

BAHRAIN ISLAMIC BANK B.S.C.
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2023

Commercial registration	9900 (registered with Central Bank of Bahrain as a retail Islamic bank)
Board of Directors	Dr. Esam Abdulla Fakhro, <i>Chairman</i> Khalid Yousif Abdul Rahman, <i>Vice Chairman</i> Usman Ahmed, <i>Vice Chairman</i> Mohamed Abdulla Nooruddin Khalid Abdulaziz Al Jassim Marwan Khaled Tabbara Saqr Abdulmohsin Al Sijari Isa Hasan Maseeh Gaby Samir El Hakim Rana Abdulaziz Qamber*
	*In replacement of Ms Dana Abdulla Buheji, (Resigned on 10 May 2023)
Office	Salam Tower, Diplomatic Area PO Box 5240 Manama, Kingdom of Bahrain Telephone 17515151, Telefax 17535808
Auditors	KPMG Fakhro

CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2023

CONTENTS	Page
Board of Directors report	1 - 5
Sharia'a supervisory board report	6 - 8
Independent auditors' report to the shareholders	9-13
Consolidated financial statements	
Consolidated statement of financial position	14
Consolidated statement of income	15
Consolidated statement of cash flows	16
Consolidated statement of changes in owners' equity	17
Consolidated statement of sources and uses of good faith qard fund	18
Consolidated statement of sources and uses of zakah and charity fund	19
Notes to the consolidated financial statements	20 - 75

صندوق بريد 5240، المنامة
مملكة البحرين
PO Box 5240, Manama
Kingdom of Bahrain
رمز السويفت: BIBBBHBM



BOARD OF DIRECTORS REPORT

In the name of Allah, the Most Beneficent. Prayers and Peace be upon the last Apostle and Messenger, His Comrades and Relatives. On behalf of the Board of Directors of Bahrain Islamic Bank (BisB), I am pleased to present the Annual Financial and Sustainability Report and Consolidated Financial Statements for the year 2023.

The focus of the 2023 Annual Financial and Sustainability Report is on laying the 'foundations for growth' as we completed the three-year strategy that began in 2020 and look forward to our new vision for 2024 to 2026.

During the past year we welcomed experienced leadership talent into the Bank's executive team and further integrated our support functions with the National Bank of Bahrain (NBB Group). This ensured that we are in the best possible position to capture synergy benefits from being part of the NBB Group, while also maintaining our distinct identity and customer propositions as BisB.

During the year, our operating environment continued to present economic, geopolitical, and monetary policy challenges. As COVID-19 support measures unwound, and as external events such as the wars in Ukraine and Gaza disrupted trade, the Bank increased its vigilance and engagement with customers facing potential difficulties. This engagement both reinforced BisB's commitment to our customers as their trusted financial advisor and provided the Bank with valuable credit risk intelligence.

Benchmark rates remained elevated through 2023, increasing the cost of funds and putting downward pressure on margins. Action was taken to absorb these rate increases and to transition the bank's exposures, particularly in the corporate business, from fixed to floating rates. The Bank also entered profit rate swaps to hedge a significant proportion of its Sukuk holdings. The swapped returns also helped generate higher portfolio returns and protect portfolio margins.

As we enter 2024, the Bank is poised for continued growth, measured by its financial and by its Environmental, Social, and Governance (ESG) metrics. Importantly, the Bank is consistently focused on improving its competitiveness and ensuring it generates sustainable value for all stakeholders.

Performance

The bank's performance through this year has been one of resilience and underlying strength with a steady financial position evidenced by constant total assets, and marginal growth in Islamic financing compared to the previous year, underlining the strong financial resilience of the bank and its solid balance sheet.

Given the headwinds of rates, inflation and geopolitical uncertainty, BisB has produced resilient results in 2023, driven by targeted growth in retail banking, improved portfolio balancing, and lower provisions for impairments. Despite the significant increase in cost of funds, the Bank managed to report a profit income of BD 67.3 million for the year ended 31 December 2023, a 8% increase compared to last year, and a net profit of BD 11.1 million, a decline of 11% compared to 2022, yet a commendable result given the challenging macro environment.

Looking Ahead

2024 will present its own challenges and opportunities, but we remain optimistic that BisB is able to navigate the path to success. We remain committed to ensuring we maintain a prudent approach to financing while executing the bank's strategy.

صندوق بريد 5240، المنامة
مملكة البحرين
PO Box 5240, Manama
Kingdom of Bahrain
رمز السويفت: BIBBBHBM Swift Code:



In 2024, BisB will enter a new strategy cycle that we have called 'Riyadah'. This strategy focuses on driving core profitability, improving asset portfolio quality, diversifying revenues, and enhancing productivity, while achieving long-term sustainable differentiation through long-term capability building.

The Riyadah Strategy is built on four pillars:

- Improve our speed, accuracy and productivity in delivering our services to our customers.
- Provide a personalized and simplified customer experience to our customers.
- Offer relevant innovative solutions that address the changing needs and expectations of our customers.
- Ensure that our solutions are safe, sustainable and reliable for our customers and our stakeholders.

In Retail banking we intend to serve more Bahrainis and professional expats, entrepreneurs, families, affluent GCC citizens and retirees through branch sales, digital, Al Thuraya, call centre and self-service across the asset and liability spectrum.

In Corporate, we aim to increase our participation in GCC syndications, to enhance our solutions offering for SMEs, and drive balance sheet growth through selective lending to commercials and mid-sized corporates, Government Related Entities and Sovereigns.

In Treasury, we will capitalize on Group opportunities to structure Islamic sales products including FX swaps, structured deposits, and wrappers.

Internally, we aim to boost productivity, optimize our balance sheet, increase customer loyalty, grow fee income, and cement our position as the leading voice in Islamic finance. We will share more on this strategy with our shareholders in due course.

Acknowledgements

On behalf of our shareholders, the Board of Directors convey their sincere gratitude and appreciation to His Majesty King Hamad bin Isa Al Khalifa, the King of the Kingdom of Bahrain, and to His Royal Highness Prince Salman bin Hamad Al Khalifa, the Crown Prince and Prime Minister for their wise leadership and continuous support for the Islamic banking sector.

The Directors further express their appreciation to all Government ministries and authorities, in particular the Central Bank of Bahrain and the Ministry of Industry and Commerce, for their guidance and support. In particular, the directors would like to bid farewell to His Excellency Rasheed Al Maraj, who retired as Governor of the Central Bank after 18 years of dedicated service. We are grateful for his visionary leadership and his unwavering support for the development of the Islamic banking sector in Bahrain. Moreover, the directors would like to congratulate His Excellency Khalid Ibrahim Humaidan on his appointment as the new Governor of the Central Bank, wishing him every success for the future.

Finally, we are thankful for the guidance and counsel we have received from the Bank's Shari'a Supervisory Board throughout the year. We would also like to thank our shareholders, employees, customers and management for their commitment and loyalty to BisB.

صندوق بريد 5240، المنامة

مملكة البحرين

PO Box 5240, Manama
Kingdom of Bahrain

رمز السويفت: BIBBBHBM



As part of the Bank's obligation to maintain utmost transparency with our valued shareholders, we are pleased to attach the table below that shows the remuneration of members of the Board of Directors and the Executive Management for the fiscal year ending 31st December 2023.

First: Board of directors' remuneration details:

Name	Fixed remunerations					Variable remunerations					End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
	Remunerations of the chairman and BOD*	Total allowance for attending Board and committee meetings	Salaries	Others***	Total	Remunerations of the chairman and BOD	Bonus	Incentive plans	Others****	Total			
First: Independent Directors:													
1- Khalid Abdulaziz Al Jassim	26,095	27,000	-	900	53,995	-	-	-	-	-	-	53,995	-
2- Marwan Khaled Tabbara	26,095	24,000	-	1,071	51,166	-	-	-	-	-	-	51,166	-
3- Mohamed Abdulla Nooruddin	26,095	24,000	-	717	50,812	-	-	-	-	-	-	50,812	-
4- Saqer AbdulMohsen Al Sejari	26,095	25,385	-	3,076	54,556	-	-	-	-	-	-	54,556	-
Second: Non-Executive Directors:													
1- Dr. Esam Abdulla Fakhro	39,143	12,000	-	673	51,816	-	-	-	-	-	-	51,816	-
2- Khalid Yousif Abdul Rahman	26,095	14,000	-	587	40,682	-	-	-	-	-	-	40,682	-
Third: Executive Directors:													
1- Usman Ahmed	26,095**	16,000	-	717	42,812	-	-	-	-	-	-	42,812	-

+973 17 515 151 | +973 17 535 808 Bahrain Islamic Bank (BisB) ●●● bisb.com

Licensed as an Islamic Retail Bank by the Central Bank of Bahrain

مُرخص من قبل مصرف البحرين المركزي كمصرف قطاع تجزئه إسلامي

صندوق بريد 5240، المنامة
مملكة البحرين
PO Box 5240, Manama
Kingdom of Bahrain
رمز السويقت: BIBBBHBM Swift Code:



Name	Fixed remunerations					Variable remunerations					End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
	Remunerations of the chairman and BOD*	Total allowance for attending Board and committee meetings	Salaries	Others***	Total	Remunerations of the chairman and BOD	Bonus	Incentive plans	Others****	Total			
2- Gaby Al Hakim	26,095**	14,000	-	-	40,095	-	-	-	-	-	-	40,095	-
3- Rana AbdulAziz Qambar * Elected on 22 nd May 2023	16,963**	6,000	-	-	22,963	-	-	-	-	-	-	22,963	-
4- Dana Abdulla Buheji * End of Membership on 10 th May 2023	9,134**	4,000	-	-	13,134	-	-	-	-	-	-	13,134	-
5- Isa Hasan Maseeh	26,095**	24,000	-	587	50,682	-	-	-	-	-	-	50,682	-
Total	274,000	190,385	-	8,328	472,713	-	-	-	-	-	-	472,713	-

Note: All amounts stated in Bahraini Dinars.
 *Subject to AGM and regulatory approval.
 **Remuneration is paid to the entity (shareholder) represented by these board members.

Other remunerations:
 *** It includes in-kind benefits – specific amount – remuneration for technical, administrative and advisory works (if any).
 **** It includes the board member's share of the profits - Granted shares (insert the value) (if any).

صندوق بريد 5240، المنامة
مملكة البحرين
PO Box 5240, Manama
Kingdom of Bahrain
رمز السويفت: BIBBBHBM



Second: Executive management remuneration details:

Executive management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/ in kind remuneration for 2023	Aggregate Amount
Top 6 remunerations for executives, including CEO* and Senior Financial Officer**	1,053,685	389,336	-	1,443,021
Note: All amounts must be stated in Bahraini Dinars.				
* The highest authority in the executive management of the company, the name may vary: (CEO, President, General Manager (GM), Managing Director...etc). This includes the outgoing and incoming CEOs.				
** The company's highest financial officer (CFO, Finance Director, ...etc.)				

Dr. Esam Abdulla Fakhro
Chairman

+973 17 515 151 | +973 17 535 808 Bahrain Islamic Bank (BisB) bisb.com

Licensed as an Islamic Retail Bank by the Central Bank of Bahrain

مُرخص من قبل مصرف البحرين المركزي كمصرف قطاع تجزئة إسلامي

14 Feb 2024

Sharia'a Supervisory Board report For the year ended on 31/12/2023

In The Name of Allah, most Gracious,
Most Merciful Peace and Blessings Be Upon His Messenger.

To the shareholders of Bahrain Islamic Bank B.S.C.

Assalam Alaykum Wa Rahmatu Allah Wa Barakatoh.

The Sharia'a Board hereby present the following report on its activities in supervising the Bank's finances and investments from a Sharia perspective for the financial year ending on 31st December 2023, in fulfillment to the mandate conferred upon it by BisB's Articles of Association:

First: Supervision and Revision of the Bank's Business

In coordination with the Sharia Coordination and implementation, the Sharia Supervisory Board has monitored the implementation on the Bank's Finances and its applicable fees and the relevant policies and procedures, in addition to advising and providing fatwas in regards to the finance agreements up to 31st December 2023 to ensure the Bank's adherence to the provisions and principles of Islamic Sharia'a.

It also reviewed the Sharia'a compliance report issued by the Sharia'a Coordination and Implementation Department on the Sharia'a reviewed and supervision work on the bank's business in accordance with the identified Sharia'a risks, the report showed that the bank has adhered in its operations to the Sharia controls stated by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and the Sharia Supervisory Board decisions and fatwas, and the Sharia Coordination and Implementation Department has carried out its work according to the plan monitored by it.

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

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

1) Sharia'a Internal Audit

Shaikh Dr. A.Latif Mahmood Al Mahmood
Chairman

Shaikh Dr. Nedham M. Saleh Yacoubi
Vice Chairman

Shaikh Adnan Abdullah Al Qattan
Member

Shaikh Mohammed Jaffar Al Juffairi
Member

We planned with the Sharia'a Internal Audit department to carry out monitoring functions by obtaining all the information and clarifications that were deemed necessary to confirm that the Bank did not violate the principles and provisions of Islamic Sharia'a and Fatwas and decisions of the Sharia'a Board.

Our supervision constituted of inspection, documenting of policies followed by the Bank on the basis of examining each kind of operation either directly or indirectly by the internal Sharia'a Department in conformity with the Plan and methodology approved by the Sharia'a Board.

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

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

2) Independent External Shari'a Compliance Audit

The Sharia'a Supervisory Board reviewed the audit report provided by the Independent External Shari'a Auditor on the Bank's activities and the progress of work in the Sharia'a Departments, which demonstrated that the Bank's operations, transactions and services have been implemented based on appropriate procedures that confirms its compliance with the Islamic Shari'a rules, principles and provisions, and that they have went through the Bank's necessary administrative channels from Senior Management, Internal Audit and Shari'a Supervisory Board.

Third: Sharia Governance

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

Shaikh Dr. A.Latif Mahmood Al Mahmood
Chairman

Shaikh Dr. Nedham M. Saleh Yacoubi
Vice Chairman

Shaikh Adnan Abdullah Al Qattan
Member

Shaikh Mohammed Jaffar Al Juffairi
Member

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

Forth: Sharia Supervisory Board Operations

The Sharia Board and its Committees held (22) meetings during the year and issued (91) decisions and fatwas, and approved (99) contracts.

Fifth: Financial Statements and Zakat Calculation Methods

The Sharia Board has reviewed the financial Statements for the year ended on 31st December 2023, the income statement, the distribution of profit and allocation of losses, the attached notes and the Zakat calculation methods.

