at amortised cost				
High (Grade 1 to 3)	**224.3**	**–**	**–**	**224.3**
Standard (Grade 4 to 6)	**481.8**	**128.4**	**–**	**610.2**
Substandard (Grade 7 to 8)	**4.5**	**147.0**	**–**	**151.5**
Non-performing (Grade 9 to 10)	**–**	**–**	**47.4**	**47.4**
	710.6	**275.4**	**47.4**	**1,033.4**
Expected credit losses	**(5.0)**	**(25.2)**	**(33.3)**	**(63.5)**
Net carrying amount	**705.6**	**250.2**	**14.1**	**969.9**
31 December 2021				
Loans and advances to customers – Commercial loans and overdrafts at amortised cost				
High (Grade 1 to 3)	193.5	3.8	–	197.3
Standard (Grade 4 to 6)	475.1	120.3	–	595.4
Substandard (Grade 7 to 8)	4.6	150.3	–	154.9
Non-performing (Grade 9 to 10)	–	–	79.5	79.5
	673.2	274.4	79.5	1,027.1
Expected credit losses	(3.7)	(23.5)	(52.8)	(80.0)
Net carrying amount	669.5	250.9	26.7	947.1

	Stage 1: 12-month ECL BD millions	Stage 2: Lifetime ECL not credit-impaired BD millions	Stage 3: Lifetime ECL credit -impaired BD millions	Total BD millions
31 December 2022				
Loans and advances to customers – Consumer loans at amortised cost				
High (Grade 1 to 3)	**628.9**	**–**	**–**	**628.9**
Standard (Grade 4 to 6)	**–**	**9.6**	**–**	**9.6**
Substandard (Grade 7 to 8)	**–**	**11.0**	**–**	**11.0**
Non-performing (Grade 9 to 10)	**–**	**–**	**10.3**	**10.3**
	628.9	**20.6**	**10.3**	**659.8**
Expected credit losses	**(1.7)**	**(6.0)**	**(8.0)**	**(15.7)**
Net carrying amount	**627.2**	**14.6**	**2.3**	**644.1**
31 December 2021				
Loans and advances to customers – Consumer loans at amortised cost				
High (Grade 1 to 3)	648.7	–	–	648.7
Standard (Grade 4 to 6)	3.0	1.4	–	4.4
Substandard (Grade 7 to 8)	–	9.3	–	9.3
Non-performing (Grade 9 to 10)	–	–	9.0	9.0
	651.7	10.7	9.0	671.4
Expected credit losses	(1.0)	(2.9)	(7.4)	(11.3)
Net carrying amount	650.7	7.8	1.6	660.1

	Stage 1: 12-month ECL BD millions	Stage 2: Lifetime ECL not credit-impaired BD millions	Stage 3: Lifetime ECL credit -impaired BD millions	Total BD millions
31 December 2021				
Debt investment securities at FVTOCI				
High (AAA to A-)	**108.9**	**–**	**–**	**108.9**
Standard (BBB+ to B-) *	**457.8**	**43.6**	**–**	**501.4**
	566.7	**43.6**	**–**	**610.3**
Expected credit losses	**(0.3)**	**(0.4)**	**–**	**(0.7)**
Net carrying amount	**566.4**	**43.2**	**–**	**609.6**
Treasury bills and debt investment securities at amortised cost				
High (AAA to A-)	**72.1**	**–**	**–**	**72.1**
Standard (BBB+ to B-) *	**438.7**	**–**	**–**	**438.7**
	510.8	**–**	**–**	**510.8**
Expected credit losses	**–**	**–**	**–**	**–**
Net carrying amount	**510.8**	**–**	**–**	**510.8**
Loan commitments and financial guarantees				
High (Grade 1 to 3)	**83.3**	**–**	**–**	**83.3**
Standard (Grade 4 to 6)	**149.7**	**42.0**	**–**	**191.7**
Substandard (Grade 7 to 8)	**–**	**28.9**	**–**	**28.9**
Non-performing (Grade 9 to 10)	**–**	**–**	**14.3**	**14.3**
	233.0	**70.9**	**14.3**	**318.2**
Expected credit losses	**(0.2)**	**(0.2)**	**(2.4)**	**(2.8)**
Net carrying amount	**232.8**	**70.7**	**11.9**	**315.4**

	Stage 1: 12-month ECL BD millions	Stage 2: Lifetime ECL not credit-impaired BD millions	Stage 3: Lifetime ECL credit -impaired BD millions	Total BD millions
31 December 2021				
Debt investment securities at FVTOCI				
High (AAA to A-)	123.3	–	–	123.3
Standard (BBB+ to B-) *	480.7	79.3	–	560.0
	604.0	79.3	–	683.3
Expected credit losses	(0.3)	(0.3)	–	(0.6)
Net carrying amount	603.7	79.0	–	682.7
Treasury bills and debt investment securities at amortised cost				
High (AAA to A-)	85.8	–	–	85.8
Standard (BBB+ to B-) *	421.7	0.1	–	421.8
	507.5	0.1	–	507.6
Expected credit losses	–	–	–	–
Net carrying amount	507.5	0.1	–	507.6
Loan commitments and financial guarantees				
High (Grade 1 to 3)	67.9	0.3	–	68.2
Standard (Grade 4 to 6)	222.8	27.5	–	250.3
Substandard (Grade 7 to 8)	0.1	31.1	–	31.2
Non-performing (Grade 9 to 10)	–	–	14.6	14.6
	290.8	58.9	14.6	364.3
Expected credit losses	(0.4)	(0.2)	(3.3)	(3.9)
Net carrying amount	290.4	58.7	11.3	360.4

* Standard grade includes unrated investments amounting to BD 1.1 million (2021: BD 4.9 million).

33.2 Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties and bank guarantees;
- For retail lending, mortgages over residential properties;
- Cash collaterals such as bank deposits; and
- Marketable securities.

The Group also obtains guarantees from parent companies for loans to their subsidiaries.

The Group monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

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

	2022 BD millions	2021 BD millions
Derivative assets held for risk management	**-**	33.6
Loans, advances and other commitments:		
- Cash	**138.2**	60.6
- Secured by real estate	**741.6**	738.5
- Financial Instruments	**26.1**	10.7
- Others*	**1.1**	23.5

* Others include business mortgages and tugs and ships.

33.3 Inputs, assumptions and techniques used for estimating impairment

(a) Significant increase in credit risk

When determining whether the risk of default on a financial instrument 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.

(b) Credit risk grades

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

(c) Generating the term structure of Probability of Default (PD)

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its Credit risk exposures analysed by credit risk grading for Corporate and days-past-due for Retail portfolio. The Group employs statistical models to analyse the data collected and generate estimates of PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, across various geographies in which the Group has taken exposures.

(d) Determining whether credit risk has increased significantly

In determining whether credit risk has increased significantly since initial recognition, the Group uses its internal credit risk grading system, external risk ratings, delinquency status of accounts, expert credit judgment and, where possible, relevant historical experience. The Group may also determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such, and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis. As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due.

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).

(e) Renegotiated / Modified financial assets

The contractual terms of a loan 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. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value. Where possible, the Group seeks to restructure loans rather than to take possession of collateral, if available. This may involve extending the payment arrangements and documenting the agreement of new loan conditions. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

The accounts which are restructured due to credit reasons in the past twelve months will be classified under Stage 2. The twelve month period is sufficient to test the adequacy of the cash flows and to test satisfactory performance under the revised terms of restructuring.

(f) Definition of default and cure

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. Objective evidence that a financial asset is credit-impaired may include a breach of contract, such as default or delinquency in interest or principal payments, indications that it is probable that the borrower will enter bankruptcy or other significant financial reorganisation, the disappearance of an active market, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the Group. Financial assets are written-off after all restructuring and collection activities have taken place and there is no realistic prospect of recovery.

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 security is held); and
- The borrower is past due more than 90 days on any credit obligation to the Group.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Group for regulatory capital purposes.

33 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS (continued)

33.3 Inputs, assumptions and techniques used for estimating impairment (continued)

(f) Definition of default and cure (continued)

A financial instrument is considered as 'cured' and therefore re-classified out of Stage 3 when the criteria in line with the regulatory guidelines are met i.e. exposure is not 90 days past due, continuous repayment period ranging from 6-12 months based on the repayment frequency, assessment that the counterparty's financial situation has improved and the borrower is not considered as defaulted / impaired as per accounting standards. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition

(g) Incorporation of forward-looking information

The Group employs statistical models to incorporate macro-economic factors on historical default rates. In case none of the above macroeconomic parameters are statistically significant or the results of forecasted PD's are significantly deviated from the present forecast of the economic conditions, qualitative PD overlays shall be used by management after analysing the portfolio as per the diagnostic tool.

Incorporating forward looking information increases the level of judgment as to how changes in these macroeconomic factors will affect the ECL applicable to the Stage 1 and Stage 2 exposures which are considered as performing (Stage 3 are the exposures under the default category). The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically. As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different geographies to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

(h) Measurement of ECL

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

i) Probability of default (PD);
ii) Loss given default (LGD); and
iii) Exposure at default (EAD).

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

PD estimates are estimates at a certain date, which are calculated based on statistical rating models. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Market data is used to derive the PD for banks and sovereign counterparties. If a counterparty or exposure migrates between rating PDs are estimated considering the residual maturities of exposures and estimated prepayment rates.

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 forecasted collateral value and recovery costs of any collateral that is integral to the financial asset.

LGD estimations are estimations of:

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

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

3- Discounting Rate: Defined as the opportunity cost of the recovery value not being realized on the day of default adjusted for time value.

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 and forward-looking forecasts.

The contractual life have been considered as maturity for ECL computation for the assets with fixed maturity whereas, for overdraft a maturity of 3 years (Stage 2) and 1 year (Stage 1) shall be considered based upon the stage under which asset lies.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics and counterparty type that include:

i) Credit risk gradings;
ii) Product type; and
iii) Geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are banks and financial institutions, sovereign and investment securities (debt instruments).

The measurement of ECL is a complex calculation that involves a large number of interrelated inputs and assumptions and the allowance is not sensitive to any one single factor alone. The key drivers of changes in ECL mainly include the following:

- Changes in the credit quality of the borrower or instrument, primarily reflected in changes in internal / external risk ratings;
- Changes in forward-looking macroeconomic conditions, specifically the macroeconomic variables to which the models are calibrated, which are those most closely correlated with credit losses in the relevant BBK portfolio as well as overall Bahrain credit portfolio;
- Changes to the value of the underlying collateral held impacting the Loss Given Default;
- Changes in scenario design and the weights assigned to each scenario; and
- Transfers between stages, which can be triggered by changes in the credit quality of the borrower or instrument or any restructuring of the exposures.

Being cognizant of the fact that the economic environment remains uncertain and future impairment changes may be subject to further volatility (including from changes to macroeconomic forecasts), the Group has reviewed and validated the PD methodology to be able to effectively capture the current situation. The Group has also considered the adequacy of the ECL estimates vis-à-vis potential requirements in future based on internal stress testing analysis.

The models used by the Group have been constructed and calibrated using historical trends and correlation as well as forward looking economic scenarios.

The following table outlines the impact of multiple scenarios on the ECL (Stage 1 and Stage 2) used by the Group as compared to the ECL that would have resulted from applying more liberal / conservative weighting to the base case or worst case scenarios:

31 December 2022	Scenario mix used by the Group (15:70:15) BD millions	Scenario 1 (10:60:30) BD millions	Scenario 2 (10:50:40) BD millions
Loans and advances to customers	**37.9**	**40.2**	**41.4**
Investment securities	**0.7**	**0.7**	**0.7**
Off-balance sheet exposures	**0.4**	**0.4**	**0.4**

31 December 2021	Scenario mix used by the Group (15:70:15) BD millions	Scenario 1 (10:60:30) BD millions	Scenario 2 (10:50:40) BD millions
Loans and advances to customers	31.1	33.1	34.1
Investment securities	0.6	0.5	0.5
Off-balance sheet exposures	0.6	0.6	0.6

34 CARRYING AMOUNT OF FINANCIAL ASSETS WHOSE TERMS HAVE BEEN RENEGOTIATED

The Group sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Group considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy.

The table below shows the carrying amount for financial assets by class that were restructured during the year and had no significant impact on ECL.

	2022 BD millions	2021 BD millions
Loans and advances to customers		
Commercial loans	**24.1**	17.8

35 MARKET RISK

Market risk is defined as the risk of potential loss that may arise from adverse changes in the value of a financial instrument or portfolio of financial instruments due to movements in interest rates, foreign exchange rates, equity, commodity prices and derivatives. This risk arises from asset - liability mismatches, changes that occur in the yield curve, foreign exchange rates and changes in volatilities / implied volatilities in the market value of derivatives.

The Group has clearly defined policies for conducting investments (including trading investments) and foreign exchange business which stipulates limits for these activities. Investments are made strictly in accordance with investment acceptance criteria. The Group does not undertake any commodity trading activities. For management of market risk arising from movement in interest rates, refer to note 36.

The Group uses an internal Value-at-Risk (VaR) model for measuring general market risk in the trading book of the Group and all foreign exchange positions. The internal model was approved by the Central Bank of Bahrain. VaR is calculated using a 99% confidence level for a 10 day holding period. This implies a 1% possibility of the loss exceeding the VaR amount calculated by the model. As at 31 December 2022, VaR calculated based on the above parameters was BD 0.4 million (2021: BD 0.4 million).