Based on the above, the Sharia'a Supervisory Board decides that:

- 1.All the Financial Statements inspected by the Sharia'a Board conform to what has been approved by the Board, and to the standards issued by the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI).
- 2.Contracts, and transactions conducted by the Bank throughout were in accordance with the standard contracts pre-approved by the Sharia'a Supervisory Board.
- 3.The distribution of profit and allocation of losses on investment accounts was in line with the basis and principles approved by the Sharia'a Supervisory Board and in accordance to Islamic Sharia.
- 4.Any gains resulted from sources or means prohibited by the provisions and principles of Islamic Sharia'a, have been directed to the Charity and Donations Fund.
- 5.Zakah was calculated according to the provisions and principles of Islamic Sharia'a, by the net invested assets method. And the shareholders should pay their portion of Zakah on their shares as stated in the financial report.
- 6.The Bank was committed to the provisions and principles of Sharia'a as per Sharia'a standards issued by the (AAOIFI).

We pray that Allah may grant all of us further success and prosperity.

Wassalam Alaykum Wa Rahmatu Allah Wa Barakatoh

Shaikh Dr. A.Latif Mahmood Al Mahmood
Chairman

Shaikh Dr. Nedham M. Saleh Yacoubi
Vice Chairman

Shaikh Adnan Abdullah Al Qattan
Member

Shaikh Mohammed Jaffar Al Juffairi
Member



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

Telephone +973 17224807
Telefax +973 17227443
Website: www.kpmg.com/bh
CR No. 6220 - 2

Independent auditors' report

To the Shareholders of

Bahrain Islamic Bank B.S.C.
PO Box 5240
Manama
Kingdom of Bahrain

Opinion

We have audited the consolidated financial statements of Bahrain Islamic Bank B.S.C. (the "Bank"), and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated statements of income, changes in owners' equity, cash flows, sources and uses of good faith qard fund and sources and uses of zakah and charity fund for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2023, and consolidated results of its operations, changes in owners' equity, its cash flows, sources and uses of good faith qard fund and its sources and uses of zakah and charity fund for the year then ended in accordance with Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI").

In our opinion, the Group has also complied with the Islamic Shariah Principles and Rules as determined by the Group's Shariah Supervisory Board during the year ended 31 December 2023.

Basis for Opinion

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

Key Audit Matters

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



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

Impairment allowance on financing assets and Ijarah muntahia bittamleek	
Refer to accounting policy in note 2 z, use of estimates and judgments in note 2 bb (i) and management of credit risk in note 29 e to the consolidated financial statements.	
The key audit matter	How the matter was addressed in our audit
We focused on this area because: • of the significance of financing assets and Ijarah muntahia bittamleek representing 68% of total assets; • impairment of financing assets and Ijarah muntahia bittamleek involves: ○ complex estimates and judgement over both timing and recognition of impairment including susceptibility to management bias; ○ use of statistical models and methodologies for determination of expected credit losses. The Group exercises significant judgments and makes a number of assumptions in developing its ECL models which is determined as a function of the assessment of the probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD") associated with the underlying financial assets; and ○ complex disclosure requirements regarding credit quality of the portfolio including explanation of key judgments and material inputs used in determination of expected credit losses. • The need to measure ECLs on an unbiased forward-looking basis incorporating a range of economic conditions. Significant management judgment is applied in determining the economic scenarios used and the probability weightings applied to them; and • Adjustments to the ECL model results are made by management to address known impairment model limitations or emerging trends or risks. Such adjustments are inherently uncertain and significant management judgment is involved in estimating these amounts.	Our audit procedures, amongst others, to address significant risks associated with impairment included: • Evaluating the appropriateness of the accounting policies adopted based on the requirements of FAS 30, our business understanding, and industry practice. • Confirming our understanding of management's processes, systems and controls implemented, including controls over expected credit loss ("ECL") model development. Controls testing We performed process walkthroughs to identify the key systems, applications and controls used in the ECL processes. We tested the relevant General IT and application controls over key systems used in the ECL process incorporating consideration of the economic disruption. Key aspects of our control testing involved the following: • Performing detailed credit risk assessment for a sample of performing and non-performing financing assets to test controls over credit rating and its monitoring process; • Testing the design and operating effectiveness of the key controls over the completeness and accuracy of the key inputs and assumptions elements into the FAS 30 ECL models; • Testing controls over the transfer of data between underlying source systems and the ECL models that the Group operates; • Testing controls over the modelling process, including governance over model monitoring, validation and approval; • Testing key controls relating to selection and implementation of material economic variables; and • Testing controls over the governance and assessment of model outputs and authorisation and review of post model adjustments and management overlays including selection of economic scenarios and the probability weightings applied to them. Test of details Key aspects of our testing involved: • Sample testing over key inputs and assumptions impacting ECL calculations including economic forecasts and weights to confirm the accuracy of information used;



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

- Re-performing key aspects of the Group's significant increase in credit risk ("SICR") determinations and selecting samples of financial instruments to determine whether a SICR was appropriately identified;
- Re-performing key elements of the Group's model calculations and assessing performance results for accuracy; and
- Selecting a sample of post model adjustments and management overlays in order to assess the reasonableness of the adjustments by challenging key assumptions, testing the underlying calculation and tracing a sample back to source data.

Use of specialists

For the relevant portfolios examined, we have involved KPMG specialists to assist us in assessing IT system controls and challenging key management assumptions used in determining expected credit losses. Key aspects of their involvement include:

- We involved our information technology specialists to test controls over the IT systems, recording of data in source systems and transfer of data between source systems and the impairment models;
- We involved our credit risk specialists in:
 - evaluating the appropriateness of the Groups' ECL methodologies (including the staging criteria used);
 - on a test check basis, re-performing the calculation of certain components of the ECL model (including the staging criteria);
 - evaluating the appropriateness of the Group's methodology for determining the economic scenarios used and the probability weighing applied to them; and
 - evaluating the overall reasonableness of the management economic forecast by comparing it to external market data and reflective of underlying credit quality and macroeconomic trends.

Disclosures

We assessed the adequacy of the Group's disclosure in relation to use of significant estimates and judgement and credit quality of financing assets and Ijarah muntahia bittamleek by reference to the requirements of the relevant accounting standards.



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

Other Information

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

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

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

Responsibilities of Board of Directors for the Consolidated Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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



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

- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Regulatory Requirements

As required by the Commercial Companies Law and Volume 2 of the Rule Book issued by the Central Bank of Bahrain (CBB), we report that:

- a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- b) the financial information contained in the board of directors' report is consistent with the consolidated financial statements;
- c) we are not aware of any violations during the year of the Commercial Companies Law 2001 (as amended), the CBB and Financial Institutions Law No. 64 of 2006 (as amended), the CBB Rule Book Volume 2, applicable provisions of Volume 6 and CBB directives, the CBB Capital Markets Regulations and associated resolutions, the Bahrain Bourse rules and procedures or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and
- d) satisfactory explanations and information have been provided to us by management in response to all our requests

The engagement partner on the audit resulting in this independent auditors' report is Salman Manjilai.

KPMG Fakhro
Partner Registration Number 213
18 February 2024

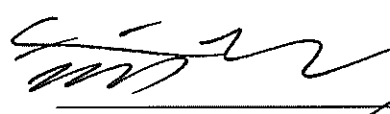
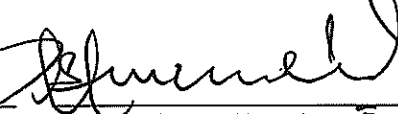
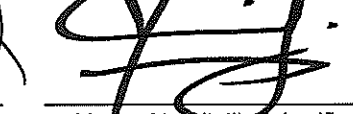
Bahrain Islamic Bank B.S.C.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	Note	2023 BD'000	2022 BD'000
ASSETS			
Cash and balances with banks and Central Bank	3	61,602	70,037
Placements with financial institutions	4	51,689	69,755
Financing assets	5	605,503	620,023
Investment securities	6	278,213	259,029
Ijarah Muntahia Bittamleek	8	318,837	289,986
Investment in associates	7	8,302	8,832
Investment in real estate	10	14,725	16,176
Property and equipment	9	13,692	14,019
Other assets	11	5,528	13,960
TOTAL ASSETS		1,358,091	1,361,817
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
Liabilities			
Placements from financial institutions		95,842	152,404
Placements from non-financial institutions and individuals		297,215	245,442
Financing from financial institutions	12	181,502	110,113
Customers' current accounts		202,511	231,078
Other liabilities	13	24,668	36,621
Total Liabilities		801,738	775,658
Equity of Investment Accountholders			
Financial institutions		39,865	29,953
Non-financial institutions and individuals		371,856	420,455
Total Equity of Investment Accountholders	14	411,721	450,408
Owners' Equity			
Share capital	15	106,406	106,406
Treasury shares	15	(892)	(892)
Shares under employee share incentive scheme		(195)	(293)
Share premium		206	206
Reserves		14,107	5,324
Equity Attributable to Shareholders of the Bank		119,632	110,751
Subordinated Mudaraba (AT1)	15	25,000	25,000
Total Owners' Equity		144,632	135,751
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		1,358,091	1,361,817

The consolidated financial statements were approved by the Board of Directors on 18 February 2024 and signed on its behalf by:

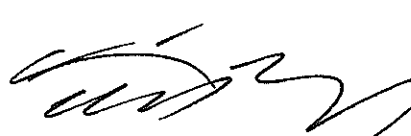
		
Dr. Esam Abdulla Fakhro Chairman	Usman Ahmed Vice Chairman	Yaser Abduljalil Alsharifi Chief Executive Officer

Bahrain Islamic Bank B.S.C.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2023

	Note	2023 BD'000	2022 BD'000
INCOME			
Income from financing	18	52,274	49,408
Income from investment in Sukuk	19	14,994	12,641
Total income from jointly financed assets		67,268	62,049
Return on equity of investment accountholders		(20,613)	(23,362)
Group's share as Mudarib		18,083	19,306
Net return on equity of investment accountholders	14.5	(2,530)	(4,056)
Group's share of income from jointly financed assets (both as mudarib and investor)		64,738	57,993
Expense on placements from financial institutions		(8,695)	(5,561)
Expense on placements from non-financial institutions and individuals		(15,513)	(7,630)
Expense on financing from financial institutions		(6,024)	(1,637)
Fee and commission income, net		5,773	5,751
Income from investment securities	20	6	30
Income from investment in real estate, net	21	221	(617)
Share of results of associates, net	7	347	13
Other income, net	22	4,477	1,984
Total income		45,330	50,326
EXPENSES			
Staff costs		12,384	13,092
Depreciation and amortization	9, 11.1	1,823	1,707
Other expenses	23	13,352	11,514
Total expenses		27,559	26,313
Profit before impairment allowances and other provisions		17,771	24,013
Impairment allowance and other provisions, net	24	(6,635)	(11,445)
PROFIT FOR THE YEAR		11,136	12,568
BASIC AND DILUTED EARNINGS PER SHARE (fils)	27	8.76	10.13

		
Dr. Esam Abdulla Fakhro Chairman	Usman Ahmed Vice Chairman	Yaser Abduljalil Alsharifi Chief Executive Officer

Bahrain Islamic Bank B.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

		2023	2022
	Note	BD'000	BD'000
OPERATING ACTIVITIES			
Profit for the year		11,136	12,568
Adjustments for non-cash items:			
Depreciation	9	1,484	1,383
Impairment allowance and other provisions, net	24	6,635	11,445
Loss on sale of investment in real estate	21	28	-
Amortization of right-of-use asset	11.1	339	324
Fair value movement in investment in real estate	21	50	794
Amortization of gain on sale of investment in real estate	21	(108)	(19)
Gain on sale of investment in sukuk	19	(2)	(710)
Share of results of associates, net	7	(347)	(13)
Operating profit before changes in operating assets and liabilities		19,215	25,772
Working capital adjustments:			
Mandatory reserve with Central Bank of Bahrain		940	(15,060)
Financing assets		9,048	(20,136)
Ijarah Muntahia Bittamleek		(29,103)	(33,475)
Other assets		6,864	(1,843)
Customers' current accounts		(28,567)	(18,671)
Other liabilities		(11,813)	6,470
Placements from financial institutions		(57,676)	21,207
Placements from non-financial institutions and individuals		51,773	33,024
Equity of investment accountholders		(38,687)	(65,822)
Net cash used in operating activities		(78,006)	(68,534)
INVESTING ACTIVITIES			
Disposal of investment in real estate		1,373	-
Purchase of investment securities		(18,125)	(19,124)
Purchase of property and equipment		(1,157)	(1,911)
Proceeds from disposal of investment securities		107	33,107
Net cash (used in) / from investing activities		(17,802)	12,072
FINANCING ACTIVITIES			
Purchase of treasury shares		(26)	(80)
Profit distribution on AT1 Capital		(1,901)	(1,901)
Proceeds from financing from financial institutions		71,389	53,194
Lease liability paid		(328)	(356)
Net cash from financing activities		69,134	50,857
NET DECREASE IN CASH AND CASH EQUIVALENTS		(26,674)	(5,605)
Cash and cash equivalents at 1 January		101,073	106,678
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		74,399	101,073
Cash and cash equivalents comprise of:			
Cash on hand	3	12,601	16,577
Balances with CBB, excluding mandatory reserve deposits	3	5,875	2,569
Balances with banks and other financial institutions excluding restricted balances	3	4,234	12,172
Placements with financial institutions with original maturities less than 90 days	4	51,689	69,755
		74,399	101,073

Bahrain Islamic Bank B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2023

	Reserves										Sub-ordinated mudaraba (AT1) BD'000	Total owners' equity BD'000
	Share capital BD'000	Treasury shares BD'000	Share incentive scheme BD'000	Share premium BD'000	Statutory reserve BD'000	Real estate fair value reserve BD'000	Investment securities fair value reserve BD'000	Retained earnings / (Accumulated losses) BD'000	Total reserves BD'000	Equity attributable to Shareholders of the Bank BD'000		
Balance at 1 January 2023	106,406	(892)	(293)	206	6,606	1,320	1,615	(4,217)	5,324	110,751	25,000	135,751
Profit for the year	-	-	-	-	-	-	-	11,136	11,136	11,136	-	11,136
Zakah approved	-	-	-	-	-	-	-	(170)	(170)	(170)	-	(170)
Donations approved	-	-	-	-	-	-	-	(250)	(250)	(250)	-	(250)
Profit distribution on AT1 Capital	-	-	-	-	-	-	-	(1,901)	(1,901)	(1,901)	-	(1,901)
Share of reserve of investment in associate	-	-	-	-	-	-	-	-	-	-	-	-
Shares allocated to staff during the year	-	-	124	-	-	-	-	-	-	124	-	124
Purchase of treasury shares	-	(26)	-	-	-	-	-	-	-	(26)	-	(26)
Transfer to shares under employee share incentive scheme	-	26	(26)	-	-	-	-	-	-	-	-	-
Net movement in investment securities fair value reserve	-	-	-	-	-	-	(32)	-	(32)	(32)	-	(32)
Net movement in real estate fair value reserve	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to statutory reserve	-	-	-	-	1,114	-	-	(1,114)	-	-	-	-
Balance at 31 December 2023	106,406	(892)	(195)	206	7,720	1,320	1,583	3,484	14,107	119,632	25,000	144,632
Balance at 1 January 2022	106,406	(892)	(289)	206	5,349	1,545	1,778	(13,343)	(4,671)	100,760	25,000	125,760
Profit for the year	-	-	-	-	-	-	-	12,568	12,568	12,568	-	12,568
Zakah approved	-	-	-	-	-	-	-	(138)	(138)	(138)	-	(138)
Donations approved	-	-	-	-	-	-	-	(350)	(350)	(350)	-	(350)
Profit distribution on AT1 Capital	-	-	-	-	-	-	-	(1,901)	(1,901)	(1,901)	-	(1,901)
Share of reserve of investment in associate	-	-	-	-	-	-	(204)	204	-	-	-	-
Shares allocated to staff during the year	-	-	76	-	-	-	-	-	-	76	-	76
Purchase of treasury shares	-	(80)	-	-	-	-	-	-	-	(80)	-	(80)
Transfer to shares under employee share incentive scheme	-	80	(80)	-	-	-	-	-	-	-	-	-
Net movement in investment securities fair value reserve	-	-	-	-	-	-	41	-	41	41	-	41
Net movement in real estate fair value reserve	-	-	-	-	-	(225)	-	-	(225)	(225)	-	(225)
Transfer to statutory reserve	-	-	-	-	1,257	-	-	(1,257)	-	-	-	-
Balance at 31 December 2022	106,406	(892)	(293)	206	6,606	1,320	1,615	(4,217)	5,324	110,751	25,000	135,751

The attached notes 1 to 35 form an integral part of these consolidated financial statements.

Bahrain Islamic Bank B.S.C.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF GOOD FAITH QARD FUND

For the year ended 31 December 2023

	<i>Qard Hasan receivables BD'000</i>	<i>Funds available for Qard Hasan BD'000</i>	<i>Total BD'000</i>
Balance at 1 January 2023	107	110	217
Sources of Qard Fund			
Repayments	(47)	47	-
Total sources during the year	(47)	47	-
Uses of Qard fund			
Marriage	21	(21)	-
Others (Waqf)	57	(57)	-
Total uses during the year	78	(78)	-
Balance at 31 December 2023	138	79	217
Balance at 1 January 2022	94	123	217
Sources of Qard Fund			
Repayments	(45)	45	-
Total sources during the year	(45)	45	-
Uses of Qard fund			
Marriage	-	-	-
Others (Waqf)	58	(58)	-
Total uses during the year	58	(58)	-
Balance at 31 December 2022	107	110	217
		2023 BD'000	2022 BD'000
Sources of Qard fund			
Contribution by the Bank		125	125
Donation		3	3
Non-shariah compliant income		89	89
		217	217

Bahrain Islamic Bank B.S.C.**CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND**

For the year ended 31 December 2023

	2023 BD'000	2022 BD'000
Sources of zakah and charity funds		
Undistributed zakah and charity funds at the beginning of the year	676	353
Non-shariah compliant income / late payment fee	304	109
Contributions by the Bank for zakah	170	138
Contributions by the Bank for donations	256	350
Others	-	4
Total sources of zakah and charity funds during the year	1,406	954
Uses of zakah and charity funds		
Philanthropic societies	12	16
Aid to needy families	370	221
Others	97	41
Total uses of funds during the year	479	278
Undistributed zakah and charity funds at the end of the year	927	676

1 REPORTING ENTITY

Bahrain Islamic Bank B.S.C. (the "Bank") was incorporated in the Kingdom of Bahrain in 1979 by Amiri Decree No.2 of 1979 and registered with the Ministry of Industry and Commerce ("MOIC") under Commercial Registration (CR) number 9900, to carry out banking and other financial trading activities in accordance with the teachings of Islam (Shari'a). The Bank operates under an Islamic retail banking license issued by the Central Bank of Bahrain ("CBB"). The Bank's Shari'a Supervisory Board is entrusted to ensure the Bank's adherence to Shari'a rules and principles in its transactions and activities. The Bank is listed on the Bahrain Bourse.

The Bank's registered office is at Building 722, Road 1708, Block 317, Manama, Kingdom of Bahrain.

The Bank has eight branches (2022: nine branches), all operating in the Kingdom of Bahrain.

The consolidated financial statements include the results of the Bank and its wholly owned subsidiaries (together the "Group"). The Bank holds 100% (2022: 100%) of the share capital of Abaad Real Estate W.L.L.

Abaad Real Estate W.L.L ("Abaad")

Abaad was incorporated in the Kingdom of Bahrain on 8 April 2003 with an authorised and fully paid-up share capital of BD 25 million. Abaad started operations in 2007. The main activity of Abaad is investment in real estate (in accordance with the Islamic Shari'a rules and principles).

National Bank of Bahrain (NBB) owns 78.81% (2022: 78.81%) of shares. Hence, NBB is considered as Parent of the Bank for financial reporting purposes.

a. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for the "risk management instruments", "investments in real estate" and "equity type instruments carried at fair value through equity" that have been measured at fair value and repossessed assets that have been measured at lower of carrying value or fair value less cost to sell. In addition, financial assets that are hedged in a fair value hedge relationship are adjusted to record changes in fair value attributable to the risk that is being hedged.

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Management believes that the underlying assumptions are appropriate and the Group's consolidated financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note (3 (bb)).

The consolidated financial statements have been presented in Bahraini Dinars ("BD"), which is also the functional currency of the Group's operations. All the values are rounded to the nearest BD thousand except when otherwise indicated.

b. Statement of Compliance

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been consistently applied by the Group and are consistent with those used in the previous year except those arising from the adoption of the following standards and amendments to Standards early adopted by the Group.

a. New standards, amendments, and interpretations

i) New standards, amendments, and interpretations issued and effective for annual periods beginning on or after 1 January 2023

(i) FAS 39 Financial Reporting for Zakah

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

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

This standard does not prescribe the method for determining the Zakah base and measuring Zakah due for a period. An institution shall refer to relevant authoritative guidance for determination of Zakah base and to measure Zakah due for the period.

An institution obliged to pay Zakah by law or by virtue of its constitution documents shall recognise current Zakah due for the period as an expense in its financial statements. Where Zakah is not required to be paid by law or by virtue of its constitution documents, and where the institution is considered as an agent to pay Zakah on behalf of certain stakeholders, any amount paid in respect of Zakah shall be adjusted with the equity of the relevant stakeholders.

The Bank does not have any obligation to pay Zakah as per its constitutional documents but only pays Zakah on undistributed profits as an agent on behalf of its shareholders. The Bank has adopted this standard and has provided the necessary additional disclosures in its annual financial statements (refer to notes 2(q) and 26).

(ii) FAS 41 Interim Financial Reporting

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

This standard is effective for financial statements for the period beginning on or after 1 January 2023. The Group has adopted this standard for the basis of preparation of its (consolidated) condensed interim financial information. The adoption of this standard did not have any significant impact on the Group's interim financial information.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

a. New standards, amendments, and interpretations (continued)

i) New standards, amendments, and interpretations issued and effective for annual periods beginning on or after 1 January 2023 (continued)

(iii) FAS 44 Determining Control of Assets and Business

AAOIFI has issued FAS 44 "Determining Control of Assets and Business" on 31 December 2023, applicable with immediate effect. The objective of this standard is to establish clear and consistent principles for assessing whether and when an institution controls an asset or a business, both in the context of participatory structures and for consolidation purposes.

This standard is applicable to all Islamic financial institutions ("IFIs") and entities who are party to the Sharia compliant transactions and structures (as allowed by the respective regulatory and reporting framework). This standard covers both on-balance sheet and off-balance sheet arrangements, including participatory structures like mudaraba, musharaka, and sukuk. The assessment of control is relevant across various accounting policies of the Group, including but not limited to consolidation of subsidiaries, recognition and de-recognition of various financial assets and participatory investment structures.

The Group has assessed the revised framework for control assessment provided by FAS 44 and does not have any significant impact on its previously assessed control conclusions on the adoption of this standard. However, the Group accounting policies and disclosures have been revised to be consistent with the revised definitions and principles clarified under FAS 44.

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

a. New standards, amendments, and interpretations (continued)

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

(ii) FAS 45: Quasi-Equity (Including Investment Accounts)

AAOIFI has issued Financial Accounting Standard (FAS) 45 "Quasi-Equity (Including Investment Accounts)" during 2023. The objective of this standard is to establish the principles for identifying, measuring, and presenting "quasi-equity" instruments in the financial statements of Islamic Financial Institutions "IFIs".

The standard prescribes the principles of financial reporting to participatory investment instruments (including investment accounts) in which an IFI controls underlying assets (mostly, as working partner), on behalf of the stakeholders other than owner's equity. This standard provides the overall criteria for on-balance sheet accounting for participatory investment instruments and quasi-equity, as well as, pooling, recognition, derecognition, measurement, presentation and disclosure for quasi-equity.

This standard shall be effective for the financial reporting periods beginning on or after 1 January 2026 with an option to early adopt.

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

(iii) FAS 46: Off-Balance-Sheet Assets Under Management

AAOIFI has issued Financial Accounting Standard ("FAS") 46 "Off-Balance-Sheet Assets Under Management" during 2023. The objective of this standard is to establish principles and rules for recognition, measurement, disclosure, and derecognition of off-balance-sheet assets under management, based on Shari'a and international best practices. The standard aims to improve transparency, comparability, accountability, and governance of financial reporting related to off-balance-sheet assets under management.

This standard is applicable to all IFIs with fiduciary responsibilities over asset(s) without control, except for the following:

- The participants' Takaful fund and / or participants' investment fund of a Takaful institution; and
- An investment fund managed by an institution, being a separate legal entity, which is subject to financial reporting in line with the requirements of the respective AAOIFI FAS.

This standard shall be effective for the financial reporting periods beginning on or after 1 January 2026 with an option to early adopt.

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

(iv) FAS 47: Transfer of Assets Between Investment Pools

AAOIFI has issued Financial Accounting Standard ("FAS") 47 "Transfer of Assets Between Investment Pools" during 2023. The objective of this standard is to establish guidance on the accounting treatment and disclosures for transfers of assets between investment pools that are managed by the same institution or its related parties. The standard applies to transfers of assets that are not part of a business combination, a disposal of a business, or a restructuring of an institution.

The standard defines an investment pool as a group of assets that are managed together to achieve a common investment objective, such as a fund, a portfolio, or a trust. The standard also defines a transfer of assets as a transaction or event that results in a change in the legal ownership or economic substance of the assets, such as a sale, a contribution, a distribution, or a reclassification.

The transfer of assets between investment pools should be accounted for based on the substance of the transaction and the terms and conditions of the transfer agreement. The standard classifies transfers of assets into three categories: transfers at fair value, transfers at carrying amount, and transfers at other than fair value or carrying amount. The standard also specifies the disclosure requirements for transfers of assets between investment pools.

This standard shall be effective for the financial periods beginning on or after 1 January 2026 with an option to early adopt.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Basis of consolidation

Subsidiaries are all entities (including special purpose entities) controlled by the Group. The Group controls a business if, and only if, it has a) power over the business; b) exposure, or rights, to variable returns from its involvement with the business; and c) the ability to use its power over the business to affect the amount of the institution's returns. Subsidiaries are consolidated from the date on which control is transferred to the Group to the date that control ceases.

Power is presumed when an entity directly, or indirectly through its subsidiaries, holds more than 50% of the voting rights. Where the Group has less than majority voting rights, control may exist through a) agreement with other shareholders or the business itself; b) rights arising from other contractual arrangements; c) the institution's voting rights (de facto power); d) potential voting rights; or e) a combination thereof.

The financial statements of the subsidiaries are prepared for the same reporting year as the Group, using consistent accounting policies.

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

c. Cash and cash equivalents

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

d. Placements with and financing from financial institutions

i) Placements with financial institutions

Placements with financial institutions comprise of commodity Murabaha receivables and Wakala receivables. Commodity Murabaha receivables are stated at amortised cost net of deferred profits and provision for impairment, if any. Wakala receivables are stated at amortised cost less provision for impairment, if any.

ii) Financing from financial institutions

Financing from financial institutions comprise of financing obtained through a murabaha contract recognized on the origination date and carried at amortized cost.

e. Financing assets

Financing assets comprise of Shari'a compliant financing contracts with fixed or determinable payments. These include financing provided through Murabaha and Musharaka contracts. Financing assets are recognised on the date at which they are originated and carried at their amortised cost less impairment allowance, if any.

f. Murabaha financing

Murabaha financing consist mainly of deferred sales transactions which are stated net of deferred profits and provisions for impairment, if any.

Murabaha financing is a sale on deferred terms. The Group arranges a Murabaha transaction by buying a commodity (which represents the object of the Murabaha) and then resells this commodity to a Murabeh (beneficiary) after computing a margin of profit over cost. The sale price (cost plus profit margin) is repaid in instalments by the Murabeh over the agreed period.

g. Musharaka financing

Musharaka financing are stated at the fair value of consideration given less impairment, if any.

Musharaka financing are a form of capital partnership. Musharaka financing capital provided by the Group at inception in kind (if other than cash) is measured at the fair value of the assets. If the valuation of the assets results in a difference between fair value and book value, such difference is recognised as profit or loss to the Group.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Investment securities

Investment securities comprise investments in equity securities and investments in debt-type securities, sukuk.

(i) Classification

The Group segregates its investment into following categories:

i) Equity-type instruments:

Instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities and quasi-equity balances, including ordinary equity instruments and such other structured investment instruments that classify as equity instrument.

ii) Debt-type instruments:

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

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

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

Amortised cost

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

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

Fair value through equity

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Investment securities (continued)

Irrevocable classification at initial recognition

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

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

Fair value through income statement

All other investments are measured at FVTIS.

Business model assessment

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Measurement principles

i) Fair value measurement

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

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

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

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

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

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

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

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

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

ii) Amortised cost measurement

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

j. Investment in associates

Associates are all entities in which the Group holds, between 20% and 50% of the voting rights and exercises significant influence, but not control or joint control, over the financial and operating policies of the entities. Investment in associates are accounted for using the equity method of accounting.

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

The Group determines at each reporting date whether there is any objective evidence that the investments in associates are impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the recoverable amount of the associates and the carrying value and recognises this amount in the consolidated statement of income.