The Bank's Risk Management Department conducts back testing in accordance with the Market Risk Capital Adequacy Regulations issued by the Central Bank of Bahrain to ensure that the VaR model and assumptions used for computing VaR numbers are reliable. Back testing of 1 day VaR as per actual profit and loss (comparing 1 day VaR with the average actual daily profit and loss) and also hypothetical back testing (comparing 1 day VaR with derived profit and loss of static positions) is carried out on a daily basis as stipulated in the Central Bank of Bahrain Rule book. The objective is to ensure that the assumptions used for computing VaR are reasonable and provide a VaR number that is a good indicator of possible losses in trading positions. During the year, the back testing produced satisfactory results.

The Group also conducts stress testing to identify events or influences that could greatly impact material trading positions taken by the Group. As per the CBB requirements, validation of the internal model is conducted by the Internal Audit Department of the Bank as well as by an external consultant.

36 INTEREST RATE RISK

Interest rate risk is the exposure of the Group's financial condition to adverse movements of interest rates. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off statement of financial position instruments that mature or re-price in a given period. Excessive interest rate risk can pose a significant threat to the Group's earnings and capital base. Accordingly, an effective risk management process that maintains interest rate risk within prudent levels is essential to the safety and soundness of the Group.

It is the Group's policy to keep its assets and liabilities mismatches at stable and acceptable levels to maintain a steady net interest income. The Group monitors interest rate risk based on gap/ duration limits. The Group also uses 'what if' scenarios for projecting net interest income and economic value of equity of the Group. The Group uses derivative instruments such as interest rate swaps, and foreign exchange agreements to manage interest rate risk. Whilst day to day management of interest rate risk is responsibility of the Head of Treasury, ALMC also reviews the interest rate risk reports periodically.

Managing interest rate benchmark reform and associated risks

The Group established a cross-functional IBOR Committee to manage its transition to alternative rates. The objectives of the IBOR Committee include evaluating the extent to which loans advanced, loan commitments and liabilities reference IBOR cash flows, whether such contracts need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties. The IBOR Committee collaborates with other business and support functions as needed.

The main risks to which the Group is exposed as a result of IBOR reform are operational. For example, the renegotiation of loan contracts through bilateral negotiation with customers, updating of contractual terms, updating of systems that use IBOR rates and forward curves and revision of operational controls related to the reform. Financial risk is predominantly limited to interest rate risk.

The Group has continued to amend existing agreements of loans and advances, including loan commitments throughout 2021 and 2022. These amendments are made to incorporate a fallback provision stating that the existing US dollar LIBOR benchmark rate will be replaced with an Alternative Reference Rate respectively when LIBOR ceases to exist. The IBOR Committee is in the process of establishing policies for amending the interbank offered rates on its existing floating-rate loan portfolio and loan commitments indexed to IBORs that will be replaced as part of IBOR reform in other parts of the Group. Loans and advances to corporates will be amended in bilateral negotiations with the counterparties, where applicable.

36 INTEREST RATE RISK (continued)

Managing interest rate benchmark reform and associated risks (continued)

The Group monitors the progress of transition from IBORs to new benchmark rates by reviewing the total amounts of contracts that have yet to transition to an alternative benchmark rate and the amounts of such contracts that include an appropriate fallback clause. The Group considers that a contract is not yet transitioned to an alternative benchmark rate when interest under the contract is indexed to a benchmark rate that is still subject to IBOR reform, even if it includes a fallback clause that deals with the cessation of the existing IBOR (referred to as an 'unreformed contract').

The following table discloses details of all of the financial instruments that the Group holds at 31 December 2022 and 2021 and will be maturing after 30 June 2023 for certain US LIBOR settings and are required to transition to ARR benchmark:

	Non-derivative financial assets BD millions	Non-derivative financial liabilities BD millions	Derivatives (Notional Amount) BD millions
31 December 2022			
US LIBOR tenors ceasing 30 June 2023	**155.2**	**191.6**	**447.9**
31 December 2021			
US LIBOR tenors ceasing 30 June 2023	273.3	191.6	542.2

Sensitivity analysis

Based on the consolidated statement of financial position as at 31 December 2022, an increase of 200 basis points in interest rates, with all variables held constant, will result in an increase in the net interest income, for the following 12 months, by approximately BD 18.2 million (2021: increase by BD 18.6 million). However, downward movement of interest rates by 200 basis points might not be a practical assumption in the current environment given the current upward trend of interest rates, and hence capping the downward movement of interest rates at 0%, the negative impact on the net interest income for the following 12 months is approximately BD 18.2 million (2021: BD 9.2 million).

	Rate Shock Forecasting (+200 bps)		Rate Shock Forecasting (-200 bps)	
	2022 BD millions	2021 BD millions	**2022 BD millions**	2021 BD millions
Bahraini Dinars	**16.8**	14.9	**16.8**	9.1
US Dollar	**1.3**	3.1	**1.3**	–
Kuwaiti Dinars	**1.4**	1.6	**1.4**	0.7
Others	**(1.3)**	(1.0)	**(1.3)**	(0.6)
Total	**18.2**	18.6	**18.2**	9.2

An increase of 200 basis points in interest rates, with all other variables held constant, will result in a negative impact on capital of approximately 8.0% amounting to BD 48.5 million (2021: 9.5% amounting to BD 52.7 million). Similarly, a decrease of 200 basis points in interest rates, with all other variables held constant, will result in a positive impact on capital of approximately 8.0% amounting to BD 48.5 million (2021: 9.5% amounting to BD 52.7 million).

The table below provides an analysis of the Group's interest rate risk exposure:

2022	**Up to three months BD millions**	**Over three months up to one year BD millions**	**Over one year BD millions**	**Rate insensitive BD millions**	**Total BD millions**
Treasury bills	**83.4**	**194.5**	**–**	**–**	**277.9**
Deposits and amounts due from banks and other financial institutions	**169.2**	**0.3**	**0.8**	**106.3**	**276.6**
Loans and advances to customers	**849.2**	**175.0**	**566.6**	**23.2**	**1,614.0**
Investment securities	**62.4**	**56.3**	**741.9**	**53.6**	**914.2**
	1,164.2	**426.1**	**1,309.3**	**183.1**	**3,082.7**
Deposits and amounts due to banks and other financial institutions	**226.9**	**42.0**	**–**	**20.5**	**289.4**
Borrowings under repurchase agreements	**233.4**	**75.3**	**68.7**	**–**	**377.4**
Term borrowings	**75.4**	**–**	**188.5**	**–**	**263.9**
Customers' current, savings and other deposits	**454.6**	**365.0**	**36.1**	**1,260.9**	**2,116.6**
	990.3	**482.3**	**293.3**	**1,281.4**	**3,047.3**
On balance sheet gap	**173.9**	**(56.2)**	**1,016.0**	**(1,098.3)**	**35.4**
Off balance sheet gap	**457.3**	**32.0**	**(489.3)**	**(177.0)**	**(177.0)**
Total interest sensitivity gap	**631.2**	**(24.2)**	**526.7**		
Cumulative interest sensitivity gap	**631.2**	**607.0**	**1,133.7**		

2021	Up to three months BD millions	Over three months up to one year BD millions	Over one year BD millions	Rate insensitive BD millions	Total BD millions
Treasury bills	78.6	200.6	–	–	279.2
Deposits and amounts due from banks and other financial institutions	266.2	1.4	–	69.9	337.5
Loans and advances to customers	822.5	173.3	570.2	41.2	1,607.2
Investment securities	53.7	41.2	783.5	107.4	985.8
	1,221.0	416.5	1,353.7	218.5	3,209.7
Deposits and amounts due to banks and other financial institutions	200.4	20.9	4.1	29.5	254.9
Borrowings under repurchase agreements	262.9	87.6	32.7	–	383.2
Term borrowings	56.6	–	188.5	–	245.1
Customers' current, savings and other deposits	492.7	269.3	29.5	1,334.1	2,125.6
	1,012.6	377.8	254.8	1,363.6	3,008.8
On balance sheet gap	208.4	38.7	1,098.9	(1,145.1)	200.9
Off balance sheet gap	581.0	(14.9)	(566.1)	(219.3)	(219.3)
Total interest sensitivity gap	789.4	23.8	532.8		
Cumulative interest sensitivity gap	789.4	813.2	1,346.0		

37 CURRENCY RISK

Currency risk is the risk that the functional currency value of a financial instrument will fluctuate due to changes in foreign exchange rates. The functional currency of the Group is Bahraini Dinars. The Group had the following significant non-strategic net exposures denominated in foreign currencies as of the consolidated statement of financial position date:

	Equivalent long (short)	
	2022 BD millions	2021 BD millions
US Dollar	**165.2**	177.1
Euro	**0.3**	0.1
GCC currencies (excluding Kuwaiti Dinars)	**11.5**	8.9
Kuwaiti Dinars	**6.5**	0.7
Others	**0.2**	0.3

As the Bahraini Dinars and other GCC currencies (except the Kuwaiti Dinars) are pegged to the US Dollar (US$), positions in US$ and other GCC currencies are not considered to have a significant currency risk. For currency sensitivity impact, refer to VaR (note 35).

The Board of Directors has established levels of currency risk by setting limits on currency position exposures. Positions are monitored on a daily basis to ensure that they are maintained within established limits. The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks.

38 EQUITY PRICE RISK

Equity price risk is the risk that the fair values of equities or managed funds decrease as a result of changes in the corresponding value of equity indices or the value of individual equity stocks. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

The effect on equity (as a result of a change in the fair value of equity instruments held as FVTOCI) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	Trading Equities			Effect on equity	
	2022 BD millions	2021 BD millions	% change in Index	**2022 BD millions**	2021 BD millions
Bahrain Bourse	**11.1**	13.9	± 15%	**1.7**	2.1
Other stock exchanges	**30.2**	31.6	± 15%	**4.5**	4.7
				6.2	6.8

39 LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or a credit downgrade which may cause certain sources of funding to dry up immediately. To guard against this risk, the Group has diversified funding sources, assets are managed with liquidity in mind and liquidity positions are monitored, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities. In addition, the Group maintains various statutory deposits with central banks and has taken lines of credit from various banks and financial institutions.

The Bank has in place a liquidity risk policy, which describes the roles and responsibilities of ALMC and Treasury, and stipulates the broad guidelines with regard to minimum liquid assets to be maintained by the Bank, gap limits for time buckets of the maturity ladder, cumulative outflow of cash limits for time buckets and various liquidity ratios to be maintained which are approved by the ALMC based on the Annual Liquidity Strategy.

It is the Bank's policy to keep its assets in high-quality liquid assets such as inter-bank placements, treasury bills and government bonds, to ensure that funds are available to meet maturing liabilities, undrawn facilities and deposit withdrawals as they fall due for payment. A substantial proportion of the Bank's deposits is made up of retail current, savings and fixed deposit accounts which, though payable on demand or at short notice, have traditionally formed part of a stable deposit base and a source of core funding.

The day to day management of liquidity risk is the responsibility of the Head of Treasury, who monitors the sources and maturities of assets and liabilities closely and ensures that limits stipulated by the ALMC are complied with, and that funding is not concentrated from any one source.

The Bank also draws up contingency plans to deal with extraordinary conditions of liquidity risk after comprehensive scenario analysis.

The tables below summarise the maturity profile of the Group's financial liabilities (including interest) based on contractual undiscounted repayment obligations.

31 December 2022	**On demand BD millions**	**Within 1 month BD millions**	**1 to 3 months BD millions**	**3 to 6 months BD millions**	**6 to 12 months BD millions**	**1 to 5 years BD millions**	**5 to 10 years BD millions**	**10 to 20 years BD millions**	**More than 20 years BD millions**	**Total BD millions**
Deposits and amounts due to banks and other financial institutions	**53.3**	**147.5**	**47.0**	**27.4**	**16.3**	**1.1**	**–**	**–**	**–**	**292.6**
Borrowings under repurchase agreement	**–**	**21.6**	**5.6**	**78.7**	**116.3**	**172.0**	**–**	**–**	**–**	**394.2**
Term borrowings	**–**	**6.5**	**–**	**1.2**	**63.8**	**218.4**	**–**	**–**	**–**	**289.9**
Customers' current, savings and other deposits	**1,366.5**	**116.9**	**238.1**	**103.8**	**289.1**	**46.7**	**–**	**–**	**–**	**2,161.1**
Total undiscounted financial liabilities	**1,419.8**	**292.5**	**290.7**	**211.1**	**485.5**	**438.2**	**–**	**–**	**–**	**3,137.8**
Letters of guarantee	**190.2**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**190.2**
Undrawn loan commitments	**103.2**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**103.2**
Derivative financial instruments										
Contractual amounts payable	**–**	**(5.1)**	**(25.5)**	**(48.1)**	**(23.5)**	**(364.5)**	**(327.7)**	**(133.9)**	**(53.2)**	**(981.5)**
Contractual amounts receivable	**–**	**5.4**	**25.4**	**51.8**	**31.5**	**412.1**	**359.7**	**152.8**	**55.0**	**1,093.7**
	–	**0.3**	**(0.1)**	**3.7**	**8.0**	**47.6**	**32.0**	**18.9**	**1.8**	**112.2**

39 LIQUIDITY RISK (continued)

31 December 2021	On demand BD millions	Within 1 month BD millions	1 to 3 months BD millions	3 to 6 months BD millions	6 to 12 months BD millions	1 to 5 years BD millions	5 to 10 years BD millions	10 to 20 years BD millions	More than 20 years BD millions	Total BD millions
Deposits and amounts due to banks and other financial institutions	65.2	116.8	48.2	9.7	11.5	5.2	–	–	–	256.6
Borrowings under repurchase agreement	–	0.5	1.2	82.7	79.4	232.2	–	–	–	396.0
Term borrowings	–	5.6	–	0.3	5.8	267.2	–	–	–	278.9
Customers' current, savings and other deposits	1,451.7	185.4	194.3	170.4	105.0	39.3	–	–	–	2,146.1
Total undiscounted financial liabilities	1,516.9	308.3	243.7	263.1	201.7	543.9	–	–	–	3,077.6
Letters of guarantee	164.0	–	–	–	–	–	–	–	–	164.0
Undrawn loan commitments	170.1	–	–	–	–	–	–	–	–	170.1
Derivative financial instruments										
Contractual amounts payable	–	(5.0)	(7.1)	(19.4)	(19.9)	(283.6)	(336.9)	(128.6)	(54.0)	(854.5)
Contractual amounts receivable	–	3.8	3.5	16.7	14.6	248.2	315.0	112.0	50.4	764.2
	–	(1.2)	(3.6)	(2.7)	(5.3)	(35.4)	(21.9)	(16.6)	(3.6)	(90.3)

40 LEGAL AND OPERATIONAL RISK

Legal risk

Legal risk is the risk relating to losses due to legal or regulatory action that invalidates or otherwise precludes performance by the end user or its counterparty under the terms of the contract or related netting agreements.