Accounting policies of the associates are consistent with the policies adopted by the Group.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)**k. Ijarah Muntahia Bittamleek**

Ijarah Muntahia Bittamleek are stated at cost less accumulated depreciation and any impairment in value. Under the terms of the lease, the legal title of the asset passes to the lessee at the end of the lease term, provided that all lease installments are settled. Depreciation is calculated using rates that systematically reduce the cost of the leased assets over the period of the lease in a pattern which is reflective of the expected pattern of economic benefits arising from these assets. The Group assesses at each reporting date whether there is objective evidence that the assets acquired for leasing are impaired. Impairment losses are measured as the difference between the carrying amount of the asset and the estimated recoverable amount. The estimates of future cash flows, when dependent on a single customer, takes into consideration the credit evaluation of the customers in addition to other factors. Impairment losses, if any, are recognised in the consolidated statement of income.

l. Investment in real estate

Properties held for rental, or for capital appreciation purposes, or both, are classified as investment in real estate. Investments in real estate are initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, investments in real estate are re-measured to fair value and changes in fair value (only gains) are recognised in a property fair value reserve in the consolidated statement of changes in owners' equity.

Losses arising from changes in the fair values of investment in real estate are firstly adjusted against the property fair value reserve to the extent of the available balance and then the remaining losses are recognised in the consolidated statement of income. If there are unrealised losses that have been recognised in the consolidated statement of income in previous financial periods, the current period unrealised gain shall be recognised in the consolidated statement of income to the extent of crediting back such previous losses in the consolidated statement of income. When the property is disposed of, the cumulative gain previously transferred to the property fair value reserve, is transferred to the consolidated statement of income.

m. Property and equipment

Property and equipment are recognised at cost. The cost of additions and major improvements are capitalised; maintenance and repairs are charged to the consolidated statement of income as incurred. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets as follows;

Buildings	25 to 35 years
Fixtures and fittings	5 years
Equipment	5 years
Furniture	5 years

n. Equity of investment accountholders

Equity of investment accountholders are funds held by the Group in unrestricted investment accounts, which it can invest at its own discretion. The investment account holder authorises the Group to invest the account holders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. The Group charges management fee (Mudarib fees) to the investment account holders. Of the total income from investment accounts, the income attributable to customers is allocated to investment accounts after setting aside provisions, reserves (profit equalisation reserve and investment risk reserve) and deducting the Group's share of income as a Mudarib. The allocation of income is determined by the management of the Group within the allowed profit sharing limits as per the terms and conditions of the investment accounts. Administrative expenses incurred in connection with the management of the funds are borne directly by the Group and are not charged separately to investment accounts. Only profits earned from the pool of assets funded by the equity of investment accountholders are allocated between the owners' equity and equity of investment accountholders.

Investment accounts are carried at their book values and include amounts retained towards profit equalisation and investment risk reserves, if any. Creation of any of these reserves results in an increase in the liability towards the pool of unrestricted investment accounts.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

o. Investment risk reserve

Investment risk reserves are amounts appropriated out of the income of equity of investment accountholders, after allocating the Mudarib share, in order to cater for future losses for equity of investment accountholders.

p. Profit equalisation reserve

The Group appropriates a certain amount in excess of the profit to be distributed to equity of investment accountholders before allocating the Mudarib share of income. This is used to maintain a certain level of return on investment for equity of investment accountholders.

q. Zakah

Zakah is calculated annually on the Zakah base of the Group in accordance with FAS 39 issued by AAOIFI using the net invested funds method. The Group calculates Zakah based on the consolidated figures of statutory reserve, general reserve and retained earning balances at the end of the year and notifies the shareholders. Payment of Zakah on equity of investment accountholders and other accounts is the responsibility of respective accountholders. The calculations of Zakah are approved by the Shari'a Supervisory Board.

r. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

s. Dividends

Dividends are recognised as liabilities in the year in which they are declared / approved by the shareholders.

t. Derecognition of financial assets and liabilities

i) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the right to receive cash flows from the asset has expired;
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the asset; or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

ii) Financial liabilities

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled, or expired.

u. Treasury shares

These are own equity instruments of the Group which are reacquired through its own broker. Treasury shares are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase or sale of the Group's own equity instruments is recognised directly in equity. No gain or loss is recognised in consolidated statement of income on the purchase, sale, issue, or cancellation of own equity instruments.

v. Earnings prohibited by Shari'a

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity fund where the Group uses these funds for social welfare activities.

w. Offsetting

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

x. Income recognition

i) Murabaha and Wakala

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

ii) Musharaka

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

iii) Mudarabah financing

Income on mudaraba financing is recognised when the right to receive payment is established or on distribution by the mudarib, where as losses are charged to income on declaration by the mudarib.

iv) Sukuk

Income from Sukuk is recognised using effective profit rate over the term of the instrument.

v) Placements with financial institutions

Income on placements with financial institutions is recognised proportionately over the period of the contract based on the principal amounts outstanding and the profit agreed with clients.

vi) Ijarah Muntahia Bittamleek

Income from Ijarah Muntahia Bittamleek is recognised proportionately over the lease term.

vii) Dividend income

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

viii) Fees and commission income

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

y. Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into Bahraini Dinars at the rate of exchange ruling at the consolidated statement of financial position date. All differences are taken to the consolidated statement of income.

Translation gains or losses on non-monetary items carried at fair value are included in owners' equity as part of the fair value adjustment.

z. Impairment of exposures subject to credit risk

The Group recognizes expected credit losses (ECLs) on the following:

- Bank balances and placements with banks;
- Financing assets;
- Ijarah Muntahia Bittamleek;
- Investment in Sukuk - debt type securities at amortised cost;
- Financial guarantee contracts issued; and
- Commitments to finance.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

z. Impairment of exposures subject to credit risk (continued)

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

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

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

The Group assumes that the credit risk on an exposure subject to credit risk has increased significantly if it is more than 30 days past due.

The Group considers an exposure subject to credit risk to be in default when:

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

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

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

Stage 1: 12-months ECL

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

Stage 2: Lifetime ECL - not credit impaired

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

Stage 3: Lifetime ECL - credit impaired

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Impairment of exposures subject to credit risk (continued)

i) Measurement of ECL

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

- Exposures subject to credit risk that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- Exposures subject to credit risk that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn commitments to finance: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

ii) Restructured exposures

If the terms of an exposures subject to credit risk are renegotiated or modified or an existing exposures subject to credit risk is replaced with a new one due to financial difficulties of the borrower, the exposures subject to credit risk should be derecognized and ECL is calculated using the cash shortfalls from the existing exposures subject to credit risk that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing exposures subject to credit risk.

iii) Credit-impaired exposures

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

Evidence that an exposure subject to credit risk is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default;
- The restructuring of a financing facility by the Group on terms that the Group would not consider
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

iv) Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as a deduction from gross carrying amount of exposures subject to credit risk.

v) Write-off

Exposures subject to credit risk are written off either partially or in their entirety. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to other income.

Financing asset exposures are either fully or partially written off when there is no expectation for further recovery. Indicators that there is no reasonable expectation of recovery include (i) borrower is insolvent or (ii) all possible recovery options have been exhausted.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

aa. Equity investments classified at Fair Value Through Equity (FVTE)

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

bb. Use of estimates and judgements in preparation of the consolidated financial statements

In the process of applying the Group's accounting policies, management has made estimates and judgements in determining the amounts recognised in the consolidated financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. The most significant use of judgements and estimates are as follows:

i) Impairment of exposures subject to credit risk

- Establishing the criteria for determining whether credit risk on exposures subject to credit risk has increased significantly since initial recognition, determining methodology for incorporating forward looking information into measurement of ECL, and selection and approval of models used to measure ECL is set out in note (2 (z)) and note (29).
- Impairment on ijarah: key assumptions used in estimating recoverable cash flows is set out in note (2 (z)).
- Determining inputs into ECL measurement model including incorporation of forward looking information is set out in note (2 (z)) and note (29).

ii) Going concern

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

iii) Impairment of equity investments

The Group determines that equity investments carried at fair value through equity are impaired when there is a significant or prolonged decline in the fair value of the investment below its cost. This determination of what is significant or prolonged requires judgment.

In case of equity investments, the Group considers a decline of more than 30% in the fair value below cost to be significant and considers a decline below cost which persists for more than 9 months as prolonged.

cc. Trade date accounting

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

dd. Customers' current accounts

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

ee. Employees' benefits

i) Short-term benefits

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

ii) Post-employment benefits

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

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

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

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

iii) Share based employee incentive scheme

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

For share based awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

ff. Financial guarantees

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

gg. Repossessed assets

In certain circumstances, property is repossessed following the foreclosure of financing facilities that are in default. Repossessed properties are measured at the lower of carrying amount or fair value less costs to sell and reported within 'other assets'.

hh. Statutory reserve

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

ii. URIA protection scheme

Investment accounts held within the Group's Bahrain operations are covered by the regulation protecting URIA issued by the Central Bank of Bahrain in accordance with Resolution No (34) of 2010. The scheme applies to all eligible accounts held with Bahrain offices of the Bank subject to specific exclusions, maximum total amount entitled and other regulations governing the establishment of a URIA Protection Scheme and a URIA Protection Board.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)**jj. Risk management financial instruments**

The Group enters into a variety of risk management financial instruments held to manage its exposure to profit rate risk and foreign exchange rate risk. Risk management instruments held include foreign exchange swaps and profit rate swaps.

All risk management financial instruments are initially recognised at cost, being the fair value at contract date, and are subsequently re-measured at their fair values. Fair values are obtained from quoted market prices in active markets including recent market transactions, and valuation techniques including discounted cash flow models and option pricing models as appropriate.

Changes in the fair value of risk management financial instruments that do not qualify for hedge accounting are recognised in same statement of income line as the hedged item. In the case of fair value hedges that meet the criteria for hedge accounting, any gain or loss arising from remeasuring the hedging instruments to fair value as well as the related changes in fair value of the item being hedged are recognised in the statement of income under other income.

A risk management instrument with a positive fair value is recognised as a financial asset whereas a risk management instrument with a negative fair value is recognised as a financial liability. A risk management instrument is presented as an other asset or other liability.

Hedge accounting (Tahawwut)

The Group designates certain risk management instruments as hedging instruments in respect of profit rate risk in fair value hedges. The Group does not apply fair value hedge accounting of portfolio hedges of profit rate risk.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

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

The Group rebalances a hedging relationship in order to comply with the hedge ratio requirements when necessary. In such cases, discontinuation may apply to only part of the hedging relationship. For example, the hedge ratio might be adjusted in such a way that some of the volume of the hedged item is no longer part of a hedging relationship, hence hedge accounting is discontinued only for the volume of the hedged item that is no longer part of the hedging relationship.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

jj. Risk management financial instruments (continued)

Fair value hedges

The fair value change on qualifying hedging instruments is recognised in the consolidated statement of income except when the hedging instrument hedges an equity instrument designated at FVTE in which case it is recognised in equity. The Group has not designated fair value hedge relationships where the hedging instrument hedges an equity instrument designated at FVTE.

The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in the consolidated statement of income. For debt instruments measured at FVTE, the carrying amount is not adjusted as it is already at fair value, but the part of the fair value gain or loss on the hedged item associated with the hedged risk is recognised in the consolidated statement of income instead of equity. When the hedged item is an equity instrument designated at FVTE, the hedging gain/loss remains in equity to match that of the hedging instrument.

Where hedging gains/losses are recognised in the consolidated statement of income, they are recognised in the same line as the hedged item.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. The fair value adjustment to the carrying amount of hedged items for which the Effective profit Rate (EPR) method is used (i.e. debt instruments measured at amortised cost or at FVTE) arising from the hedged risk is amortised to profit or loss commencing no later than the date when hedge accounting is discontinued.

As a result of these uncertainties, significant accounting judgement is involved in determining whether certain hedge accounting relationships that hedge the variability profit rate risk.

Fair value hedges: The Group uses profit rate swaps to hedge its exposure to changes in fair value, of certain investments in fixed rate Sukuk, attributable to changes in market profit rates. Fair values of the profit rate swap agreements are estimated based on the prevailing market rates of profit. During the year, the Group has entered into a profit rate swaps with its Parent.

Other risk management instruments: The Group uses risk management instruments, not designated in qualifying accounting hedge relationship, to manage its exposure to market risks. The Group enters into foreign exchange swap contracts (Waad) to manage against foreign exchange fluctuations. Fair values of the forward currency contracts are estimated based on the prevailing market rates of profit and forward rates of the related foreign currencies, respectively.

kk. Perpetual Tier 1 capital securities

Perpetual Tier 1 capital securities and sukuk of the Group are recognised under owners' equity in the consolidated statement of financial position and the corresponding distribution on those securities are accounted as a debit to the retained earnings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

3 CASH AND BALANCES WITH BANKS AND CENTRAL BANK

	2023	2022
	BD'000	BD'000
Cash on hand	12,601	16,577
Balances with CBB, excluding mandatory reserve deposits	5,875	2,569
Balances with banks and other financial institutions**	6,026	12,851
	24,502	31,997
Mandatory reserve with CBB*	37,100	38,040
	61,602	70,037

* The mandatory reserve with CBB is not available for use in the day-to-day operations.

** Balances with banks and other financial institutions include an amount of BD 1,792 thousand (2022: BD 679 thousand) which is not available for use in the day-to-day operations.

4 PLACEMENTS WITH FINANCIAL INSTITUTIONS

	2023	2022
	BD'000	BD'000
Commodity Murabaha	48,079	53,191
Deferred profits	(8)	(8)
	48,071	53,183
Wakala	3,621	20,263
	51,692	73,446
Impairment allowance	(3)	(3,691)
	51,689	69,755

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

5 FINANCING ASSETS

	2023 BD'000	2022 BD'000
Murabaha (note 5.1)	520,162	533,900
Musharaka (note 5.2)	85,341	86,123
	605,503	620,023

5.1 Murabaha

	2023 BD'000	2022 BD'000
Tasheel	326,496	347,562
Tawarooq	199,759	194,612
Altamweel Almaren	70,842	76,987
Letters of credit refinance	9,586	7,898
Motor vehicles Murabaha	1,977	2,332
Credit cards	25,638	20,968
Others	-	8
	634,298	650,367
Qard fund	138	107
Gross receivables	634,436	650,474
Deferred profits	(82,719)	(81,805)
Impairment allowance	(31,555)	(34,769)
	520,162	533,900

Non-performing Murabaha financing outstanding as of 31 December 2023 amounted to BD 41,504 thousand (2022: BD 55,845 thousand).

The Group considers the promise made in the Murabaha to the purchase orderer as obligatory.

The composition of the Murabaha financing portfolio net of deferred profit and before provision for impairment by sector is as follows:

	2023 BD'000	2022 BD'000
Commercial	88,676	99,572
Financial institutions	13,396	15,308
Others including retail	449,645	453,789
	551,717	568,669

The Group exposures of Murabaha financing portfolio is concentrated in the Middle East.

5.2 Musharaka

	2023 BD'000	2022 BD'000
Musharaka in real estate	90,204	90,563
Impairment allowance	(4,863)	(4,440)
	85,341	86,123

Non-performing Musharaka financing outstanding as of 31 December 2023 amounted to BD 5,703 thousand (2022: BD 7,840 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

5 FINANCING ASSETS (continued)

5.3 The movement on impairment allowances is as follows:

2023	Stage 1	Stage 2	Stage 3	Total
At 1 January 2023	3,037	11,215	24,957	39,209
Net movement between stages	216	(1,899)	1,683	-
Net charge for the year	(720)	(918)	7,006	5,368
Write-off	-	-	(8,159)	(8,159)
At 31 December 2023	2,533	8,398	25,487	36,418
2022	Stage 1	Stage 2	Stage 3	Total
At 1 January 2022	3,136	9,209	18,271	30,616
Net movement between stages	295	(155)	(140)	-
Net charge for the year	(394)	2,161	7,644	9,411
Write-off	-	-	(818)	(818)
At 31 December 2022	3,037	11,215	24,957	39,209

6 INVESTMENT SECURITIES

	2023 BD'000	2022 BD'000
a. Debt type instruments*		
<i>Quoted Sukuk - carried at amortised cost</i>		
Gross balance at beginning of the year	222,116	230,928
Acquisitions	18,125	19,124
Disposals and redemptions	(105)	(27,936)
Gross balance at the end of the year	240,136	222,116
Impairment allowance	(82)	(129)
Fair value losses on hedged items attributable to profit rate risk hedged**	(738)	(1,886)
Net balance at the end of the year	239,316	220,101
<i>Unquoted Sukuk - carried at amortised cost</i>		
Gross balance at beginning of the year	30,938	35,442
Acquisitions	-	-
Disposals and redemptions	-	(4,461)
Foreign currency translation changes	(11)	(43)
Gross balance at the end of the year	30,927	30,938
Impairment allowance	(12,516)	(12,527)
Net balance at the end of the year	18,411	18,411
b. Equity type instruments		
<i>Unquoted shares - at fair value through equity</i>		
Balance at beginning of the year	20,081	20,549
Fair value movement - net***	(31)	(468)
Balance at the end of the year	20,050	20,081
Unquoted managed funds	436	436
Total net investment securities	278,213	259,029

*As of 31 December 2023, debt type instruments includes Sukuk of BD 208,060 thousand (2022: BD 128,406 thousand) pledged against financing from financial institutions of BD 181,502 thousand (2022: BD 110,113 thousand) (note 12).

** As of 31 December 2023, sukuk of BD 77,360 thousand (2022: BD 97,134 thousand) carried at amortised cost were hedged through profit rate swaps and the resultant fair value losses on the hedged items related to profit rate risk of BD 738 thousand (2022: BD 1,886 thousand) were adjusted to the carrying value.

***Includes BD 32 thousand fair value loss (2022: BD 41 thousand fair value gain) reported in the investment securities fair value reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

6 INVESTMENT SECURITIES (continued)

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

2023	Stage 1	Stage 2	Stage 3	Total
At 1 January 2023	129	-	12,527	12,656
Net charge for the year	(47)	-	-	(47)
Foreign exchange movement	-	-	(11)	(11)
At 31 December 2023	82	-	12,516	12,598
2022	Stage 1	Stage 2	Stage 3	Total
At 1 January 2022	161	-	12,570	12,731
Net charge for the year	(32)	-	-	(32)
Foreign exchange movement	-	-	(43)	(43)
At 31 December 2022	129	-	12,527	12,656

During the year, impairment of BD Nil thousand (2022: BD 509 thousand) was provided on equity type instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

7 INVESTMENT IN ASSOCIATES

	2023 BD'000	2022 BD'000
At 1 January	8,832	9,314
Share of results of associates, net	347	13
Impairment allowance	(877)	(495)
At 31 December	8,302	8,832

Summarised financial information of associates that have been equity accounted for in these consolidated financial statements, not adjusted for percentage of ownership held by the Group:

	2023 BD'000	2022 BD'000
Total assets	38,786	32,592
Total liabilities	705	548
Total revenues	3,351	2,466
Total net profit / (loss)	1,843	(1,832)

Investment in associates comprise of:

Name of associate	Ownership %	Country of incorporation	Nature of business
Liquidity Management Centre B.S.C. (c)	25.00%	Bahrain	Liquidity Management Centre B.S.C. (c) was incorporated in 2002 as a bank, licensed and regulated by the Central Bank of Bahrain to facilitate the creation of an Islamic inter-bank market that allow Islamic financial services institutions to effectively manage their assets and liabilities.
LS Real Estate Company W.L.L.	36.75%	Bahrain	LS Real Estate Company W.L.L. was incorporated in the Kingdom of Bahrain in 2019. The Company focuses on real estate activities including the development and overall management of owned or leased properties.

The ownerships are as at 31 December 2023 and 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

8 IJARAH MUNTAHIA BITTAMLEEK

	2023			2022		
	<i>Properties</i>	<i>Aviation related assets</i>	<i>Total</i>	<i>Properties</i>	<i>Aviation related assets</i>	<i>Total</i>
	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>
Cost:						
At 1 January	355,456	6,985	362,441	311,778	6,029	317,807
Additions	79,734	-	79,734	83,087	956	84,043
Settlements / adjustments	(42,870)	(215)	(43,085)	(39,409)	-	(39,409)
At 31 December	392,320	6,770	399,090	355,456	6,985	362,441
Accumulated depreciation:						
At 1 January	67,718	1,517	69,235	57,421	655	58,076
Charge for the year	18,137	862	18,999	19,457	862	20,319
Settlements / adjustments	(11,453)	-	(11,453)	(9,160)	-	(9,160)
At 31 December	74,402	2,379	76,781	67,718	1,517	69,235
Impairment allowance	(3,421)	(51)	(3,472)	(3,108)	(112)	(3,220)
Net Book Value	314,497	4,340	318,837	284,630	5,356	289,986

8.1 The movement on impairment allowances is as follows:

2023	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
At 1 January 2023	1,680	327	1,213	3,220
Net movement between stages	82	(279)	197	-
Net charge for the year	(231)	166	317	252
At 31 December 2023	1,531	214	1,727	3,472
2022	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
At 1 January 2022	730	414	1,205	2,349
Net movement between stages	27	4	(31)	-
Net charge for the year	923	(91)	39	871
At 31 December 2022	1,680	327	1,213	3,220

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

9 PROPERTY AND EQUIPMENT

	2023						
	<i>Lands</i> <i>BD'000</i>	<i>Buildings</i> <i>BD'000</i>	<i>Fixture and fitting</i> <i>BD'000</i>	<i>Equipment</i> <i>BD'000</i>	<i>Furniture</i> <i>BD'000</i>	<i>Work in progress</i> <i>BD'000</i>	<i>Total</i> <i>BD'000</i>
Cost:							
At 1 January	5,521	7,651	4,597	15,951	964	1,110	35,794
Additions / Transfers	-	-	441	624	25	67	1,157
Disposals	-	-	-	45	-	-	45
At 31 December	5,521	7,651	5,038	16,620	989	1,177	36,996
Depreciation:							
At 1 January	-	3,499	4,202	13,163	911	-	21,775
Charge for the year	-	254	203	1,010	17	-	1,484
Relating to disposed assets	-	-	-	45	-	-	45
At 31 December	-	3,753	4,405	14,218	928	-	23,304
Net Book Value	5,521	3,898	633	2,402	61	1,177	13,692
2022							
	<i>Lands</i> <i>BD'000</i>	<i>Buildings</i> <i>BD'000</i>	<i>Fixture and fitting</i> <i>BD'000</i>	<i>Equipment</i> <i>BD'000</i>	<i>Furniture</i> <i>BD'000</i>	<i>Work in progress</i> <i>BD'000</i>	<i>Total</i> <i>BD'000</i>
Cost:							
At 1 January	5,521	7,651	4,480	14,156	957	1,060	33,825
Additions / Transfers	-	-	117	1,737	7	50	1,911
Disposals	-	-	-	58	-	-	58
At 31 December	5,521	7,651	4,597	15,951	964	1,110	35,794
Depreciation:							
At 1 January	-	3,245	4,041	12,153	895	-	20,334
Charge for the year	-	254	161	952	16	-	1,383
Relating to disposed assets	-	-	-	58	-	-	58
At 31 December	-	3,499	4,202	13,163	911	-	21,775
Net Book Value	5,521	4,152	395	2,788	53	1,110	14,019

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

10 INVESTMENT IN REAL ESTATE

	2023 BD'000	2022 BD'000
Land	14,725	16,176
	14,725	16,176
	2023 BD'000	2022 BD'000
Movement in investment in real estate:		
At 1 January	16,176	17,195
Disposal	(1,401)	-
Fair value changes	(50)	(1,019)
At 31 December	14,725	16,176

Investment in real estate comprises of properties located in the Kingdom of Bahrain and the United Arab Emirates.

Investment in real estate is stated at fair value, which has been determined based on valuations performed by independent third party property valuers who have the qualification and experience of valuing similar properties in the same location. Fair value of investments in real estate is classified as category 2 of fair value hierarchy.

11 OTHER ASSETS

	2023 BD'000	2022 BD'000
Receivables*	247	8,273
Staff advances	1,566	1,537
Prepaid expenses	368	327
Right-of-use asset (11.1)	438	230
Risk management instruments (11.2)	969	2,071
Other	1,940	1,522
	5,528	13,960

*Receivables includes cash collateral deposited with an insurance company for issuance of surety bond of BD Nil thousand (2022: BD 7,641 thousand) relating to a legal case which was fully settled in 2023.

11.1 RIGHT-OF-USE ASSET

	2023 BD'000	2022 BD'000
At 1 January	230	361
Additions for the year	547	193
Amortization charge for the year	(339)	(324)
At 31 December	438	230

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

11 OTHER ASSETS (continued)**11.2 RISK MANAGEMENT INSTRUMENTS**

The risk management instruments are valued based on observable inputs. The fair values of risk management financial instruments held by the Group as at 31 December are provided below:

	2023		2022	
	Assets BD'000	Liabilities BD'000	Assets BD'000	Liabilities BD'000
Profit rate swaps (Fair value hedges)	738	-	1,886	-
Foreign exchange contracts (Waad) (Other risk management instruments)	231	-	185	-
At 31 December	969	-	2,071	-

The notional amount of risk management financial instruments held by the Group as at 31 December are provided below:

	2023		2022	
	Assets BD'000	Liabilities BD'000	Assets BD'000	Liabilities BD'000
Profit rate swaps (Fair value hedges)	77,360	-	97,134	-
Foreign exchange contracts (Waad) (Other risk management instruments)	62,923	63,154	63,423	63,608
At 31 December	140,283	63,154	160,557	63,608

The net hedge ineffectiveness gain/losses recognized in the consolidated income statement are as follows:

	2023 BD'000	2022 BD'000
Losses on the hedged items attributable to risk hedged	(738)	(1,886)
Gains on the hedging instruments	738	1,886
Net hedge ineffectiveness (loss) / gain	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

12 FINANCING FROM FINANCIAL INSTITUTIONS

Represents term murabaha facilities of BD 181,502 thousand (2022: BD 110,113 thousand) secured by pledge over Sukuk of BD 208,060 thousand (2022: BD 128,406 thousand). The average rate of financing is 5.86% (2022: 3.94%) (note 6).

13 OTHER LIABILITIES

	2023 BD'000	2022 BD'000
Managers' cheques	1,433	3,984
Payable to vendors	1,051	3,708
Accrued expenses	6,640	7,288
Zakah and charity fund	927	676
Net Ijarah liability (13.1)	419	191
Other*	14,198	20,774
	24,668	36,621

* Other includes impairment allowance for commitments and contingent liabilities of BD 1,525 thousand (2022: BD 1,582 thousand) (refer note 16) and provision for litigation claims of BD Nil thousand (2022: BD 5,087 thousand) (refer note 25).

13.1 NET IJARAH LIABILITY

	2023 BD'000	2022 BD'000
Maturity analysis – Gross Ijarah liability		
Less than one year	297	147
One to five years	236	91
Total gross Ijarah liability	533	238
Maturity analysis – net Ijarah liability		
Less than one year	207	110
One to five years	212	81
Total net Ijarah liability	419	191

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

14 EQUITY OF INVESTMENT ACCOUNTHOLDERS

The Group combines the Investment Account Holders' (IAH) funds with the owners' equity. In line with its policy, the Group utilizes the funds from IAH to finance assets.

14.1 Equity of investment accountholders balances

	2023	2022
	BD'000	BD'000
Type of Equity of Investment Accountholders		
Placements and financing from financial institutions – Wakala	39,865	29,953
Placements from non-financial institutions and individuals – Wakala	4,769	15,050
Mudharaba	367,087	405,405
	411,721	450,408
Mudharaba-based customer investment accounts		
Balances on demand	327,780	331,513
Contractual basis	39,307	73,892
	367,087	405,405

14.2 Assets in which IAH funds were invested

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

	2023	2022
	BD'000	BD'000
Asset		
Cash and balances with banks and Central Bank	13,673	18,543
Financing assets, net	203,896	233,140
Ijarah Muntahia Bittamleek	107,365	109,040
Investment securities, net	86,787	89,685
	411,721	450,408

The Bank proportionately allocates non-performing assets (past due greater than 90 days) to the IAH pool of assets. The ECL charge is also allocated to the IAH pool, in proportion of the non-performing assets financed by IAH to the total non-performing assets. Amounts recovered from these non-performing assets shall be subject to allocation between IAH and owners' equity. During the year, the Bank allocated BD 17,675 thousand of ECL (2022: ECL of BD 20,712 thousand) to the IAH.

During the year, the Bank did not charge any administration expenses to investment accounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

14 EQUITY OF INVESTMENT ACCOUNTHOLDERS (continued)**14.3 Profit distribution by account type**

The following is the average percentage of profit allocation between the owner's accounts applied during the year for each type of IAH account as agreed contractually with the customers:

Account type	2023			2022		
	Utilization	Mudarib Share	Profit to IAH	Utilization	Mudarib Share	Profit to IAH
Tejoori	90%	98%	2%	90%	98%	2%
Savings	90%	98%	2%	90%	98%	2%
Vevo	90%	98%	2%	90%	98%	2%
IQRA	100%	63%	37%	100%	68%	32%
Time deposits	100%	34%	66%	100%	55%	45%

During the year, the Group did not increase its percentage of profits as mudarib. Further, the Group did not receive any incentive from profits of investment account holders.

The Group does not share profits with IAH resulting from investing current accounts and other funds received on the basis other than mudaraba contract.