The Group has developed preventive controls and formalised procedures to identify legal risks so that potential losses arising from non-adherence to laws and regulations, negative publicity, etc. are significantly reduced. The Group also has well established legal procedures to scrutinise product offerings and manage risks arising out of its transactions.

As at 31 December 2022, there was a legal case pending against the Group aggregating to BD 2.3 million (2021: BD 1.0 million). Based on the opinion of the Group's legal advisors, the management believes that no liability is likely to arise from this case.

Operational risk

Operational risk is the exposure to loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Group has clearly defined operations procedures for each of its products and services. It also has advanced computer systems that enable it to run operations with speed and accuracy.

The Operational Risk Department operates independently from other units of the Bank and reports to the GCRO. It conducts regular reviews of all business areas of the Bank and reports control deficiencies and exceptions to the Bank's policies and procedures. It also recommends measures to mitigate operational risk, which are implemented by management immediately.

The Bank also has a contingency plan to take care of any failure of its computer systems. Regular back-ups are made for all important datasets, and stored outside the Bank's premises. This ensures that in case of any system failure, the Bank will be able to continue its operations without losing critical data or business transactions. As part of its disaster recovery plan, the Bank has established a back-up site which would operate during an emergency.

The Bank has a specific Business Continuity Plan ("BCP") unit. The main objective of the BCP is to ensure that in the event of full or partial disaster, the Bank should be able to continue providing essential services to customers, minimizing any adverse effects on the Bank's business, through business impact analysis, business restoration plans and procedures, for the identified critical functions. The Bank's subsidiaries have similar contingency plans for their operations.

The Bank is using an operational risk management solution for monitoring operational risk, conducting risk and control self assessments and capturing operational loss data in accordance with Basel III / CBB guidelines.

41 FAIR VALUES OF FINANCIAL INSTRUMENTS

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

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

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

The significant inputs for valuation of equities classified under Level 3 are annual growth rate of cash flows and discount rates and for funds it is the illiquidity discount. Lower growth rate and higher discount rate, illiquidity discount will result in a lower fair value. The impact on the consolidated statement of financial position or the consolidated statement of shareholders' equity would be immaterial if the relevant risk variables used to fair value the unquoted securities were altered by five percent. There was no material changes in the valuation techniques used for the purpose of measuring fair value of investment securities as compared to the previous year.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy at 31 December 2022 and 2021:

31 December 2022	**Level 1 BD millions**	**Level 2 BD millions**	**Level 3 BD millions**	**Total BD millions**
Financial assets				
Bonds	**605.7**	**3.9**	**–**	**609.6**
Equities	**41.4**	**11.3**	**17.9**	**70.6**
Managed funds	**–**	**1.1**	**–**	**1.1**
Derivatives held for trading	**–**	**0.4**	**–**	**0.4**
Derivatives held as fair value hedges	**–**	**60.1**	**–**	**60.1**
	647.1	**76.8**	**17.9**	**741.8**
Financial liabilities				
Borrowing under repurchase agreement	**106.3**	**–**	**–**	**106.3**
Derivatives held for trading	**–**	**2.0**	**–**	**2.0**
Derivatives held as fair value hedges	**–**	**0.8**	**–**	**0.8**
	106.3	**2.8**	**–**	**109.1**

31 December 2021	Level 1 BD millions	Level 2 BD millions	Level 3 BD millions	Total BD millions
Financial assets				
Bonds	677.3	5.4	–	682.7
Equities	45.5	10.1	17.8	73.4
Managed funds	–	1.3	–	1.3
Derivatives held for trading	–	0.4	–	0.4
Derivatives held as fair value hedges	–	3.4	–	3.4
	722.8	20.6	17.8	761.2
Financial liabilities				
Derivatives held for trading	–	0.4	–	0.4
Derivatives held as fair value hedges	–	28.2	–	28.2
	–	28.6	–	28.6

Transfers between Level 1, Level 2 and Level 3
During the years ended 31 December 2022 and 2021, there were no transfers into or out of Level 3 fair value measurements. Further, there was no significant movements with equity instruments classified under level 3.

The table below sets out the estimated carrying values and fair values of financial instruments carried at amortised cost where fair values are different from the carrying amounts shown in the consolidated financial statements:

	31 December 2022		
	Carrying value BD millions	**Fair value BD millions**	**Difference BD millions**
Financial liabilities			
Term borrowings	**263.9**	**260.2**	**(3.7)**
Financial assets			
Investment securities	**232.9**	**232.5**	**0.4**

	31 December 2021		
	Carrying value BD millions	Fair value BD millions	Difference BD millions
Financial liabilities			
Term borrowings	245.1	253.1	8.0
Financial assets			
Investment securities	228.4	236.3	(7.9)

The above financial liabilities and assets are Level 1 fair value.

As at 31 December 2022 and 2021, the fair value of financial assets and financial liabilities approximate their carrying values, other than those disclosed in the table above.

42 SHARE – BASED PAYMENTS

In 2014, the Group adopted regulations concerning sound remuneration practices issued by the CBB and consequently revised its variable remuneration framework. The revised policy framework and incentive components were approved by the shareholders in their Annual General Meeting on 10 March 2015. The new share plan has been combined with the newly revised remuneration framework mandated by the CBB and is referred to as Short-Term Incentive Plan (STIP) and Long-Term Incentive Plan (LTIP).

Short-Term and Long-Term Shares Incentive Plan
Long Term Incentive Shares are granted to Executive Senior Managers and above, with more than 12 months service at the date of grant and meeting certain performance criteria. The shares granted are subject to the satisfaction of conditions relating to the Bank's net profit over a three year period and the employee being in employment at the end of the 3 year period (vesting period). Short Term Incentive Shares are granted to employees in line with CBB's Sound Remuneration Guidelines.

The expense recognised for employee services received during the year is shown in the following table:

	2022 BD millions	2021 BD millions
Expense arising from equity-settled share-based payment transactions	**2.8**	2.8
Shares vested during the year	**(2.2)**	(2.3)

The movement in the number of shares in the Group's LTIP and STIP was as follows:

	Number of shares	
	2022	2021
Opening balance of shares granted but not vested	**10,157,419**	10,983,854
Equity shares transferred to trust	**4,613,502**	4,384,749
Shares released during the year to the participants	**(5,361,902)**	(5,211,184)
	9,409,019	10,157,419

The market price of the Bank's shares based on the price quoted in the Bahrain Bourse at 31 December 2022 was BD 0.500 (2021: BD 0.533) per share.

43 CAPITAL ADEQUACY

The risk asset ratio calculated in accordance with the capital adequacy guidelines approved by the CBB, for the Group is as follows:

	2022 BD millions	2021 BD millions
CET1 capital	**603.4**	552.3
Tier 2 capital	**25.3**	26.9
Total capital base (a)	**628.7**	579.2
Credit risk weighted exposure	**2,024.6**	2,148.2
Operational risk weighted exposure	**240.1**	267.5
Market risk weighted exposure	**42.4**	42.5
Total risk weighted exposure (b)	**2,307.1**	2,458.2
Capital adequacy (a/b*100) – %	**27.3%**	23.6%
Minimum requirement – %	**14.0%**	14.0%

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

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

The Group has adopted the new Basel III Capital Adequacy Framework (Basel III) with effect from 1 January 2015 as per the guidelines issued by the CBB, which is enhancing the Bank's risk management process, supervisory review, disclosure standards and capital management.

The Group has adopted the Standardized Approach in case of Credit Risk, the Internal Model Approach for Market Risk in its branches in the Kingdom of Bahrain and State of Kuwait, and Standardised Approach in its branches in the Republic of India, and the Basic Indicator Approach for Operational Risk.

The Group has established its Internal Capital Adequacy Assessment Process (ICAAP) to provide policy guidance in Capital Planning and Capital Management. The Bank also uses Risk Adjusted Return on Capital (RAROC) model in its decision making process.

44 NET STABLE FUNDING RATIO

The objective of the Net Stable Funding Ratio (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 limits over reliance 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.

The NSFR ratio is calculated in accordance with the Liquidity Risk Management Module requirements, issued by the CBB. The minimum NSFR ratio limit as per CBB is 100%. The Group's consolidated NSFR ratio as of 31 December 2022 is 138.3% (31 December 2021: 136.9%).

The main drivers behind the Group's robust Available Stable Funds (ASF) are the solid capital base, sizeable retail and small business deposits portfolio, large portfolio of non-financial institutions deposits (related to government and corporate deposits), as well as medium term funding from Repo and term borrowings. The capital base formed 23.4% (31 December 2021: 21.5%) of Group's ASF, while the retail and small business deposits formed 46.6% (31 December 2021: 46.7%) of the ASF (after applying the relevant weights).

For the Required Stable Funds (RSF), the primary reason for the relatively low RSF, in comparison to the ASF, is related to the sizeable portfolio of BBK's High Quality Liquid Assets (HQLAs) which accounts for 23.6% (31 December 2021: 21.4%) of total RSF (before applying the relevant weights).

In comparison to year-end December 2021 (NSFR of 136.9%), the ratio increased slightly mainly due to lower RSF due to decrease in investment securities.

The consolidated NSFR calculated in accordance with the requirements of the CBB rulebook, for the Group is as follows:

	2022 BD millions	2021 BD millions
Total available stable funding	**2,718.9**	2,723.8
Total required stable funding	**1,965.9**	1,989.8
Group's consolidated NSFR	**138.3%**	136.9%
Minimum NSFR requirement	**100.0%**	80.0%*

* The minimum NSFR ratio limit as per CBB is 100%. However, as per CBB circulars OG/106/2020 dated 17 March 2020, OG/296/2020 dated 26 August 2020, OG/431/2020 dated 29 December 2020, OG/170/2021 dated 27 May 2021 and OG/417/2021 dated 23 December 2021, the limit was reduced to 80% until 30 June 2022, to contain the financial repercussions of COVID-19.

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

	Unweighted Values (i.e. before applying relevant factors)				
Item	**No specified maturity BD millions**	**Less than 6 months BD millions**	**More than 6 months and less than one year BD millions**	**Over one year BD millions**	**Total weighted value BD millions**
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	**610.3**	**–**	**–**	**25.3**	**635.6**
Retail deposits and deposits from small business customers:					
Stable deposits	**–**	**479.9**	**9.2**	**0.5**	**465.2**
Less stable deposits	**–**	**722.9**	**133.5**	**29.9**	**800.7**
Wholesale funding:					
Other wholesale funding	**–**	**989.9**	**293.2**	**388.4**	**817.4**
Other liabilities:					
All other liabilities not included in the above categories	**–**	**105.1**	**–**	**–**	**–**
Total ASF	**610.3**	**2,297.8**	**435.9**	**444.1**	**2,718.9**
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	**–**	**–**	**–**	**–**	**205.5**
Performing loans and securities:					
Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions	**–**	**297.0**	**5.7**	**73.4**	**120.8**
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	**–**	**344.4**	**73.9**	**830.0**	**914.7**
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	**–**	**40.1**	**5.4**	**242.1**	**180.1**
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	**–**	**48.6**	**42.7**	**165.7**	**201.8**
Other assets:					
NSFR derivative assets	**–**	**57.8**	**–**	**–**	**57.8**
NSFR derivative liabilities before deduction of variation margin posted	**–**	**0.2**	**–**	**–**	**0.2**
All other assets not included in the above categories	**236.4**	**–**	**–**	**–**	**236.4**
Off-balance sheet items	**–**	**972.6**	**–**	**–**	**48.6**
Total RSF	**236.4**	**1,760.7**	**127.7**	**1,311.2**	**1,965.9**
NSFR (%)					**138.3%**

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

Item	Unweighted Values (i.e. before applying relevant factors) No specified maturity BD millions	Less than 6 months BD millions	More than 6 months and less than one year BD millions	Over one year BD millions	Total weighted value BD millions
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	557.6	–	–	26.9	584.4
Retail deposits and deposits from small business customers:					
Stable deposits	–	503.7	2.9	0.2	481.5
Less stable deposits	–	773.0	70.3	30.2	789.2
Wholesale funding:					
Other wholesale funding	–	1,043.4	114.3	470.6	868.7
Other liabilities:					
NSFR derivative liabilities	–	30.4	–	–	–
All other liabilities not included in the above categories	–	116.5	–	–	–
Total ASF	557.6	2,467.0	187.5	527.9	2,723.8
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	–	–	–	–	242.2
Performing loans and securities:					
Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions	–	373.4	19.8	72.3	138.2
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	–	360.6	89.3	895.8	986.4
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	–	3.1	–	133.2	88.1
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	–	36.8	33.2	223.4	246.5
Other assets:					
NSFR derivative liabilities before deduction of variation margin posted	–	6.1	–	–	6.1
All other assets not included in the above categories	234.3	–	–	–	234.3
Off-balance sheet items	–	960.0	–	–	48.0
Total RSF	234.3	1,740.0	142.3	1,324.7	1,989.8
NSFR (%)					136.9%

45 DEPOSIT PROTECTION SCHEME

Deposits held with the Bahrain operations of the Bank are covered by the Deposit Protection Scheme established by the CBB regulation concerning the establishment of the Deposit Protection Scheme and Deposit Protection Board. This scheme covers eligible "natural persons" (individuals) up to a maximum of BD 20,000 as set by the CBB requirements. A periodic contribution, as mandated by CBB, is paid by the Bank under this scheme.