Funds from IAH are invested in assets on a priority basis.

14.4 Equity of Investment Accountholders Reserves

	2023 BD'000	Movement BD'000	2022 BD'000
Profit equalisation reserve	113	(1,373)	1,486

14.5 Return on equity of investment accountholders

	2023 BD'000	2022 BD'000
Gross return to equity of investment accountholders	20,740	23,448
Group's share as a Mudarib	(18,083)	(19,306)
Allocation to profit equalization reserve	(127)	(86)
Net return on equity of investment accountholders	2,530	4,056

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

15 OWNERS' EQUITY

		2023 BD'000	2022 BD'000
a.	Share capital		
i.	<i>Authorised</i>		
	2,000,000,000 shares (2022: 2,000,000,000 shares) of BD 0.100 each	200,000	200,000
ii.	<i>Issued and fully paid up</i>		
	1,064,058,587 shares (2022: 1,064,058,587 shares) of BD 0.100 each	106,406	106,406
b.	Subordinated Mudaraba (AT1)		

In order to meet minimum regulatory requirements relating to total equity as prescribed by Central bank of Bahrain, during the year, the Bank issued a Subordinated Mudaraba Sukuk (Basel III compliant Additional Tier 1 capital securities) of BD 25 million. The issue was at par and was fully subscribed for and paid in cash by the Parent.

Summary of key terms and conditions of this issue are as follows:

- Profits on these securities shall be distributed annually starting June 2022 subject to and in accordance with terms and conditions on the outstanding par value of the securities at an expected rate of 7.5% p.a.
- Security holder will not have a right to claim the profits and such event will not be considered as an event of default.
- Subordinated Mudaraba is invested in a general mudaraba pool of assets on an unrestricted comingled basis.
- In the event of non-viability, the Sukuk certificates will be converted either in full or in part in accordance with the conversion rules and procedures.
- The Sukuk certificates carry a call option after 5 years from the date of issue.

The Subordinated Mudaraba is recognized under the owners' equity in the consolidated statement of financial position and the profits paid to rab al-maal (security holder) will be accounted for as appropriation of

During the year, BD 1,901 thousand (2022: BD 1,901 thousand) was paid as profit declarations on AT1 securities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

15 OWNERS' EQUITY (continued)

c. Treasury Shares	2023		2022	
	Number of Shares	BD'000	Number of Shares	BD'000
At 31 December	5,855,358	892	5,855,358	892

2023
BD'000

Cost of treasury shares, excluding shares under employee share incentive scheme	892
Market value of treasury shares	375

The treasury shares as a percentage of total shares in issue is 0.55% (2022: 0.55%)

Owners' equity instruments which are reacquired are deducted from equity. No gain or loss is recognised in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

d. Reserves*i) Statutory reserve*

During the year, the Bank has appropriated BD 1,114 thousand (2022: BD 1,257 thousand) to the statutory reserve representing 10% of the profit for the year of BD 11,136 thousand (2022: BD 12,568 thousand). The reserve is not distributable except in such circumstances as stipulated in the Commercial Companies Law and following the approval of CBB.

ii) General reserve

The general reserve is established in accordance with the articles of association of the Bank and is distributable following a resolution of shareholders at a general meeting and the approval of CBB. The Group may transfer any amount to the general reserve, as approved by the shareholders at a general meeting, out of the profit for the year after appropriating the statutory reserve.

iii) Real estate fair value reserve

This represents cumulative unrealised revaluation gains on investment in real estate. This reserve is transferred to the consolidated statement of income upon sale of the investment in real estate.

iv) Investment fair value reserve

This represents the net unrealised gains or losses on equity investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

15 OWNERS' EQUITY (continued)

e. Additional information on shareholding pattern

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

Names	Nationality	2023		2022	
		Number of shares	% holding	Number of shares	% holding
National Bank of Bahrain	Bahraini	838,630,728	78.81%	838,630,728	78.81%
General Council of Kuwaiti Awqaf	Kuwaiti	76,366,321	7.18%	76,366,321	7.18%

ii. The Group has only one class of shares and the holders of these shares have equal voting rights.

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

	2023			2022		
	Number of shares	Number of shareholders	% of total outstanding shares	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	86,303,690	2,728	8.11%	86,303,690	2,723	8.11%
1% and less than 5%	62,757,848	4	5.90%	62,757,848	3	5.90%
5% and less than 10%	76,366,321	1	7.18%	76,366,321	1	7.18%
10% and more	838,630,728	1	78.81%	838,630,728	1	78.81%
	1,064,058,587	2,734	100.00%	1,064,058,587	2,728	100.00%

Details of Directors' interests in the Group's shares as at the end of the year were:

Categories:

	2023		2022	
	Number of shares	Number of directors	Number of shares	Number of directors
Less than 1%	352,500	1	352,500	1

The following is the number of shares, and percentage of shareholding of Directors, Shari'a supervisory members and senior management (Assistant General Managers and above who are part of the management committee):

	2023		2022	
	Number of shares	Percentage of Shareholding	Number of shares	Percentage of Shareholding
Directors	352,500	0.03%	352,500	0.03%
Shari'a supervisory members	558,396	0.05%	558,396	0.05%
Senior management	191,792	0.02%	47,834	0.00%
	1,102,688	0.10%	958,730	0.08%

f. Proposed appropriations

The Board of Directors propose the appropriation for zakah of BD 289 thousand in 2023 (2022: BD 170 thousand), charitable donations of BD 250 thousand in 2023 (2022: BD 250 thousand) and dividends amounting to BD Nil thousand (2022: BD Nil thousand) which are subject to regulatory and shareholders' approval in the ensuing Annual General Meeting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

16 COMMITMENTS AND CONTINGENT LIABILITIES***Credit related commitments***

These include commitments to enter into financing contracts which are designed to meet the requirements of the Group's customers.

Letters of credit and guarantees commit the Group to make payments on behalf of customers.

The Group has the following credit related commitments and contingent liabilities on behalf of customers:

	2023	2022
	BD'000	BD'000
Letters of credit and acceptances	1,154	2,905
Guarantees	24,011	22,997
Credit cards	39,551	39,170
Altamweel Almaren	38,084	33,594
Commitments to finance	11,895	16,140
	114,695	114,806

As of 31 December 2023, the impairment allowance related to the credit risk for commitments and contingent liabilities was BD 1,525 thousand (2022: BD 1,582 thousand).

17 CAPITAL ADEQUACY

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

The Group's capital structure primarily consists of its paid-up capital, including share premium and reserves. From a regulatory perspective, a significant amount of the Group's capital is classified as Tier 1 as defined by the CBB, i.e. most of the capital is of a permanent nature.

The Group's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of financing facilities growth expectations for each business group, expected growth in off-balance sheet facilities, and future sources and uses of funds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

17 CAPITAL ADEQUACY (continued)

The Central Bank of Bahrain issued the final regulation to give effect to the Basel III framework which came into effect on 1 January 2015. The Basel III framework significantly revises the definition of regulatory capital. The framework emphasises on common equity as the predominant component of tier 1 capital by adding a minimum Common Equity Tier 1 (CET 1) capital ratio. The Basel III rules also require institutions to hold capital buffers. For the purpose of calculating CET 1 capital, the regulatory adjustments (deductions) including amounts above the aggregate limit for significant investments in financial institutions, mortgage servicing rights, and deferred tax assets from temporary differences, will be deducted from CET1 over a phased manner to be fully deducted by 1 January 2019. The Bank's current capital position is sufficient to meet the new regulatory capital requirements. The Group has applied CBB concessionary measures relating to adjustment of modification loss and incremental ECL provisions for the purpose of computation of capital adequacy ratio for the years ended 31 December 2023 and 2022.

The classification of the Group's capital in accordance with the regulatory requirements is as follows:

	2023	2022
	BD'000	BD'000
CET 1 Capital before regulatory adjustments	129,749	126,586
Less: regulatory adjustments	-	-
CET 1 Capital after regulatory adjustments	129,749	126,586
AT1 Capital	25,000	25,000
T 2 Capital adjustments	12,190	10,214
Regulatory Capital	166,939	161,800

To assess its capital adequacy requirements in accordance with the CBB requirements, the Group adopts the Standardised Approach for its Credit Risk, Basic Indicator Approach for its Operational Risk and Standardised Approach for its Market Risk. The capital requirements for these risks are as follows:

	2023	2022
	BD'000	BD'000
Risk weighted exposure:		
Total Credit Risk Weighted Assets	869,590	711,536
Total Market Risk Weighted Assets	163	186
Total Operational Risk Weighted Assets	119,149	117,705
Total Regulatory Risk Weighted Assets	988,902	829,427
Investment risk reserve (30% only)	-	-
Profit equalization reserve (30% only)	34	446
Total Adjusted Risk Weighted Exposures	988,868	828,981
Capital Adequacy Ratio	16.88%	19.52%
Tier 1 Capital Adequacy Ratio	15.65%	18.29%
Minimum requirement	12.5%	12.5%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

18 INCOME FROM FINANCING

	2023	2022
	BD'000	BD'000
Income from Murabaha financing	27,971	28,667
Income from Ijarah Muntahia Bittamleek	17,340	15,229
Income from Musharaka financing	4,061	3,922
Income from placements with financial institutions	2,902	1,590
	52,274	49,408

19 INCOME FROM INVESTMENT IN SUKUK

	2023	2022
	BD'000	BD'000
Profit income on investment in Sukuk	14,992	11,931
Gain on sale of Sukuk	2	710
	14,994	12,641

20 INCOME FROM INVESTMENT SECURITIES

	2023	2022
	BD'000	BD'000
Dividend income	6	30
	6	30

21 INCOME FROM INVESTMENT IN REAL ESTATE, NET

	2023	2022
	BD'000	BD'000
Rental income	191	158
Gain on sale	80	19
Impairment charge	(50)	(794)
	221	(617)

22 OTHER INCOME, NET

	2023	2022
	BD'000	BD'000
Recoveries from previously written-off financing	1,137	827
Foreign exchange gain	1,262	976
Others	2,078	181
	4,477	1,984

23 OTHER EXPENSES

	2023	2022
	BD'000	BD'000
Marketing and advertisement expenses	2,038	1,299
Professional services	1,687	2,222
Information technology related expenses	2,371	1,844
Card Centre expenses	1,291	1,252
Premises and equipment expenses	640	584
Communication expenses	1,638	1,094
Board remuneration	274	348
Board of directors sitting fees	201	181
Shari'a committee fees & expenses	73	73
Others	3,139	2,617
	13,352	11,514

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

24 IMPAIRMENT ALLOWANCE AND OTHER PROVISIONS, NET

	2023 BD'000	2022 BD'000
Financing assets (note 5.3)	5,368	9,411
Ijarah Muntahia Bittamleek (note 8)	252	871
Investments in Sukuk (note 6)	(47)	(32)
Investments at fair value through equity (note 6)	-	509
Investment in associates (note 7)	877	495
Placements with financial institutions	(2)	1
Other assets	83	19
Commitments	(56)	(1,714)
Impairment allowance, net	6,475	9,560
Litigation claims	160	1,885
Total impairment allowance and other provisions, net	6,635	11,445

25 LITIGATIONS AND CLAIMS

In the normal course of business, legal cases are filed by the Bank against its customers and against the Bank by its customers, employees or investors. The Group's legal department engages with in-house legal counsel and external legal counsel depending on the nature of the cases. A periodic assessment is carried out to determine the likely outcome of these legal cases and is reported to the senior management and Board of directors. The Group as part of the periodic assessment maintains adequate provisions. No further disclosures regarding contingent liabilities arising from any such claims are being made by the Bank as the directors believe that such disclosures may be prejudicial to the Group's legal position.

26 ZAKAH

The total Zakah payable as of 31 December 2023 amounted to BD 2,442 thousand (2022: BD 2,190 thousand) of which the Bank has BD 289 thousand Zakah payable (2022: BD 170 thousand) based on the statutory reserve, general reserve and retained earning as at 1 January 2024. The Zakah balance amounting to BD 2,153 thousand or 2.0 fils per share (2022: BD 2,020 thousand or 1.9 fils per share) is due and payable by the shareholders.

27 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year attributable to the shareholder of the Bank (adjusted for Profit distribution on AT 1 Capital) by the weighted average number of shares outstanding during the year net of treasury shares. There are no dilutive potential shares that are convertible into shares.

	2023	2022
Profit for the year attributable to the shareholders of the parent	11,136	12,568
Less: Profit distribution on AT 1 Capital	(1,901)	(1,901)
Profit for the year attributable to the shareholders of the parent for basic and diluted earnings per share computation	<u>9,235</u>	<u>10,667</u>
Weighted average number of shares outstanding during the year, net of treasury shares (thousand)	1,054,098	1,053,434
Basic and diluted earnings per share (fils)	<u>8.76</u>	<u>10.13</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

28 RELATED PARTY TRANSACTIONS

Related parties comprise of major shareholders, directors and Shari'a Supervisory board members of the Bank, senior management, close members of their families, entities owned or controlled by them and companies affiliated by virtue of common ownership or directors with that of the Bank. The transactions with these parties were made on commercial terms.

During the year, BD 1,901 thousand (2022: BD 1,901 thousand) was paid as profit declarations on AT1 securities.

The significant balances and transactions with related parties at 31 December were as follows:

	2023				
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	Total BD'000
Assets					
Cash and balances with banks and Central Bank	1,792	-	-	-	1,792
Placements with financial institutions	16,006	-	-	-	16,006
Financing assets	-	-	490	208	698
Ijarah Muntahia Bittamleek	-	-	207	222	429
Investment in associates	-	8,302	-	-	8,302
Other assets	1,668	-	-	481	2,149
Liabilities and Equity of investment accountholders					
Placements from financial institutions	11,694	-	-	-	11,694
Financing from financial institutions	103,144	-	-	-	103,144
Placements from non-financial institutions and individuals	-	-	2,842	497	3,339
Customers' current accounts	-	975	248	109	1,332
Other liabilities	4,666	-	476	-	5,142
Equity of investment accountholders	-	-	336	1,632	1,968
Off Balance sheet					
Profit rate swap - notional amount	77,360	-	-	-	77,360
	2023				
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	Total BD'000
Income					
Income from financing	843	-	21	31	895
Income from investment in Sukuk	1,869	-	-	-	1,869
Share of results of associates, net	-	347	-	-	347
Other Income	1,148	-	-	-	1,148
Return on equity of investment accountholders	-	-	(5)	(79)	(84)
Expense on placements from financial institutions	(4)	-	-	-	(4)
Expense on financing from financial institutions	(4,259)	-	-	-	(4,259)
Expense on placements from non-financial institutions and individuals	-	-	(203)	(27)	(230)
Expenses					
Other expenses	-	-	(674)	-	(674)
Staff costs	-	-	-	(2,639)	(2,639)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

28 RELATED PARTY TRANSACTIONS (continued)

	2022				
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	Total BD'000
Assets					
Cash and balances with banks and Central Bank	689	-	-	-	689
Placements with financial institutions	19,996	-	-	-	19,996
Financing assets	-	-	1,169	348	1,517
Ijarah Muntahia Bittamleek	-	-	207	191	398
Investment in associates	-	8,832	-	-	8,832
Other assets	2,826	-	-	347	3,173
Liabilities and Equity of investment accountholders					
Financing from financial institutions	110,113	-	-	-	110,113
Placements from non-financial institutions and individuals	-	-	1,458	10	1,468
Customers' current accounts	-	1,038	389	115	1,542
Other liabilities	3,308	-	346	-	3,654
Equity of investment accountholders	-	-	719	1,406	2,125
Off Balance sheet					
Profit rate swap - notional amount	97,134	-	-	-	97,134
	2022				
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	Total BD'000
Income					
Income from financing	351	-	132	20	503
Income from investment in Sukuk	(169)	-	-	-	(169)
Share of results of associates, net	-	13	-	-	13
Other Income	2,200	-	-	-	2,200
Return on equity of investment accountholders	-	-	(2)	(71)	(73)
Expense on financing from financial institutions	(1,271)	-	-	-	(1,271)
Expense on placements from non-financial institutions and individuals	-	-	(7)	-	(7)
Expenses					
Other expenses	-	-	(602)	-	(602)
Staff costs	-	-	-	(1,784)	(1,784)

Compensation of the key management personnel is as follows:

	2023 BD'000	2022 BD'000
Short term employee benefits	2,060	1,654
Other long term benefits	579	130
	<u>2,639</u>	<u>1,784</u>

Key management personnel includes staff at the grade of assistant general manager or above, part of management committee and other approved persons.

a. Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The risks and the processes to mitigate them have not significantly changed from the previous year.

The Bank is primarily exposed to credit risk, liquidity risk, market risk (including profit rate risk, equity price risk, and foreign exchange risks), operational risk, reputational risk, and Sharia'a-compliance risk.

b. Risk management objectives

The risk management philosophy of the Group is to identify, monitor, and manage the various dimensions of risk with the objective of protecting asset values and income streams such that the interest of the Group's shareholders (and others to whom the Group owes a liability) are safeguarded, while maximising the returns intended to optimise the Group's shareholder return while maintaining its risk exposure within self-imposed parameters.

The Bank's risk appetite is embodied through its risk strategy; BisB reviews and aligns its risk appetite in line with its evolving business plan, and changing economic and market scenarios, in addition to evolving regulatory requirements. The Bank also assesses its tolerance for specific risk categories and its strategy to manage these risks. To monitor and report exposures to these identified risks, the Bank adopted a comprehensive enterprise-wide Risk Management Framework that encompasses the risk limit, monitoring, and reporting structures.

c. Structure and Organization of the Risk Management Function

Risk management structure includes all levels of authorities, organizational structure, people and systems required for the effective functioning of risk management processes in the Group. The responsibilities associated with each level of the risk management structure and authorities include the following:

The Board retains ultimate responsibility and authority for all risk matters, including:

- i. Establishing overall policies and procedures; and
- ii. Delegating authority to the Board Risk & Compliance Committee, the Executive Committee, the Credit and Investment Committee, the Chief Executive Officer and further delegation to the management to approve and review.

The Board Risk & Compliance Committee is responsible for overseeing the Bank's risk management governance, specifically in relation to identifying, measuring, monitoring, and reporting the risks critical to the Bank's operations.

The Board Executive Committee comprises of three designated members of the Board of Directors. The Board Executive Committee has delegated authority by the Board to manage the ongoing credit activities of the Group. Decisions are taken by the Board Executive Committee either at periodic meetings or if the need arises, by circulation.

Credit and Investment Committee (CIC): The CIC oversees the Credit & Investment Policy of the bank, identifies possible risk assumed by the bank for different transactions. The CIC has the authority to make final decision on approval or rejection of proposed transactions within its delegated authority as well as to monitor the performance and quality of the bank's credit and investment portfolio. The purpose of CIC is to assist management in fulfilling its oversight responsibilities relating to the credit & investment objectives, policies, controls, procedures and related activities, including but not limited to the review of the bank's investment and credit exposures, and credit, investment, per party, concentration and group limits.

The Credit & Risk Management (C&RM) division – headed by the Chief Risk Officer - has day-to-day responsibility for managing the risks involved across all areas of the Bank. C&RM provides independent identification, measurement, monitoring and control of all risk parameters, while liaising with the business divisions that ultimately own the risks. C&RM comprises a number of specialist units, including Risk Management, Credit Review & Analysis, and Credit Administration.

d. Risk Measurement and Reporting Systems

Based on the risk appetite, the Group has put in place various limits. These limits have been approved by the Board. Any limit breach is reported by the Credit & Risk Management Department (C&RM) to the relevant management/Board-level committee. The limits are reviewed and revised periodically, as required by the relevant policy and regulatory requirements.

29 RISK MANAGEMENT (continued)

e. Credit Risk

Credit risk is considered to be the most significant and pervasive risk for the Group. The Group takes on exposure to credit risk, which is the risk that the counter-party to a financial transaction will fail to discharge an obligation causing the Group to incur a financial loss. Credit risk arises principally from financing (credit facilities provided to customers), investment in Sukuk and from cash and deposits held with other banks. Further, there is credit risk in certain off-balance sheet financial instruments, including guarantees relating to purchase and sale of foreign currencies, letters of credit, acceptances and commitments to extend credit.

Credit risk monitoring and control is performed by the Credit and Risk Management Department which sets parameters and thresholds for the Group's financing activities.

i) ECL – Significant increase in credit risk (SICR)

To determine whether credit risk has significantly increased since initial recognition, the Group will compare the risk of default at the assessment date with the risk of default at initial recognition. This assessment is to be carried out at each assessment date.

For the Corporate portfolio, the Group's assessment for significant increase in credit risk (SICR) is done at a counterparty level by assigning and reviewing the migrations in internal rating.

For the Retail portfolio, the Group's assessment for SICR is done at a facility level using days past due as the primary criteria.

ii) Generating the term structure of Probability of Default (PD)

Internal rating credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading.

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

This analysis includes the identification and calibration of relationships between changes in default rates and macroeconomic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. The macroeconomic factors used in this analysis are shortlisted below:

- (i) Gross domestic product, constant prices;
- (ii) Total investments;
- (iii) Gross national savings;
- (iv) Inflation, average consumer prices;
- (v) Volume of imports of goods and services;
- (vi) Volume of exports of goods and services;
- (vii) General government revenue;
- (viii) General government total expenditure;
- (ix) Unemployment rate;
- (x) General government net debt;
- (xi) Domestic credit growth (%); and
- (xii) Oil price.

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

For Corporate portfolio, through the yearly review of the corporate portfolio, the Group observes yearly performances to compute a count based PD over the one year horizon for the past 5 years. These PDs are grouped as per internal risk ratings (i.e. from 1 to 7). An average default rate of the 5 yearly observed default provides the through the cycle PDs.

In relation to the retail portfolio, the portfolio is segmented by product, as demonstrated below:

- (i) Auto finance;
- (ii) Mortgage finance;
- (iii) Tasheel Finance and Others; and
- (iv) Credit cards.

PDs for each segment are measured using Observed Default Estimation and thus PD is calculated based on Days Past Due (DPD) bucket level for each segment separately. Under this analysis, the delinquency status of accounts is tracked at an interval of one year with a moving month cycle. A minimum of 5 year DPD data is considered.

29 RISK MANAGEMENT (continued)

e. Credit Risk (Continued)

iii) Determining whether credit risk has increased significantly

In determining whether credit risk has increased significantly since initial recognition, the Group uses its internal credit risk grading system, external risk ratings, delinquency status of accounts, restructuring, expert credit judgement and, where possible, relevant historical experience.

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

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due.

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

The Group classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below:

Stage 1 (12 months ECL): for exposures subject to credit risk where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Group recognises an allowance based on the 12-month ECL. All accounts at origination would be classified as Stage 1. Only exceptions are Purchased or Originated Credit Impaired (POCI) assets.

Stage 2 (lifetime ECL not credit impaired): for exposures subject to credit risk where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the Group recognises an allowance for the lifetime ECL for all exposures categorized in this stage based on the actual / expected maturity profile including restructuring exposures.

Stage 3 (lifetime ECL credit impaired): for credit-impaired exposures subject to credit risk, the Group recognises the lifetime ECL. Default identification process i.e. DPD of 90 or more is used as stage 3.

iv) Definition of 'Default'

The Group's definition of default is aligned with regulatory guidelines and internal credit risk management practices. Defaulted assets will fall under the Stage 3. In general, a counterparty is considered in default and hence relevant exposure or a group of exposures is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the exposure or group of exposures that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment; rather the combined effect of several events may have caused the impairment losses expected as a result of future events, no matter how likely, are not recognised. Objective evidence that an exposure or group of exposures is impaired includes observable data that comes to the attention of the holder of the exposure.

In general, counterparties with facilities with past dues 90 days and above are considered in default.

v) Incorporation of forward looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an exposure has increased significantly since its initial recognition and its measurement of ECL. The Group annually sources macro economic forecast data from the International Monetary Fund (IMF) database and Economist intelligence unit (EIU) database for Bahrain.

Macroeconomic variables are checked for correlation with the probability of default for the past five years and only those variables for which the movement can be explained are used. Management judgement is exercised when assessing the macroeconomic variables.

29 RISK MANAGEMENT (continued)

e. Credit Risk (Continued)

(vi) Measurement of ECL

The Group measures an ECL at an individual instrument level taking into account the projected cash flows, PD, LGD, Credit Conversion Factor (CCF) and discount rate. For portfolios wherein instrument level information is not available, the Group carries out ECL estimation on a collective basis.

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

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

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

Corporate PD estimates are calculated based on statistical rating models, and assessed using rating tools tailored to various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD.

Retail PD estimates are measured using Observed Default Estimation at the segment level and thus PD will be calculated at DPD bucket level for each segment separately. Under this analysis, the delinquency status of accounts will be tracked at an interval of one year with a moving month cycle.

Debt type instruments portfolio, nostro and interbank placements portfolio is assessed for SICR using external ratings. The Group obtains PD estimates from Moody's / Standard & Poor's (S&P) / Fitch or any other external ratings deemed acceptable to the Bank.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For financing commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

The period of exposure limits the period over which possible defaults are considered and thus affects the determination of PDs and measurement of ECLs (especially for Stage 2 accounts with lifetime ECL).

Subject to using a maximum of a 12-month PD for exposures subject to credit risk for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a financing commitment or guarantee.

vii) Modified exposures subject to credit risk

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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

For exposures modified as part of the Group's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect profit and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired / in default. A customer needs to demonstrate consistently good payment behavior over the period of time, in line with the CM module under volume 2 rule book issued by CBB, before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12 month ECL.

viii) Credit Risk Mitigation

Credit risk mitigation refers to the use of a number of techniques, such as obtaining collateral and guarantees to mitigate the credit risks that the Group is exposed to. Credit risk mitigants reduce the credit risk by allowing the Group to protect against counterparty non-performance of credit contracts through collaterals, netting agreements and guarantees.

The Bank extends credit facilities to its obligors after conducting a comprehensive assessment of the credit risk profile of the obligor including, but not limited to, assessment of business risks, financial risks and structural risks.

Credit granting primarily depends on the assessment of the obligor's cash flows and their ability to repay the financing commitments from their core operating activities. However, to lower the credit risk profile, the bank also requests, on case by case basis, collateral supports including tangible securities, assignments, guarantees among other collateral support.

Collateral coverage by type of credit exposure:

2023	Properties BD'000	Others BD'000	Total BD'000
Financing assets	479,784	43,162	522,946
Ijarah Muntahia Bittamleek	390,440	1,864	392,304
	870,224	45,026	915,250
2022	Properties BD'000	Others BD'000	Total BD'000
Financing assets	473,783	66,034	539,817
Ijarah Muntahia Bittamleek	363,485	2,011	365,496
	837,268	68,045	905,313

The fair value of collateral that the Group holds relating to non performing facilities at 31 December 2023 amounts to BD 79,188 thousand (2022: BD 90,728 thousand). The collateral consists of cash, securities and properties. The utilisation of the above collaterals will be on a customer by customer basis and will be limited to the customer's total exposure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

29 RISK MANAGEMENT (continued)

e. Credit Risk (Continued)

ix) Gross maximum exposure to credit risk

The market value of tangible collateral security is properly evaluated by the Group approved surveyors (for properties) or based on publicly available quotations. Only the amount of such security equivalent to the exposure is taken into account while considering credit facilities.

The table below shows the gross maximum exposure to credit risk for the components of the consolidated statement of financial position, including credit related commitments. The figures represent gross exposure of any collateral held or other credit enhancements.

	2023 BD'000	2022 BD'000
Balances with banks and Central Bank	49,001	53,460
Placements with financial institutions	51,689	69,755
Financing assets	605,503	620,023
Ijarah Muntahia Bittamleek	318,837	289,986
Debt type investment instruments	257,727	238,512
	1,282,757	1,271,736
Letters of credit, guarantees and acceptances	25,165	25,902

x) Risk concentrations of the maximum exposure to credit risk

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The Group seeks to manage its credit risk exposure through diversification of financing activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses.