46 STAFF SAVING SCHEME

The scheme is a contribution saving fund between the Bank and the employees of the Bank. It was introduced in January 1996 with the objective of providing the employees with a cash benefit upon resignation, retirement or death. Participation in the scheme is discretionary and the employee may contribute any amount. The Bank guarantees a corresponding contribution of an amount that is 3% higher provided that the total Bank contribution is not in excess of 10% of the employees' salary. The employee becomes eligible for the full amount of the Bank contribution once the employee has completed 5 years of service, otherwise the entitlement is proportionately calculated. The scheme is managed by a committee, consisting of members from management and representatives nominated and selected by staff.

As at 31 December 2022, the total contribution fund including the earned income stands at BD 21.4 million (2021: BD 20.1 million). Out of the total fund amount, payment of the principal amount equal to BD 17.9 million (2021: BD 17.1 million) consisting of the respective staff and Bank's contribution is guaranteed by the Bank to employees participating in the scheme within the applicable law. Out of the principal amount, BD 8.0 million (2021: BD 7.1 million) is the exposure to Bahrain and GCC sovereigns.

The Bank is in process of moving the fund of the Staff Saving Scheme into a Trust governed by the Trust Law of Bahrain. The Bank will continue to be involved in investment decisions related to the fund within the scope of the Employee Saving Scheme Investment Committee.

47 FIDUCIARY ASSETS

Funds under management as at 31 December 2022 amounted to BD 166.5 million (2021: BD 136.8 million). These assets are held in a fiduciary capacity, measured at cost and are not included in the consolidated statement of financial position. The total market value of all such funds at 31 December 2022 was BD 157.2 million (2021: BD 142.5 million).

48 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

The following table provides a reconciliation between line items in the consolidated statement of financial position and categories of financial instruments.

31 December 2022	Designated as at FVTPL BD millions	FVTOCI – debt instruments BD millions	FVTOCI – equity instruments BD millions	Amortised cost BD millions	Total BD millions
Cash and balances with central banks	–	–	–	416.9	416.9
Treasury bills	–	–	–	277.9	277.9
Deposits and amounts due from banks and other financial institutions	–	–	–	276.6	276.6
Loans and advances to customers	–	–	–	1,614.0	1,614.0
Investment securities	1.1	609.6	70.6	232.9	914.2
Interest receivable, derivative and other assets	–	–	–	154.5	154.5
Total assets	1.1	609.6	70.6	2,972.8	3,654.1
Deposits and amounts due to banks and other financial institutions	–	–	–	289.4	289.4
Borrowings under repurchase agreement	–	–	–	377.4	377.4
Term borrowings	–	–	–	263.9	263.9
Customers' current, savings and other deposits	–	–	–	2,116.6	2,116.6
Interest payable, derivative and other liabilities	–	–	–	107.6	107.6
Total liabilities	–	–	–	3,154.9	3,154.9

31 December 2021	Designated as at FVTPL BD millions	FVTOCI – debt instruments BD millions	FVTOCI – equity instruments BD millions	Amortised cost BD millions	Total BD millions
Cash and balances with central banks	–	–	–	284.8	284.8
Treasury bills	–	–	–	279.2	279.2
Deposits and amounts due from banks and other financial institutions	–	–	–	337.5	337.5
Loans and advances to customers	–	–	–	1,607.2	1,607.2
Investment securities	1.3	682.7	73.4	228.4	985.8
Interest receivable, derivative and other assets	–	–	–	78.5	78.5
Total assets	1.3	682.7	73.4	2,815.6	3,573.0
Deposits and amounts due to banks and other financial institutions	–	–	–	254.9	254.9
Borrowings under repurchase agreement	–	–	–	383.2	383.2
Term borrowings	–	–	–	245.1	245.1
Customers' current, savings and other deposits	–	–	–	2,125.6	2,125.6
Interest payable, derivative and other liabilities	–	–	–	118.7	118.7
Total liabilities	–	–	–	3,127.5	3,127.5

49 COMPARATIVE INFORMATION

Certain corresponding figures for 2021 have been reclassified in order to conform to the presentation of financial statements for the current year. Such reclassifications did not affect previously reported net profit, total assets, total liabilities or total equity of the Group.

Basel III Regulatory capital disclosures

31 December 2022

1 EXECUTIVE SUMMARY

This report has been prepared in accordance with Pillar III disclosure requirements prescribed by the Central Bank of Bahrain, hereafter referred to as "CBB". The report has been designed to provide BBK Group's stakeholders with detailed information on our approach in managing capital and risk, having due regard to the operating environment.

The Bank applies the Basel framework in the measurement of its capital adequacy, and in its capital management strategy and risk management framework. CBB's Basel III capital rules and guidelines became effective on 1st January 2015 as the common framework for the implementation of the Basel Committee on Banking Supervision's (Basel Committee) Basel III capital adequacy framework for banks incorporated in the Kingdom of Bahrain.

The disclosures in this report are in addition to the disclosures set out in the consolidated financial statements for the year ended 31 December 2022 presented in accordance with the International Financial Reporting Standards (IFRS). Disclosures with respect to Corporate Governance and Remuneration are provided in relevant sections of the Annual Report.

2 INTRODUCTION TO THE BASEL III FRAMEWORK

The CBB's Basel III capital framework is based on three pillars consistent with the Basel III framework developed by the Basel Committee, as follows:

- Pillar I: calculation of the Risk Weighted Assets (RWAs) and capital requirement.
- Pillar II: the supervisory review process, including the Internal Capital Adequacy Assessment Process (ICAAP).
- Pillar III: rules for the disclosure of risk management and capital adequacy information.

Pillar I

Pillar I prescribes the basis for the calculation of the regulatory capital adequacy ratio. Pillar I sets out the definition and calculations of the RWAs, and the derivation of the regulatory total capital. Capital adequacy ratios are calculated by dividing regulatory capital by the total RWAs.

Basel III focuses on increasing both the quantity and quality of bank's capital. To this end, Tier 1 capital "T1" must be the main component of capital, and the predominant form of T1 capital must be common shares and reserves. Deductions from capital and prudential filters are generally applied at the level of common equity. The remainder of T1 capital base must be comprised of instruments that are subordinated, have fully discretionary noncumulative dividends or coupons and have neither a maturity date nor an incentive to redeem. In addition, Tier 2 capital "T2" instruments are restricted and have a limit on their contribution to total regulatory capital. Furthermore, Basel III introduced a number of capital buffers to promote the conservation of capital (Capital Conservation Buffer or "CCB") and the build-up of adequate buffers above the minimum required capital during times of good economic conditions that can be drawn down in periods of stress (countercyclical capital buffer) and the high loss absorbency buffer for Domestic Systemically Important Banks (DSIBs).

CBB minimum required total capital adequacy ratio (including CCB) is 12.5 percent, compared to 10.5 percent recommended by the Basel Committee. Moreover, there are limits and minima introduced by the CBB under Basel III, such as minimum Common Equity Tier 1 Capital Ratio "CET1" of 9 percent (including CCB) and minimum T1 Capital Ratio of 10.5 percent (including CCB). In the event that the total capital adequacy ratio falls below 12.5 percent, additional prudential reporting requirements apply, and a formal action plan setting out the measures to be taken to restore the ratio above the minimum required level is to be formulated and submitted to the CBB. BBK had been designated as a DSIB by the CBB. Consequently, BBK is required to maintain an effective minimum total capital adequacy ratio above 14.0 percent, including 1.5 percent as a DSIB buffer.

The table below summarises the approaches available for calculating RWAs for each risk type in accordance with the CBB's Basel III capital adequacy framework:

Credit Risk	Market Risk	Operational Risk
Standardised Approach	Standardised Approach	Basic Indicator Approach
	Internal Models Approach	Standardised Approach

The approach applied by BBK for each risk type is as follows:

(i) Credit Risk

For regulatory reporting purposes, BBK is using the Standardised Approach for credit risk. Credit risk constitutes nearly 90 percent of the overall risk for the Bank. The Bank has a robust credit risk management architecture which is explained in greater details in notes 30 and 31 of the Annual Report. The credit RWAs are determined by multiplying the credit exposure by a risk weight factor dependent on the type of counterparty and the counterparty's external rating, where available.

(ii) Market Risk

For the regulatory market risk capital requirement, BBK is using the Internal Model Approach based on Value-at-Risk (VaR) model for its branches in the Kingdom of Bahrain and the State of Kuwait and the Standardised Approach for its branches in the Republic of India. The use of the Internal Model Approach for the calculation of regulatory market risk capital has been approved by the CBB and the model is subject to periodic independent internal and external validation.

(iii) Operational Risk

All banks incorporated in Bahrain are required to apply the Basic Indicator Approach for operational risk unless approval is granted by the CBB to use the Standardised Approach. The CBB's capital framework does not currently permit the use of the Advanced Measurement Approach (AMA) for operational risk. For regulatory reporting purposes, BBK is currently using the Basic Indicator Approach whereby, the operational risk weighted exposures and regulatory capital requirement are calculated by applying an alpha co-efficient of 15 percent to the average gross income for the preceding three financial years.

Pillar II

Pillar II defines the process of supervisory review of an institution's risk management framework and, ultimately, its capital adequacy.

Under the CBB's Pillar II guidelines, all banks incorporated in Bahrain are required to maintain a total capital adequacy ratio above 12.5 percent, except those assigned as DSIB, the minimum would be 14.0 percent.

Pillar II comprises two processes:

- an Internal Capital Adequacy Assessment Process (ICAAP), and
- a supervisory review and evaluation process.

The ICAAP incorporates a review and evaluation of risk management and capital relative to the risks to which the bank is exposed. BBK has developed an ICAAP document and it addresses all components of BBK's risk management, from the daily management of more material risks to the strategic capital management of the Group. The projected growth in risk assets, operating profit, shareholders' funds and the corresponding capital requirement are estimated by the Bank as part of the 3 years strategy approved by the Board. In addition, the Bank also forecasts the Capital Base whenever there is likely reduction in the capital components, and necessary actions are taken in order to ensure regulatory compliance. Moreover, the Bank has a Dividend Policy in place as part of capital management strategy.

The Bank uses the Risk-Adjusted Return On Capital (RAROC) model in its credit decisions in order to assess risk-reward matrix for each credit exposure. The Bank has adopted a Risk Appetite Framework which is reviewed periodically. The Bank also adopts a Risk Management Strategy annually covering all types of relevant risks.

The supervisory review and evaluation process represents the CBB's review of the Group's capital management and an assessment of internal controls and corporate governance. The supervisory review and evaluation process is designed to ensure that institutions identify their material risks, allocate adequate capital, and employ sufficient management processes to support such risks. The supervisory review and evaluation process also encourages institutions to develop and apply enhanced risk management techniques for the measurement and monitoring of risks in addition to the credit, market and operational risks addressed in the core Pillar I framework. Other risk types which are not covered by the minimum capital requirements in Pillar I includes liquidity risk, interest rate risk in the banking book, strategic risk, concentration risk, reputational risk, and residual risk. These are covered either by capital, or risk management and mitigation processes under Pillar II.

BBK conducts stress testing of its portfolio apart from the ICAAP process in line with CBB requirements from time to time.

Pillar III

Pillar III deals with the Market Discipline guidelines of the regulator to ensure adequate disclosure of risk management practices, corporate governance standards and capital adequacy information. The Bank publishes regulatory disclosures periodically and in the Annual Report.

The disclosures comprise detailed qualitative and quantitative information. The purpose of the Pillar III disclosure requirements is to complement the first two pillars and the associated supervisory review process. The disclosures are designed to enable stakeholders and market participants to assess an institution's risk appetite and risk exposures and to encourage all banks, via market pressures, to move toward more advanced forms of risk management.

Under the current regulations, partial disclosure consisting mainly of quantitative analysis is required during half year reporting, whereas full disclosure is required to coincide with the financial year end reporting.

3 GROUP STRUCTURE

The Group's financial statements are prepared and published on a full consolidation basis, with all subsidiaries being consolidated in accordance with IFRS. For capital adequacy purposes, all financial subsidiaries are included within the Group structure. However, the CBB's capital adequacy methodology accommodates both normal and risk weighting consolidation.

The principal subsidiaries, associates and joint ventures and basis of consolidation for capital adequacy purposes are as follows:

	Domicile	Ownership	Consolidation basis
Subsidiaries			
CrediMax B.S.C. (c)	Kingdom of Bahrain	100.00%	Full Consolidation
Invita B.S.C. (c)	Kingdom of Bahrain	100.00%	Risk Weighted
973LABS W.L.L. *	Kingdom of Bahrain	100.00%	Full Consolidation
Global Payment Services W.L.L. (GPS)**	Kingdom of Bahrain	70.00%	Full Consolidation
Associates			
Bahrain Liquidity Fund	Kingdom of Bahrain	24.27%	Risk Weighted
Bahrain Commercial Facilities Company B.S.C.	Kingdom of Bahrain	23.03%	Risk Weighted
The Benefit Company B.S.C. (c)	Kingdom of Bahrain	22.00%	Risk Weighted
Joint Venture			
Aegila Capital Management Limited	United Kingdom	50.00%	Risk Weighted
Magnum Partners Holding Limited	Jersey	49.96%	Risk Weighted
LSE Jersey Holdings Limited Partnership	Jersey	45.00%	Risk Weighted
BBK Geojit Securities K.S.C.	State of Kuwait	40.00%	Risk Weighted
Evoque Holdings Jersey Limited	Jersey	24.99%	Risk Weighted

* CrediMax B.S.C. (c) and Invita Company B.S.C. (c) hold 60% and 40% ownership in 973Labs W.L.L., respectively.

** Shareholding through CrediMax B.S.C. (c) Subsidiary

There are no impediments on the transfer of funds or regulatory capital within the Group other than restrictions over transfers to ensure that minimum regulatory capital requirements are met for subsidiary companies.

4 STATEMENT OF FINANCIAL POSITION UNDER THE REGULATORY SCOPE OF CONSOLIDATION

The table below shows the link between the consolidated statement of financial position in the published financial statements (accounting statement of financial position) and the regulatory statement of financial position.

	Statement of financial position as in published financial statements BD millions	Statement of financial position as per Regulatory Reporting BD millions	Reference
Assets			
Cash and balances with central banks	**416.9**	**416.9**	
Treasury bills	**277.9**	**277.9**	
Deposits and amounts due from banks and other financial institutions	**276.6**	**276.6**	
Loans and advances to customers	**1,614.0**	**1,614.0**	
Of which Expected Credit Loss (1.25% of Credit risk weighted assets)		25.3	a
Of which net loans and advances (gross of Expected Credit Loss)		1,588.7	
Investment securities	**914.2**	**914.2**	
Of which investments in financial entities under CET1		27.1	b
Of which investments in financial entities under Tier 2		2.3	c
Of which related to other investments		884.8	
Interest receivable, derivative and other assets	**154.5**	**152.7**	
Of which deferred tax assets due to temporary differences		1.1	d
Of which intangibles		5.8	e
Of which interest receivable, derivatives and other assets		145.8	
Investments in associated companies and joint ventures	**62.3**	**64.7**	
Of which Investment in own shares		0.7	f
Of which equity investments in financial entities		40.6	g
Of which other investments		23.4	
Premises and equipment	**37.5**	**36.9**	
Total assets	**3,753.9**	**3,753.9**	
Liabilities and equity			
Liabilities			
Deposits and amounts due to banks and other financial institutions	**289.4**	**289.4**	
Borrowings under repurchase agreement	**377.4**	**377.4**	
Term borrowings	**263.9**	**263.9**	
Customers' current, savings and other deposits	**2,116.6**	**2,119.7**	
Interest payable, derivative and other liabilities	**107.6**	**105.3**	
Total liabilities	**3,154.9**	**3,155.7**	
Equity			
Share capital	**164.8**	**164.8**	h
Treasury stock	**(4.7)**	**(4.7)**	i
Share premium	**105.6**	**105.6**	j
Statutory reserve	**78.5**	**78.5**	k
General reserve	**64.2**	**64.2**	l
Cumulative changes in fair values	**14.8**	**14.8**	
Of which cumulative changes in fair values on bonds and equities		14.3	m
Of which fair value changes in cash flow hedges		0.5	n
Foreign currency translation adjustments	**(15.3)**	**(15.3)**	
Of which related to unconsolidated subsidiary		-	o
Of which related to Parent		(15.3)	p
Retained earnings	**128.9**	**128.1**	
Of which employee stock options		4.5	q
Of which related to modification loss net of government assistance		(19.4)	r
Of which retained earnings		143.0	s
Proposed appropriations	**59.5**	**59.5**	t
Attributable to the Owners Of the Bank	**596.3**	**595.5**	
Non-controlling interests	**2.7**	**2.7**	
Total equity	**599.0**	**598.2**	
Total liabilities and equity	**3,753.9**	**3,753.9**	

Legal entities included within the accounting scope of consolidation but excluded from the regulatory scope of consolidation:

Name	Principle activities	Total assets BD millions	Total equity BD millions
Invita Company B.S.C. (c)	Business processing and outsourcing services	6.4	4.0

5 REGULATORY CAPITAL COMPONENTS - CONSOLIDATED

Under the CBB's Basel III capital framework, total regulatory capital consists of Tier 1 capital "T1" and Tier 2 capital "T2". T1 capital is further divided into Common Equity Tier 1 capital "CET1" and Additional Tier 1 capital "AT1". CET1 capital consists of: (a) Issued and fully paid common shares that meet the criteria for classification as common shares for regulatory purposes, (b) Disclosed reserves including: i) General reserves; ii) Legal / statutory reserves; iii) Share premium; iv) Fair value reserves arising from fair valuing financial instruments; and v) Retained earnings or losses (including net profit/ loss for the reporting period, whether reviewed or audited), (c) Common shares issued by consolidated subsidiaries and held by third parties (i.e. minority interest) that meet the criteria for inclusion in CET1, and (d) Regulatory adjustments applied in the calculation of CET1. AT1 capital consists of: (a) Instruments issued by the bank that meet the criteria for inclusion in AT1, (b) Share premium resulting from the issue of instruments included in AT1, (c) Instruments issued by consolidated subsidiaries and held by third parties that meet the criteria for inclusion in AT1 and are not included in CET1, and (d) Regulatory adjustments applied in the calculation of AT1. T2 capital consists of: (a) Instruments issued by the bank that meet the criteria for inclusion in T2, (b) premium resulting from the issue of instruments included in T2, (c) Instruments issued by consolidated subsidiaries of the bank and held by third parties that meet the criteria for inclusion in T2 capital and are not included in T1, (d) Expected Credit Loss reserve for stage 1 and 2 exposures, (e) Asset revaluation reserves which arise from the revaluation of fixed assets and investment properties from time to time in line with the change in market values, and (f) Regulatory adjustments applied in the calculation of T2. At present, the T2 capital of BBK consists solely of Expected Credit Losses reserve for Stage 1 and 2 exposures.

The CBB applies various limits and minima to the components of the regulatory capital, as shown in the below table. There is also a restriction on the amount of Expected Credit Losses (ECL) reserve that may be included as part of T2 capital, which should be a maximum of 1.25 percent of the credit risk weighted assets.

	Optional	Minimum Ratio
Components of Consolidated CAR		
Core Equity Tier 1 (CET 1)		6.5%
Additional Tier 1 (AT1)	1.5%	
Tier 1 (T1)		8.0%
Tier 2 (T2)	2.0%	
Total Capital		10.0%
Capital Conservation Buffer (CCB)		2.5%
Domestically Systemic Important Bank (D-SIB) Buffer		1.5%
CAR including Buffers		
CET 1 plus Buffers		10.5%
Tier 1 plus Buffers		12.0%
Total Capital plus CCB		12.5%
Total Capital plus CCB and DSIB Buffer		14.0%

	Optional	Minimum Ratio
Components of Solo CAR		
Core Equity Tier 1 (CET 1)		4.5%
Additional Tier 1 (AT1)	1.5%	
Tier 1 (T1)		6.0%
Tier 2 (T2)	2.0%	
Total Capital		8.0%
Capital Conservation Buffer (CCB)		0.0%

In accordance with the CBB's Basel III capital adequacy framework, certain exposures are required to be deducted from regulatory capital rather than included in RWAs. The CBB's Basel III capital adequacy framework requires that most of the deductions to be made from the CET1.

5 REGULATORY CAPITAL COMPONENTS - CONSOLIDATED (continued)

The table below provides a detailed breakdown of the bank's regulatory capital components, including all regulatory adjustments. The table also provides reference to the comparison displayed in the previous table between accounting and regulatory statement of financial positions.

	Component of regulatory capital BD millions	Source based on reference letters of the statement of financial positions under the regulatory scope of consolidation
Common Equity Tier 1: Instruments and reserves		
Directly issued qualifying common share capital plus related stock surplus	265.7	h+i+j
Retained earnings	202.5	o+s+t
Accumulated other comprehensive income and losses (and other reserves)	142.2	k+l+m+n+p
Common Equity Tier 1 capital before regulatory adjustments	**610.4**	
Common Equity Tier 1 capital: regulatory adjustments		
Other intangibles other than mortgage servicing rights (net of related tax liabilities)	5.8	e
Cash flow hedge reserve	0.5	n
Investments in own shares	0.7	f
Total regulatory adjustments to Common equity Tier 1	**7.0**	
Common Equity Tier 1 capital (CET1)	**603.4**	
Tier 1 capital (T1 = CET1 + AT1)	**603.4**	
Tier 2 capital: instruments and provisions		
Provisions	25.3	
Tier 2 capital before regulatory adjustments	**25.3**	
Tier 2 capital: regulatory adjustments		
Total regulatory adjustments to Tier 2 capital	-	
Tier 2 capital (T2)	**25.3**	
Total capital (TC = T1 + T2)	**628.7**	
Total risk weighted assets	**2,307.1**	
Capital ratios and buffers		
Common Equity Tier 1 (as a percentage of risk weighted assets)	26.2%	
Tier 1 (as a percentage of risk weighted assets)	26.2%	
Total capital (as a percentage of risk weighted assets)	**27.3%**	
Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk weighted assets)	10.5%	
of which: capital conservation buffer requirement	2.5%	
of which: bank specific countercyclical buffer requirement	N/A	
of which: D-SIB buffer requirement	1.5%	
Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	26.2%	
National minima (where different from Basel III)		
CBB Common Equity Tier 1 minimum ratio	10.5%	
CBB Tier 1 minimum ratio	12.0%	
CBB total capital minimum ratio	14.0%	
Amounts below the thresholds for deduction (before risk weighting)		
Non-significant investments in the capital of other financials	29.3	b+c
Significant investments in the common stock of financials	40.6	g
Deferred tax assets arising from temporary differences (net of related tax liability)	1.1	d
Applicable caps on the inclusion of provisions in Tier 2		
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	38.9	
Cap on inclusion of provisions in Tier 2 under standardised approach	25.3	a

6 CAPITAL ADEQUACY

The Group's policy is to maintain a strong capital base so as to preserve investor, creditor and market confidence and to sustain the future development of the business. The impact of the level of capital on shareholders' return is also recognised, as well as the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The Group manages its capital structure and makes adjustments to the structure taking account of changes in economic conditions and strategic business plans. The capital structure may be adjusted through the dividend payout and other discretionary payments and the issue of new shares and other capital instruments.

As per its ICAAP, BBK aims to maintain a minimum total capital adequacy ratio in excess of the capital assessed as per its ICAAP document (considering DSIB and CCB). The CBB's current minimum total capital adequacy ratio (including CCB and DSIB) for banks incorporated in Bahrain is set at 14.0 percent.

Strategies and methods for maintaining a strong capital adequacy ratio

BBK prepares multi-year strategic projections on a rolling annual basis which include an evaluation of short-term capital requirements and a forecast of longer-term capital resources.

Capital ratios - consolidated and subsidiaries above 5% of group capital

	Total capital ratio	Tier 1 capital ratio
Bank of Bahrain and Kuwait - Consolidated	27.3%	26.2%
CrediMax B.S.C.(c)	53.4%	53.4%

7 CREDIT RISK – PILLAR III DISCLOSURES

This section describes the BBK's exposure to credit risk, and provides detailed disclosures on credit risk in accordance with the CBB's Basel III framework, in relation to Pillar III disclosure requirements.

Definition of exposure classes

BBK has a diversified on and off statement of financial position credit portfolio, the exposures of which are divided into the counterparty exposure classes defined by the CBB's Basel III capital adequacy framework for the standardised approach for credit risk. A high-level description of the counterparty exposure classes, referred to as standard portfolios in the CBB's Basel III capital adequacy framework, and the generic treatments, i.e. the risk weights to be used to derive the RWAs, are as follows:

Sovereigns portfolio

The sovereigns portfolio comprises exposures to governments and their respective central banks. The risk weights are zero percent for exposures in the relevant domestic currency, or in any currency for exposures to GCC sovereigns. Foreign currency claims on other sovereigns are risk weighted based on their external credit ratings.

Certain multilateral development banks as determined by the CBB may be included in the sovereigns portfolio and treated as exposures with a zero percent risk weighting.

Public Sector Entities (PSE) portfolio

Claims on Bahraini PSEs, and claims on PSEs on domestic currency - which are assigned a zero percent risk weight by their respective country regulator, can be assigned a zero percent risk weight. All other PSEs are risk weighted according to their external ratings.

Banks portfolio

Claims on banks are risk weighted based on their external credit ratings. A preferential risk weight treatment is available for qualifying short term exposures. Short term exposures are defined as exposures with an original tenor of three months or less. The Bank's portfolio also includes claims on certain investment firms which are risk weighted based on their external credit ratings, though without any option for preferential treatment for short term exposures.

Corporates portfolio

Claims on corporates are risk weighted based on their external credit ratings. A 100 percent risk weight is assigned to exposures to unrated corporates. A preferential risk weight treatment is available for certain corporates owned by the Government of Bahrain, as determined by the CBB, which are assigned a zero percent risk weight.

Regulatory retail portfolio

Claims on retail portfolio are risk weighted at 75 percent, except for past due portfolio. As part of regulatory concessionary measures in response to COVID-19, risk weight for Bahraini based Small Medium Entities (SMEs) was reduced from 75 percent to 25 percent up till further notice.

Mortgage portfolio

Claims which are fully secured by first mortgages on residential property that is or will be occupied by the borrower, or that is leased, must carry a risk weighting of 75 percent. Claims on residential mortgage granted under Social Housing Scheme of the Kingdom of Bahrain are risk weighted at 25%. Claims secured by mortgages on commercial real estate are subject to a minimum of 100 percent risk weight. If the borrower is rated below BB-, the risk-weight corresponding to the rating of the borrower must be applied.

Equities portfolio

The equities portfolio comprises equity investments in the banking book. A 100 percent risk weight is assigned to listed equities while unlisted equities are weighted at 150 percent, unless subject to the following treatments. The amount of any significant investments in commercial entities (A "significant investment" in a commercial entity is defined as any investment in the capital instruments of a commercial entity by the bank which is equivalent to or more than 10 percent of the issued common share capital of the issuing commercial entity) above 15 percent (individually) and 60 percent (collectively) of the bank's capital (the "Total Capital materiality thresholds") must be risk weighted at 800 percent. Moreover, significant investments in the common shares of unconsolidated financial entities must be risk weighted at 250 percent.

In addition to the standard portfolios, other exposures are assigned to the following exposure classes:

Investments in funds portfolio

The risk weight for claims on corporate will be used to determine the risk weight for investments in rated funds. Unrated funds will be assigned a risk weight of 100% if listed, and 150% if not listed.

Past due exposures

This includes claims, for which the repayment is overdue for ninety days or more. The risk weighting applied for such loans is either 100 percent or 150 percent, depending on the level of provisions maintained against the loan.

Holding of real estate

All holding of real estate by banks (owned directly or by the way of investments in real estate companies, subsidiaries or associated companies or other arrangements such as trusts, funds or REITS) must be risk weighted at 200 percent. Premises occupied by the bank are weighted at 100 percent.

Other assets and holdings of securitisation tranches

Other assets are risk weighted at 100 percent, whereas securitisation exposures are risk weighted at 20 percent to 1,250 percent, depending on the external rating.

All BBK's holding of securitisations, if any is reported part of the Bank's investment portfolio.

7 CREDIT RISK – PILLAR III DISCLOSURES (continued)

Large exposures

The excess amount of any exposure above 15% of the bank's regulatory capital to any counterparty or a group of closely related counterparties must be risk weighted at 800%, unless it is an exempted exposure in accordance with the requirements of the CBB Rulebook.

External rating agencies

BBK uses ratings issued by Moody's and Fitch to derive the risk weightings under the CBB's Basel III capital adequacy framework. Where ratings vary between rating agencies, the highest rating from the lowest two ratings is used to represent the rating for regulatory capital adequacy purposes.

Credit risk presentation under Basel III

The credit risk exposures presented in most of this report differ from the credit risk exposures reported in the consolidated financial statements. Differences arise due to the application of different methodologies, as illustrated below:

- Under the CBB's Basel III framework, statement of financial position exposures are converted into credit exposure equivalents by applying a credit conversion factor (CCF). The off statement of financial position exposure is multiplied by the relevant CCF applicable to the off statement of financial exposure position category. Subsequently, the exposure is treated in accordance with the standard portfolios as referred to above in this report, in the same manner as on statement of financial position exposures.
- In case of Over-the-Counter (OTC) derivative contracts, in addition to the default risk capital requirements for counterparty credit risk, the bank must add a capital charge to cover the risk of mark-to-market losses on the expected counterparty risk (such losses being known as credit value adjustments or CVA).
- Credit risk exposure reporting under Pillar III is frequently reported by standard portfolios based on the type of counterparty. The financial statement presentation is based on asset class rather than the relevant counterparty. For example, a loan to a bank would be classified in the Bank's standard portfolio under the capital adequacy framework although is classified in loans and advances to customers in the consolidated financial statements.
- Certain eligible collateral is applied to reduce exposure under the Basel III capital adequacy framework, whereas no such collateral netting is applicable in the consolidated financial statements.
- Based on the CBB's Basel III guidelines, certain exposures are either included in, or deducted from, regulatory capital rather than treated as an asset as in the consolidated financial statements.

8 CAPITAL REQUIREMENT FOR RISK WEIGHTED EXPOSURE

	Gross credit exposures (before risk mitigation) BD millions	Eligible financial collateral BD millions	Credit risk after risk mitigation BD millions	Risk weighted asset BD millions	Regulatory capital required 14.0% BD millions
Sovereign	1,315.8	-	1,315.8	54.0	7.6
Public sector entities	0.1	-	0.1	-	-
Banks	468.5	-	468.5	262.0	36.7
Corporates	1,186.6	69.7	1,116.9	836.9	117.2
Regulatory retail and SME	515.3	4.0	511.3	374.6	52.4
Mortgage	138.6	0.1	138.5	101.1	14.2
Investment in securities #	106.5	-	106.5	174.1	24.4
Past due exposures	16.4	0.1	16.3	17.3	2.4
Real estate	65.1	-	65.1	112.8	15.8
Other assets and cash items	113.9	-	113.9	91.8	12.9
Total Credit Risk	**3,926.8**	**73.9**	**3,852.9**	**2,024.6**	**283.6**
Market Risk	-	-	-	42.4	5.9
Operational Risk*	-	-	-	240.1	33.6
Total Risk Weighted Exposure	**3,926.8**	**73.9**	**3,852.9**	**2,307.1**	**323.1**

Included in the Investment in securities category investment is an insurance entity that is risk weighted rather than deducted from eligible capital. This, if deducted will reduce the eligible capital to BD 625.2 million

Entity	Country of Domicile	Ownership %	Risk weighted asset	Impact on regulatory capital
Bahrain and Kuwait Insurance Company B.S.C. © "BKIC"	Bahrain	6.82%	3.3	0.5

* The Bank is currently using the Basic Indicator Approach, whereby the operational risk weighted exposures and regulatory capital requirement are calculated by applying an alpha co-efficient of 15 percent to the average gross income for the preceding three financial years adjusted for exceptional income. The amount of adjusted average gross income for the year 2022 is BD 128.0 million.

Credit Risk Mitigation and Collateral Valuation Policy

BBK employs a range of techniques to mitigate risk in its credit portfolio. Credit risk mitigation includes an objective assessment of the counterparty's capacity and willingness to meet its commitments in the normal course. The Bank strives to optimize facility structure, collateral, lending covenants, terms and conditions.

The Bank maintains detailed policies and procedures for valuing collateral/securities offered for various credit facilities. The collateral is valued, at minimum, quarterly or annually, based on the type of security. More frequent valuations are also considered if warranted by market volatility and declining trends in valuations are observed. The collaterals and support include mortgages, cash collaterals, marketable securities, personal and corporate guarantees and guarantees from sovereigns and financial institutions. The basis of valuation for different types of securities such as equity, debt, and real estate is also clearly defined in the policies.

9 FUNDED, UNFUNDED AND AVERAGE CREDIT EXPOSURE

Total gross credit exposures	Total funded credit exposure BD millions	Total un-funded credit exposure BD millions	Average quarterly credit exposure BD millions
Sovereign	1,315.8	–	1,223.6
Public sector entities	0.1	–	0.1
Banks	396.3	72.2	480.3
Corporates	1,059.6	127.0	1,234.3
Regulatory retail and SME	515.3	–	540.1
Mortgage	138.6	–	138.9
Investment in securities	106.5	–	109.3
Past due exposures	16.4	–	22.6
Real estate	65.1	–	63.1
Other assets and cash items	113.9	–	98.7
Total credit risk exposures	**3,727.6**	**199.2**	**3,911.0**

10 CONCENTRATION OF CREDIT RISK BY REGION (EXPOSURES SUBJECT TO RISK WEIGHTING)

	Gulf Cooperation Council (GCC) BD millions	North America BD millions	Europe BD millions	Asia BD millions	Others BD millions	Total BD millions
Cash and balances with central banks	407.6	–	–	9.3	–	**416.9**
Treasury bills	277.9	–	–	–	–	**277.9**
Deposits in banks and other financial institutions	111.4	99.0	50.7	15.3	0.2	**276.6**
Loans and advances to customers	1,482.1	0.2	66.8	71.5	31.3	**1,651.9**
Investments in associated companies and joint ventures	46.9	–	17.0	–	–	**63.9**
Investment securities	700.7	9.5	91.4	77.6	36.0	**915.2**
Interest receivable, derivatives and other assets	116.7	–	2.0	6.5	–	**125.2**
Total funded exposure	**3,143.3**	**108.7**	**227.9**	**180.2**	**67.5**	**3,727.6**
Unfunded commitments and contingencies	125.7	0.2	57.8	14.9	0.6	**199.2**
Total credit risk	**3,269.0**	**108.9**	**285.7**	**195.1**	**68.1**	**3,926.8**

11 CONCENTRATION OF CREDIT RISK BY INDUSTRY (EXPOSURES SUBJECT TO RISK WEIGHTING)

	Trading and manufacturing BD millions	Banks and other financial institutions BD millions	Construction and real estate BD millions	Government and public sector BD millions	Individuals BD millions	Others BD millions	Total BD millions
Cash and balances with central banks	–	28.5	–	388.4	–	–	**416.9**
Treasury bills	–	–	–	277.9	–	–	**277.9**
Deposits in banks and other financial institutions	–	276.6	–	–	–	–	**276.6**
Loans and advances to customers	449.6	98.5	294.9	139.5	560.1	109.3	**1,651.9**
Investments in associated companies and joint ventures	–	47.3	16.6	–	–	–	**63.9**
Investment securities	91.8	138.9	13.1	599.3	–	72.1	**915.2**
Interest receivable, derivatives and other assets	–	–	–	–	–	125.2	**125.2**
Total funded exposure	**541.4**	**589.8**	**324.6**	**1,405.1**	**560.1**	**306.4**	**3,727.6**
Unfunded commitments and contingencies	72.5	75.8	36.6	0.4	0.2	13.7	**199.2**
Total credit risk	**613.9**	**665.6**	**361.2**	**1,405.5**	**560.3**	**320.1**	**3,926.8**

12 CONCENTRATION OF CREDIT RISK BY MATURITY (EXPOSURES SUBJECT TO RISK WEIGHTING)

	Within 1 month BD millions	1 to 3 months BD millions	3 to 6 months BD millions	6 to 12 months BD millions	1 to 5 years BD millions	5 to 10 years BD millions	10 to 20 years BD millions	Above 20 years BD millions	Total BD millions
Cash and balances with central banks	325.0	–	–	–	–	–	–	91.9	**416.9**
Treasury bills	12.9	70.5	92.4	102.1	–	–	–	–	**277.9**
Deposits in banks and other financial institutions	275.5	–	–	0.3	0.8	–	–	–	**276.6**
Loans and advances to customers	231.4	109.8	68.4	84.8	741.5	315.1	73.4	27.5	**1,651.9**
Investments in associated companies and joint ventures	–	–	–	–	–	–	–	63.9	**63.9**
Investment securities	12.3	52.2	29.8	14.0	305.5	296.1	160.3	45.0	**915.2**
Interest receivable, derivatives and other assets	69.9	0.1	0.1	0.2	50.3	0.4	2.8	1.4	**125.2**
Total funded exposure	**927.0**	**232.6**	**190.7**	**201.4**	**1,098.1**	**611.6**	**236.5**	**229.7**	**3,727.6**
Unfunded commitments and contingencies	10.8	10.7	7.5	27.2	101.0	32.2	4.4	5.4	**199.2**
Total credit risk	**937.8**	**243.3**	**198.2**	**228.6**	**1,199.1**	**643.8**	**240.9**	**235.1**	**3,926.8**

13 IMPAIRED LOANS AND PROVISIONS

	Impaired loans Balance BD millions	Stage 3: Lifetime ECL credit-impaired BD millions	Stage 1: 12 month ECL and Stage 2: Lifetime ECL not credit-impaired BD millions	Stage 3: Net remeasurement of loss allowance for the year BD millions	Write offs/ reallocations during the year BD millions
Trading and manufacturing	17.1	14.2	23.7	1.4	22.2
Government and public sector	13.1	8.9	–	–	–
Construction and real estate	15.5	7.4	4.1	1.7	0.1
Individuals	8.7	8.3	7.4	1.4	1.1
Banks and other financial institutions	1.5	1.5	0.2	–	–
Others	1.8	1.0	2.5	(1.2)	–
Total	**57.7**	**41.3**	**37.9**	**3.4**	**23.4**

14 AGEING OF IMPAIRED AND PAST DUE LOANS BY REGION

	GCC BD millions	Europe BD millions	Asia BD millions	Others BD millions	Total BD millions
3 months up to 1 year	7.4	–	–	–	**7.4**
1 to 3 years	4.1	–	0.8	–	**4.9**
Over 3 years	43.9	1.5	–	–	**45.4**
Total past due and impaired loans	**55.4**	**1.5**	**0.8**	**–**	**57.7**
Stage 1: 12-month ECL and stage 2: Lifetime ECL not credit- impaired	(37.1)	-	(0.2)	(0.6)	**(37.9)**
Stage 3: Lifetime ECL credit- impaired	(39.6)	(1.5)	(0.2)	–	**(41.3)**

15 AGEING OF IMPAIRED AND PAST DUE LOANS BY INDUSTRY

	Trading and manufacturing BD millions	Banks and other financial institutions BD millions	Construction and real estate BD millions	Government and public sector BD millions	Individuals BD millions	Others BD millions	Total BD millions
3 months up to 1 year	0.9	–	3.8	–	2.7	–	**7.4**
1 to 3 years	0.8	–	0.1	–	3.7	0.3	**4.9**
Over 3 years	15.4	1.5	11.6	13.1	2.3	1.44	**45.4**
Total past due and impaired loans	**17.1**	**1.5**	**15.5**	**13.1**	**8.7**	**1.8**	**57.7**

16 RESTRUCTURED LOANS

	BD millions
Loans restructured during the year	**24.1**
Impact of restructured facilities and loans on provisions	**3.4**

The above restructurings did not have any significant impact on present and future earnings and were primarily extentions of the loan tenor, revisions in interest rate, and additional collateral received.

17 MARKET RISK DISCLOSURES FOR BANKS USING THE INTERNAL MODELS APPROACH (IMA)/ STANDARDISED APPROACH FOR TRADING PORTFOLIOS

The “Market Risk Internal Model” is being used to measure Value-at-Risk (VaR) for calculating capital charge arising from Market Risk exposures (mainly Foreign Exchange and Interest Rate Risk positions) of the Trading Book. The VaR Model quantifies the maximum potential loss that could occur in the Trading book risk positions under normal market conditions, at 99% confidence level, on a 10-day horizon.

BBK maintains a prudent approach to Manage Market Risk exposures guided by Market Risk Policy and Procedure. The Position, Stoploss and VaR limits are monitored by Treasury Middle Office (reporting to Risk and Credit Management Department and Independent of Business unit) and a daily risk report is circulated to the Senior Management.

In addition to the above, the Treasury Middle Office also carries out valuation of the Investment Portfolio independently as per the internal policies and procedures. Furthermore, BBK also conducts Stress Testing and Back Testing of Market Risk positions.

The summary of VaR of the trading book for the period ended from January 2022 to December 2022 is as follows:

VaR Results for 2022 (10 day 99%)
Global (BAHRAIN and KUWAIT)

1 January 2022 to 31 December 2022

Asset class	Limit BD millions	VaR 31 December 2022 BD millions	High VaR BD millions	Low VaR BD millions	Average VaR BD millions
Foreign exchange	0.6	0.37	0.44	0.31	0.37
Interest rate	0.2	0.01	0.01	0.00	0.00
	0.8	**0.37**	**0.45**	**0.31**	**0.37**

The Bank conducts Backtesting of VaR on a daily basis in compliance with CBB regulations to validate the internal VaR model and to check whether or not the model can predict potential losses with a fair degree of accuracy. Under Backtesting, the daily VaR numbers are compared with the mark-to-market profit or loss figures (on actual average Profit and Loss basis and also hypothetical Profit and Loss basis). If this comparison is close enough, the Backtest raises no issues regarding quality of the risk measurement model.

The Backtesting results for the period ended from January 2022 to December 2022 confirmed that there was no occasion on which a daily trading loss exceeded VaR figure.

Stress Testing

The Bank conducts stress testing of VaR, under various ‘What If’ scenarios such as increasing volatility and varying correlations. The stress testing methodology uses historical data capturing periods of significant disturbance and covering all types of risks associated with the asset classes which are included in the trading book of the Bank.The stress VaR are then tabulated under each “what if” scenario and compared with corresponding Capital Adequacy Ratio (CAR). It was observed that the CAR was within the norm prescribed by CBB, under each stressed scenario.

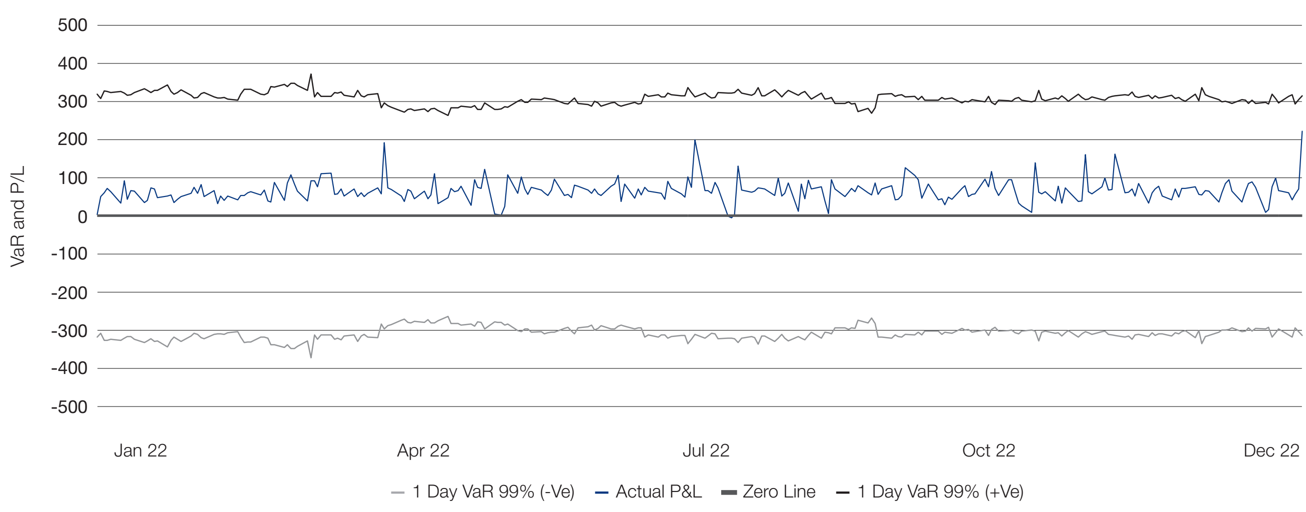
Month end VaR (10 day 99%)

Month	VaR BD millions
January 2022	0.38
February 2022	0.41
March 2022	0.34
April 2022	0.35
May 2022	0.34
June 2022	0.39
July 2022	0.39
August 2022	0.38
September 2022	0.36
October 2022	0.36
November 2022	0.40
December 2022	0.37

17 MARKET RISK DISCLOSURES FOR BANKS USING THE INTERNAL MODELS APPROACH (IMA)/STANDARDISED APPROACH FOR TRADING PORTFOLIOS (continued)

The following graph shows that the daily average Profit and Loss (Actual Average P&L basis) vis-à-vis one day VaR, for the review period.

Value-at-Risk Backtesting January 2022 to December 2022



As banks in India are still in a nascent stage of developing internal risk management models, Reserve Bank of India (RBI) has decided that, to start with, banks may adopt the standardised method and market risk shall be measured using "duration" method, which is considered as a more accurate method of measuring interest rate risk, as compared to maturity method. Accordingly, BBK India has adopted standardised duration method to arrive at the capital charge for market risk. As of 31 December 2022, capital charge calculated based on above parameters was as follows:

Capital Charge	31 Dec 2022 BD millions
Foreign exchange	0.05
Interest rate	0.37
	0.42

18 CONCENTRATION RISK TO INDIVIDUALS WHERE THE TOTAL EXPOSURE IS IN EXCESS OF SINGLE OBLIGOR LIMIT OF 15%

	BD millions
Sovereign	1,288.4
Total	**1,288.4**

19 CREDIT DERIVATIVES EXPOSURE

The bank is not exposed to any credit derivatives as at 31 December 2022.

20 EQUITY POSITIONS IN THE BANKING BOOK

	BD millions
Publicly traded equity shares	46.1
Privately held equity shares	24.4
Total	**70.6**
Regulatory capital required 14.0%	**9.9**

21 NET GAINS ON EQUITY INSTRUMENTS

	BD millions
Realised gains in retained earnings (net)	**0.6**
Unrealised gains in CET1 Capital (net)	**(0.1)**

22 LEVERAGE RATIO

In November 2018, CBB issued its final Leverage Regulation, with an effective date of 30 June 2019. The leverage ratio is a simple ratio that serves as a supplementary measure to the risk-based capital requirements. It aims to constrain the build-up of leverage in banking sector, reinforce the risk-based requirements with a simple non-risk based "backstop" measure, and serve as a broad measure of both the on and off-balance sheet sources of bank leverage.

The leverage ratio is measured as Tier 1 Capital divided by Total Exposures. Total Exposures consist of on-balance sheet, off-balance sheet, derivatives and securities financing transactions exposures. As per CBB regulations, Bahraini banks must meet a 3% leverage ratio minimum requirement at all times, except for Domestic Systemically Important Banks (DSIBs), where the minimum ratio is higher at 3.75%. Accordingly, as a DSIB bank, the minimum ratio for BBK is 3.75%. As of 31 December 2022, the leverage ratio for Bank of Bahrain and Kuwait B.S.C. stood at 14.69% on consolidated level.

Part IV

Minutes

Translation of the Minutes of Meeting from Arabic. The Arabic version shall prevail.

Minutes of the Ordinary General Assembly Meeting of

Bank of Bahrain and Kuwait

Meeting No. 1/2022
Time: 10.00 am

Date: 28 March 2022
Place: Via Video Conferencing

On the date and place referred to hereinabove, Mr. Murad Ali Murad, in his capacity as the chairman of the Board of Directors announced the opening of the Ordinary General Assembly Meeting of the Shareholders.

This meeting is held pursuant to Articles 198, 199, 200 and 201 of the Commercial Companies Law promulgated by Legislative Decree No. (21) of 2001, and its amendments, and Articles from 46 to 50 of the BBK's Articles of Association. Invitation to this meeting was published as an announcement in Alayam, Akhbar Al Khaleej and GDN newspapers on 7th March 2022. The announcement included the invitation and agenda. The concerned authorities were notified including Ministry of Industry, Commerce, and Tourism, Central Bank of Bahrain (CBB), Bahrain Bourse and the external auditors Ernst and Yong. The meeting was held via video conferencing.

The meeting was attended by:

- Shareholders whose total present shareholding, whether those who were present in person or by proxy, 1,178,776,189 shares of the total Bank's shares of 1,497,909,965 shares, representing 79.34% (after deduction of treasury shares from the total shares) as per the approved registration of virtual attendance with the support shares registrar who announced the same prior to the commencement of the meeting.
- The following members of the Board of Directors:
- Mr. Murad Ali Murad, Chairman of the Board of Directors, Chairman of the Audit, Compliance Committee and Nominations & Remunerations & Governance Committees.
- Mr. Mohamed A.Rahman Hussain-Chairman of the Executive Committee *(attended by video)*
- Mr. Hani Al Maskati-Deputy Chairman of the Risk Committee *(attended by video)*
- Sh. Khalifa Bin Duaij Al Khalifa *(attended by video)*
- Dr. Ghaneya Mohsin Al Derazi *(attended by video)*
- Mr. Edrees Musaed *(attended by video)*
- Mr. Nasser Khalid Al Raee *(attended by video)*
- Mr. Ashraf Adnan Bseisu *(attended by video)*
- Mr. Mishal Ali Alhellow *(attended by video)*

The meeting was also attended by:

- The Group Chief Executive
- Group Chief Financial Control and Planning Group *(attended by video)*
- Group Chief Human Resources and Administration *(attended by video)*
- Group Chief Operations and IT *(attended by video)*
- Head of Group Corporate Secretariat
- Bank's Legal Advisor *(attended by video)*
- Mr. Raj Dugar-GM Audit (attended by video)
- Ms. Nadine Al Shirawi- Group Head of Compliance & AML *(attended by video)*
- Representative of Ministry of Industry, Commerce and Tourism *(attended by video)*
- Representatives of Central Bank of Bahrain *(attended by video)*
- Representatives of External Auditors, Ernst & Yong *(attended by video)*
- Representatives of Bahrain Bourse *(attended by video)*
- Representatives of KFintech *(attended by video)*

At the start of the meeting, the Chairman, for himself and on behalf of the Board of Directors welcomed the shareholders and the representatives of the official and concerned authorities and the press and presented the items on the agenda, which were approved, as follows:

1. Approval of the minutes of Ordinary General Assembly meeting held on 24 March 2021.
The Chairman explained that the annual report of the Bank contains the above-mentioned minutes of meeting and hence there is no need to recite the same.

Resolution No. 1-1/2022
"The Ordinary General Assembly approved the previous minutes of meeting held on 24.3.2021 as is".

2. Discussing and approving the report of the Board of Directors on the Bank's business during the year ended 31.12.2021 with a brief presentation by the Group Chief Executive on the major activities and achievements of the Bank during the year.
The Chairman began by presenting a summary of the Board of Directors' report and stated that the year 2021 was better than the year 2020, as there was recovery in different sectors and activities, which promises well in the coming years. He added that the Bank's business and activities are concentrated in many areas, including sustainability, expense control, compliance, money laundering, and the most important matter is more digitization in all areas of the Bank's operations. In addition, focus on any opportunities for mergers or acquisitions, as it is expected that organic growth will be at normal levels and inorganic growth will be the right way for the future of the Bank. As for matters that had a negative impact on the Bank's profits in the year 2021, the compensation of the income lost from the following two factors from other business lines was not possible due to the pandemic:

1. The ceiling approved by the Central Bank of Bahrain on the fees for the retail banking sector.
2. The percentage of merchant commission in the Bank's subsidiary CrediMax, which was temporarily reduced with the onset of the pandemic in the first quarter of 2020, and had a significant impact during 2021 and ended by the end of 2021.

After that, the Group Chief Executive made a brief presentation covering the major activities and achievements of the Bank during the year 2021, the Bank's key performance indicators, and attention to human resources, sustainability and the remarkable role played by the Bank to enhance its social responsibility. The presentation by the Group Chief Executive forms an integral part of the minutes of this meeting.

The Ordinary General Assembly had no comments on the same.

3. Reciting the Auditors' Report on the Bank's business for the year ended 31.12.2021.
The Ordinary General Assembly listened to the External Auditors' Report and the shareholders had no comments on the same.

4. Discussing and approving the Financial Statements for the year ended 31.12.2021

Resolution No. 2-1/2022
"The Ordinary General Assembly approved the Financial Statements for the year ended 31.12.2021".

Note: The minutes includes the deliberations by the shareholders in this respect and form an integral part of these minutes.

5. Approval of the recommendation of the Board of Directors to approve the following allocations:
- Distribution of the sum of BD 29,714,703 as dividends for the year 2021, at the rate of 20 Fils per share, equal to 20% of the capital. The dividends will be distributed on 14.04.2022.
- Distribution of free bonus shares to the shareholders at the rate of 10% of the paid-up capital, equal to one share against each 10 shares owned, totaling BD14,979,100 and therefore the paid-up capital of the Bank shall increase to BD 164,770,096.200 divided into 1,647,700,962 shares.

- Transfer of BD 5,306,256 to the general reserve.
- Approve the sum of BD 2,200,000 for donations in respect of the Bank and its subsidiaries.
- Allocate BD 862,499 as retained earnings to be carried forward to next year.

Resolution No. 3-1/2022
"The Ordinary General Assembly approved the above-mentioned recommendations".

6. **Reporting the transactions that took place during the financial year ended 31 December 2021 with any of the related parties as stated in Note No. (26) of the Financial Statements subject to Article 189 of the Companies Commercial Law**

The Ordinary General Assembly took note of the subject without any comments.

7. **Discussion of the Bank's Corporate Governance for 2021 and the Bank's compliance with the requirements of the Central Bank of Bahrain regarding the same**

The Chairman explained the Bank's great interest in this matter and mentioned that the Bank's annual report includes a special section that deals with the above subject in detail. All regulatory requirements in this regard were complied with during the year. He also explained a summary of the Board's recommendations issued after the evaluation process conducted for the Board, members and Board committees during the year, and the Group's Secretary disclosed the total fees of the external auditor during 2021.

Resolution No. 4-1/2022
"The Ordinary General Assembly approved the Bank's Corporate Governance Report for the year 2021 without any comments".

8. **Approve the recommendation of the Board of Directors to approve payment of BD 552,500 as remuneration to the members of the Board for the year 2021**

Resolution No. 5-1/2022
"The Ordinary General Assembly approved the recommendation of the Board of Directors for payment of BD 552,500 as remuneration to the members of the Board for the year 2021".

9. **Appointment of the External Auditor for the Bank for the financial year 2022 subject to the consent of the CBB and authorize the Board of Directors to determine their fees**

The Chairman stated that the Board of Directors has submitted its recommendation to re-appoint M/S. EY, the current External Auditor of the Bank as per the recommendation of the Board's Audit and Compliance Committee subject to the approved of the CBB.

Resolution No. 6-1/2022
"The Ordinary General Assembly approved the re-appointment of M/S. Ernst & Yong, the current external auditors of the Bank to carry out the assignment".

10. **Absolve the members of the Board of Directors from any liability in respect of all their acts for the year ended 31.12.2021.**

Resolution No. 7-1/2022
"The Ordinary General Assembly approved this subject".

11. **Any other business subject to Article (207) of the Commercial Companies Law**

There was no other business to discuss under this item.

Shareholders Discussions
The shareholders had a number of questions related to items on the agenda as follows:

Questions of one of the Shareholders:
One of the shareholders had several questions related to item (4) of the agenda "Discussing and approving the Financial Statements for the year ended 31.12.2021" as follows:

1. **Why did the loan provisions decrease from BD 18.9 million in 2019 to BD 5.6 million in 2020 to BD 2.9 million in 2021 and does this mean more recovery or loan write-off and what about the non-performing loans rate?**

   Group CE's answer: The loans have not been written off but recovery efforts are in place and the Estimated Credit Loss (ECL) model has been reviewed by the Bank. The Bank has comparisons with other banks that prove that the ECL at the Bank at all stages is at a comfortable level and is in compliance with the regulatory requirements. Further, in comparison with the Banking market in the region, the current ratio of non-performing loans in the Bank, which is about 5.2%, is not high, and the goal is to bring this ratio down to less than 4%. The high percentage currently is due to a limited number of legacy accounts, and if only new facilities are taken into account, the percentage is between 1.5% to 2%, and we are working to find solutions for these irregular accounts.

The Chairman's comment: There were several stages of extending the repayment of loans according to the directives of the esteemed Government of Bahrain and the Central Bank of Bahrain due to the circumstances of the pandemic and to understand the situation of the individual and corporate clients alike, and when the extension stops, the picture will be clearer regarding the customers' ability to repay.

2. **The future outlook for the Bank's rating, which is linked to the rating of the Kingdom of Bahrain, is negative. What is the Bank's strategy in this regard?**

   Chairman's answer: The concentration of the Bank's business in the Kingdom of Bahrain is due to the viable return, and the Bank is aware that the credit rating of the Kingdom of Bahrain may rise soon as a result of the rise in the prices of raw materials in international markets. The Bank also has activities in other countries but the international situation is not stable.

3. **The Bank did not proceed with the acquisition of Ithmaar Bank. What is the Bank's future strategy with regard to merger or acquisition?**

   Chairman's answer: The Bank is determined to look into this issue and acquiring smaller institutions that add value to the Bank's business may be considered, and they may be from outside the banking sector, and the Bank will make relevant disclosure at the time.

4. **The strategy for the next three years includes matters of digitization and customer care. What is the Bank's future vision for this?**

   Chairman's answer: Digitization is a reality and is important for the Bank, and we care about this matter on the part of the customers or the front end, as well as the Bank's internal operations, i.e. the back end, for example, the Core Banking system. This contributes to reducing expenses and raising efficiency.

The Chairman thanked all of the attendees for being present and for their participation in the meeting. Hence, the Ordinary General Assembly meeting concluded its meeting at 11:20 am on the same date which is stated at the beginning of these Minutes, to commence discussion of the items on the agenda of the Extra-ordinary General Assembly meeting.

May Allah Grant Success.

Ahmed AbdulQudoos Ahmed	**Murad Ali Murad**
Group Corporate Secretary	Chairman of the Board of Directors Meeting Chair

Translation of the Minutes of Meeting from Arabic. The Arabic version shall prevail.

Minutes of the Extra-ordinary General Assembly Meeting of
Bank of Bahrain and Kuwait

Meeting No. 1/2022
Time: 11.20 am

Date: Wednesday, 28 March 2022
Place: Via Video Conferencing

On the date and place referred to hereinabove, Mr. Murad Ali Murad, in his capacity as the chairman of the Board of Directors announced the opening of the Extra-ordinary General Assembly Meeting of the Shareholders.

This meeting is held pursuant to Articles 198, 199, 200 and 201 of the Commercial Companies Law promulgated by Legislative Decree No. (21) of 2001, and its amendments, and Articles from 46 to 50 of the BBK's Articles of Association. Invitation to this meeting was published as an announcement in Alayam, Akhbar Al Khaleej and GDN newspapers on 7th March 2022. The announcement included the invitation and agenda. The concerned authorities were notified including Ministry of Industry, Commerce, and Tourism, Central Bank of Bahrain, Bahrain Bourse and the external auditors: Ernst and Yong. The meeting was held via video conferencing.

The meeting was attended by:

- Shareholders whose total present shareholding, whether those who were present in person or by proxy, 1,178,776,189 shares of the total Bank's shares of 1,497,909,965 shares, representing 79.34% (after deduction of treasury shares from the total shares) as per the approved registration of virtual attendance with the support shares registrar who announced the same prior to the commencement of the meeting.
- The following members of the Board of Directors:

- Mr. Murad Ali Murad, Chairman of the Board of Directors, Chairman of the Audit, Compliance Committee and Nominations & Remunerations & Governance Committees.
- Mr. Mohamed A.Rahman Hussain-Chairman of the Executive Committee *(attended by video)*
- Mr. Hani Al Maskati-Deputy Chairman of the Risk Committee *(attended by video)*
- Sh. Khalifa Bin Duaij Al Khalifa *(attended by video)*
- Dr. Ghaneya Mohsin Al Derazi *(attended by video)*
- Mr. Edrees Musaed *(attended by video)*
- *Mr*. Nasser Khalid Al Raee *(attended by video)*
- Mr. Ashraf Adnan Bseisu *(attended by video)*
- Mr. Mishal Ali Alhellow *(attended by video)*

The meeting was also attended by:

- The Group Chief Executive
- Group Chief Financial Control and Planning Group *(attended by video)*
- Group Chief Human Resources and Administration *(attended by video)*
- Group Chief Operations and IT *(attended by video)*
- Head of Group Corporate Secretariat
- Bank's Legal Advisor *(attended by video)*

- Mr. Raj Dugar-GM Audit *(attended by video)*
- Ms. Nadine Al Shirawi- Group Head of Compliance & AML *(attended by video)*
- Representative of Ministry of Industry, Commerce and Tourism *(attended by video)*
- Representatives of Central Bank of Bahrain *(attended by video)*
- Representatives of External Auditors, Ernst & Yong *(attended by video)*
- Representatives of Bahrain Bourse *(attended by video)*
- Representatives of KFintech *(attended by video)*

The Chairman, Mr. Murad, presented the items on the agenda as follows:

1. Approval of the previous minutes of meeting held on 24 March 2021.
The Chairman explained that the annual report of the Bank contains the above-mentioned minutes of meeting and hence there is no need to recite the same.

Resolution No. 1-1/2022
"The Extra-ordinary General Assembly approved the previous minutes of meeting held on 24.3.2021 as is".

2. Approve the Board of Directors' recommendation for increasing the issued and paid up capital from BD 149,790,996.500 divided into1,497,909,965 shares to BD 164,770,096.200 divided into 1,647,700,962 shares as a result of distributing bonus shares.

Resolution No. 2-1/2022
"The Extra-ordinary General Assembly approved the above-mentioned subject".

3. Approve the Board of Directors' recommendation for increasing the Bank's authorized capital from BD 150,000,000 to BD 250,000,000 based on the increase in issued and paid up due to distribution of bonus shares and Bank's need for the same in the future.

Resolution No. 3-1/2022
"The Extra-ordinary General Assembly approved the above-mentioned subject".

4. Amend Article (6) of the Memorandum of Association "Authorized capital" and Article (6) of the Articles of Association "Authorized capital" according to the increase of the Authorized capital to BD 250,000 subject to the CBB's approval.

Resolution No. 4-1/2022
"The Extra-ordinary General Assembly approved the above-mentioned subject".

5. Amend Article (7) of the Memorandum of Association "Issued and paid up capital" and Article (7) of the Articles of Association "Issued and paid up capital" according to the increase of the Issued and paid up capital to BD 164,770,096.200 subject to the CBB's approval.

Resolution No. 5-1/2022
"The Extra-ordinary General Assembly approved the above-mentioned subject".

6. **Approve the Board of Directors' recommendation to make the necessary amendments to the Articles of Association according to the amendments on the Commercial Companies Law (21) for the year 2001 vide laws No. (28) for the year for the year 2020 and (20) for the year 2021, subject to the CBB's approval.**

Resolution No. 6-1/2022
"The Extra-ordinary General Assembly approved the above-mentioned subject".

7. **Authorize the Board of Directors or any person authorized by the Board to take the actions required by the authorities concerned in the Kingdom of Bahrain to obtain the necessary official approvals.**

Resolution No. 7-1/2022
"The Extra-ordinary General Assembly approved the above-mentioned subject".

In conclusion, the Chairman expressed his thanks to all those who attended the meeting and hoped that the efforts of the Board of Directors, the Executive Management and the Bank's employees will be crowned with success, by joining forces, to move the Bank towards further prospect and progress.

Hence, the Extra-ordinary General Assembly concluded its meeting at 11:30 am on the same date stated at the beginning of these Minutes.

May Allah Grant Success.

Ahmed AbdulQudoos Ahmed
Group Corporate Secretary

Murad Ali Murad
Chairman of the Board of Directors
Meeting Chair