The distribution of the Group's assets, liabilities, equity of investment accountholders, commitments and contingent liabilities by geographic region and industry sector is as follows:

	Assets		Liabilities and equity of investment accountholders		Commitments and contingent liabilities	
	31 December 2023 BD'000	31 December 2022 BD'000	31 December 2023 BD'000	31 December 2022 BD'000	31 December 2023 BD'000	31 December 2022 BD'000
Geographical region						
Middle East	1,355,099	1,344,035	1,211,224	1,224,707	114,695	114,806
North America	2,566	17,421	1,088	792	-	-
Europe	391	327	1,140	457	-	-
Other	35	34	7	110	-	-
	1,358,091	1,361,817	1,213,459	1,226,066	114,695	114,806
Industry sector						
Trading and Manufacturing	73,865	88,610	30,227	49,474	13,107	14,075
Aviation	-	-	251	875	-	-
Real Estate	115,363	125,445	46,268	106,772	21,239	14,998
Banks and Financial Institutions	92,551	123,827	306,816	226,031	10,415	10,413
Personal / Consumer Finance	626,113	619,732	630,379	627,951	39,746	40,702
Governmental Organizations	398,891	348,703	63,501	61,300	21,958	24,632
Others	51,308	55,500	136,017	153,663	8,230	9,986
	1,358,091	1,361,817	1,213,459	1,226,066	114,695	114,806

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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

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

	31 December 2023			
	Stage 1	Stage 2	Stage 3*	Total
Financing assets (Funded exposure)				
Low risks	425,289	3,643	-	428,932
Acceptable risks	81,106	60,910	-	142,016
Watch list	17	6,911	-	6,928
Non performing	-	201	63,844	64,045
Gross exposure	506,412	71,665	63,844	641,921
Less: ECL	(2,533)	(8,398)	(25,487)	(36,418)
Financing assets carrying amount	503,879	63,267	38,357	605,503
Ijarah Muntahia Bittamleek				
Low risks	285,249	1,150	-	286,399
Acceptable risks	21,007	9,275	-	30,282
Watch list	-	945	-	945
Non performing	-	-	4,683	4,683
Gross exposure	306,256	11,370	4,683	322,309
Less: ECL	(1,531)	(214)	(1,727)	(3,472)
Ijarah muntahia bittamleek carrying amount	304,725	11,156	2,956	318,837
Investment in Sukuk				
Low risks	257,809	-	-	257,809
Acceptable risks	-	-	-	-
Watch list	-	-	-	-
Non performing	-	-	12,516	12,516
Gross exposure	257,809	-	12,516	270,325
Less: ECL	(82)	-	(12,516)	(12,598)
Investment in Sukuk carrying amount	257,727	-	-	257,727
Placements with financial institutions				
Low risks	51,692	-	-	51,692
Acceptable risks	-	-	-	-
Watch list	-	-	-	-
Non performing	-	-	-	-
Gross exposure	51,692	-	-	51,692
Less: ECL	(3)	-	-	(3)
Placements with financial institutions carrying amount	51,689	-	-	51,689

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

29 RISK MANAGEMENT (Continued)

e) Credit Risk (continued)

xi) Credit quality of exposures subject to credit risk (continued)

	31 December 2023			
	Stage 1	Stage 2	Stage 3*	Total
Balances with Banks				
Low risks	11,901	-	-	11,901
Acceptable risks	-	-	-	-
Watch list	-	-	-	-
Non performing	-	-	-	-
Gross exposure	11,901	-	-	11,901
Less: ECL	-	-	-	-
Balances with Banks carrying amount	11,901	-	-	11,901
Other Receivables				
Low risks	-	-	-	-
Acceptable risks	-	-	-	-
Watch list	-	-	-	-
Non performing	-	-	205	205
Gross exposure	-	-	205	205
Less: ECL	-	-	(103)	(103)
Other Receivables carrying amount	-	-	102	102
Total funded exposures subject to credit risk carrying amount	1,129,921	74,423	41,415	1,245,759
Commitments				
Gross exposure	29,824	5,553	2,993	38,370
Less: ECL	(122)	(47)	(1,356)	(1,525)
Commitments carrying amount	29,702	5,506	1,637	36,845

*This includes BD 1,919 thousand of gross on-balance sheet exposures in the cooling off period.

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

	31 December 2023			
	Stage 1	Stage 2	Stage 3	Total
At 1 January 2023	5,054	11,630	43,693	60,377
Transfer to Stage 1	513	(330)	(183)	-
Transfer to Stage 2	(199)	757	(558)	-
Transfer to Stage 3	(17)	(2,624)	2,641	-
Net movement between stages	297	(2,197)	1,900	-
Charge for the year (net)	(1,080)	(774)	7,452	5,598
Write-off	-	-	(11,845)	(11,845)
Foreign exchange movement	-	-	(11)	(11)
At 31 December 2023	4,271	8,659	41,189	54,119

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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

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

	31 December 2022			Total
	Stage 1	Stage 2	Stage 3*	
Financing assets (Funded exposure)				
Low risks	440,237	5,774	-	446,011
Acceptable risks	73,862	70,649	-	144,511
Watch list	22	5,002	-	5,024
Non performing	-	-	63,686	63,686
Gross exposure	514,121	81,425	63,686	659,232
Less: ECL	(3,037)	(11,215)	(24,957)	(39,209)
Financing assets carrying amount	511,084	70,210	38,729	620,023
Ijarah Muntahia Bittamleek				
Low risks	259,893	1,256	-	261,149
Acceptable risks	17,184	10,306	-	27,490
Watch list	-	1,101	-	1,101
Non performing	-	-	3,466	3,466
Gross exposure	277,077	12,663	3,466	293,206
Less: ECL	(1,680)	(327)	(1,213)	(3,220)
Ijarah muntahia bittamleek carrying amount	275,397	12,336	2,253	289,986
Investment in Sukuk				
Low risks	238,641	-	-	238,641
Acceptable risks	-	-	-	-
Watch list	-	-	-	-
Non performing	-	-	12,527	12,527
Gross exposure	238,641	-	12,527	251,168
Less: ECL	(129)	-	(12,527)	(12,656)
Investment in Sukuk carrying amount	238,512	-	-	238,512
Placements with financial institutions				
Low risks	69,760	-	-	69,760
Acceptable risks	-	-	-	-
Watch list	-	-	-	-
Non performing	-	-	3,686	3,686
Gross exposure	69,760	-	3,686	73,446
Less: ECL	(5)	-	(3,686)	(3,691)
Placements with financial institutions carrying amount	69,755	-	-	69,755

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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

	31 December 2022			
	Stage 1	Stage 2	Stage 3*	Total
Balances with Banks				
Low risks	15,420	-	-	15,420
Acceptable risks	-	-	-	-
Watch list	-	-	-	-
Non performing	-	-	-	-
Gross exposure	15,420	-	-	15,420
Less: ECL	-	-	-	-
Balances with Banks carrying amount	15,420	-	-	15,420
Other Receivables				
Low risks	-	-	-	-
Acceptable risks	-	205	-	205
Watch list	-	-	-	-
Non performing	-	-	-	-
Gross exposure	-	205	-	205
Less: ECL	-	(19)	-	(19)
Other Receivables carrying amount	-	186	-	186
Total funded exposures subject to credit risk carrying amount	1,110,168	82,732	40,982	1,233,882
Commitments				
Gross exposure	18,426	1,025	1,310	20,761
Less: ECL	(203)	(69)	(1,310)	(1,582)
Commitments carrying amount	18,223	956	-	19,179

*This includes BD 20,799 thousand of gross on-balance sheet exposures in the cooling off period.

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

	31 December 2022			
	Stage 1	Stage 2	Stage 3	Total
At 1 January 2022	4,190	9,631	38,861	52,682
Transfer to Stage 1	530	(166)	(364)	-
Transfer to Stage 2	(135)	256	(121)	-
Transfer to Stage 3	(77)	(237)	314	-
Net movement between stages	318	(147)	(171)	-
Charge for the year (net)	546	2,146	5,864	8,556
Write-off	-	-	(818)	(818)
Foreign exchange movement	-	-	(43)	(43)
At 31 December 2022	5,054	11,630	43,693	60,377

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

29 RISK MANAGEMENT (continued)**f. Liquidity Risk**

Liquidity risk is the risk that the Group will be unable to meet its obligations when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to cease immediately. To guard against this risk, the Group has a large customer base and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, commodity Murabaha, Wakala receivables, credit lines and high-quality sukuk.

i) Maturity profile of Group's assets and liabilities

The table below summarises the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period from the consolidated statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's retention history of its equity of investment accountholders.

The maturity profile of assets, liabilities and equity of investment accountholders at 31 December 2023 was as follows:

	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	No fixed maturity	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
ASSETS								
Cash and balances with the banks and Central Bank	24,502	-	-	-	-	-	37,100	61,602
Placements with financial institutions	51,689	-	-	-	-	-	-	51,689
Financing assets	24,777	29,311	47,586	55,749	184,423	263,657	-	605,503
Ijarah Muntahia Bittamleek	1,487	3,022	5,718	8,705	43,737	256,168	-	318,837
Investment securities	-	51,444	7,188	20,910	94,174	84,012	20,485	278,213
Investment in associates	-	-	-	-	-	-	8,302	8,302
Investment in real estate	-	-	-	-	-	-	14,725	14,725
Property and equipment	-	-	-	-	-	-	13,692	13,692
Other assets	61	724	3,500	219	272	649	103	5,528
Total assets	102,516	84,501	63,992	85,583	322,606	604,486	94,407	1,358,091
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS								
Placements from financial institutions	58,307	15,397	304	12,742	9,092	-	-	95,842
Placements from non-financial institutions and individuals	65,100	66,185	74,369	84,942	6,619	-	-	297,215
Financing from financial institutions	-	86,117	27,824	67,561	-	-	-	181,502
Customers' current accounts	202,511	-	-	-	-	-	-	202,511
Other liabilities	24,668	-	-	-	-	-	-	24,668
Equity of investment accountholders	379,511	5,684	6,739	9,346	10,328	113	-	411,721
Total liabilities and equity of investment accountholders	730,097	173,383	109,236	174,591	26,039	113	-	1,213,459
Liquidity gap	(627,581)	(88,882)	(45,244)	(89,008)	296,567	604,373	94,407	144,632
Cumulative liquidity gap	(627,581)	(716,463)	(761,707)	(850,715)	(554,148)	50,225	144,632	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

29 RISK MANAGEMENT (continued)

f. Liquidity risk (continued)

The maturity profile of assets, liabilities and equity of investment accountholders at 31 December 2022 was as follows:

ASSETS	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	No fixed maturity	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Cash and balances with the banks and Central Bank	31,997	-	-	-	-	-	38,040	70,037
Placements with financial institutions	69,755	-	-	-	-	-	-	69,755
Financing assets	13,467	23,908	33,001	72,518	201,606	275,523	-	620,023
Ijarah Muntahia Bittamleek	1,469	7,671	4,368	7,063	34,751	234,664	-	289,986
Investments securities	-	-	-	-	141,900	96,612	20,517	259,029
Investment in associates	-	-	-	-	-	-	8,832	8,832
Investment in real estate	-	-	-	-	-	-	16,176	16,176
Property and equipment	-	-	-	-	-	-	14,019	14,019
Other assets	39	712	3,988	243	477	674	7,827	13,960
Total assets	116,727	32,291	41,357	79,824	378,734	607,473	105,411	1,361,817
LIABILITIES AND EQUITY OF INVESTMENT								
ACCOUNTHOLDERS								
Placements from financial institutions	10,685	10,640	35,190	83,188	12,701	-	-	152,404
Placements from non-financial institutions and individuals	81,963	35,947	43,023	73,281	11,228	-	-	245,442
Financing from financial institutions	-	71,047	-	39,066	-	-	-	110,113
Customers' current accounts	231,078	-	-	-	-	-	-	231,078
Other liabilities	36,621	-	-	-	-	-	-	36,621
Equity of investment accountholders	368,138	26,040	14,795	25,782	14,162	1,491	-	450,408
Total liabilities and equity of investment accountholders	728,485	143,674	93,008	221,317	38,091	1,491	-	1,226,066
Liquidity gap	(611,758)	(111,383)	(51,651)	(141,493)	340,643	605,982	105,411	135,751
Cumulative liquidity gap	(611,758)	(723,141)	(774,792)	(916,285)	(575,642)	30,340	135,751	-

29 RISK MANAGEMENT (continued)

f. Liquidity risk (continued)

LCR has been developed to promote short-term resilience of a bank's liquidity risk profile. The CBB requires LCR to be 100% or more. As of 31 December 2023, the LCR went below 100%, however, management took appropriate actions and subsequent to year end, the LCR became above 100%. This requirement aim to ensure that a bank has an adequate stock of unencumbered high quality liquidity assets (HQLA) that consists of assets that can be converted into cash immediately to meet its liquidity needs for a 30 calendar day stressed liquidity period. The stock of unencumbered HQLA should enable the Bank to survive until day 30 of the stress scenario, by which time appropriate corrective actions would have been taken by management to find the necessary solutions to the liquidity crisis.

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

NSFR as a percentage is calculated as "Available stable funding" divided by "Required stable funding". As of 31 December 2023 the Group had NSFR ratio of 104% (2022: 108%).

The simple average LCR for the year ended 31 December 2023 is 198% (2022: 278%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29 RISK MANAGEMENT (continued)

f. Liquidity risk (continued)

The NSFR (as a percentage) as at 31 December 2023 is calculated as follows:

Item	Unweighted Values (before applying factors)				BD'000
	No Specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total Weighted Value
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	154,747	-	-	14,251	168,998
Other Capital Instruments	-	-	-	-	-
Retail Deposits and deposits from small business customers:					
Stable Deposits	-	260,744	7,033	66	254,455
Less stable deposits	-	297,098	70,883	16,874	348,056
Wholesale funding:					
Operational deposits	-	-	-	-	-
Other wholesale funding	-	434,595	101,386	113	132,793
Other liabilities:					
NSFR Shari'a-compliant hedging contract liabilities	-	-	-	-	-
All other liabilities not included in the above categories	-	13,062	-	-	-
Total ASF	154,747	1,005,499	179,302	31,304	904,302
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	240,425	-	72,960	-	45,723
Deposits held at other financial institutions for operational purposes	-	-	-	-	-
Performing financing and sukuk/ securities:					
Performing financing to financial institutions secured by Level 1 HQLA	-	-	-	-	-
Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	59,063	746	9,318	18,550
Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	105,084	63,848	713,679	690,226
- With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	-	-	-	-	-
Performing residential mortgages, of which:					
- With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	-	-
Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	-	-
Other assets:					
Physical traded commodities, including gold	-	-	-	-	-
Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs	-	-	-	-	-
NSFR Shari'a-compliant hedging assets	738	-	-	-	738
NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	-	-	-	-
All other assets not included in the above categories	103,199	-	-	1,792	104,991
OBS items	114,696	-	-	-	5,735
Total RSF	459,058	164,147	137,554	724,789	865,963
NSFR (%)					104.4%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

f. NET STABLE FUNDING RATIO (continued)

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

Item	Unweighted Values (before applying factors)				BD'000
	No Specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total Weighted Value
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	151,585	-	-	18,006	169,591
Other Capital Instruments	-	-	-	-	-
Retail Deposits and deposits from small business customers:					
Stable Deposits	-	260,755	7,099	1,720	256,182
Less stable deposits	-	284,031	66,364	23,591	338,947
Wholesale funding:					
Operational deposits	-	-	-	-	-
Other wholesale funding	-	393,905	150,152	1,828	165,666
Other liabilities:					
NSFR Shari'a-compliant hedging contract liabilities	-	-	-	-	-
All other liabilities not included in the above categories	-	19,193	-	-	-
Total ASF	151,585	957,884	223,615	45,145	930,386
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	252,520	-	43,307	-	31,420
Deposits held at other financial institutions for operational purposes	-	-	-	-	-
Performing financing and sukuk/ securities:					
Performing financing to financial institutions secured by Level 1 HQLA	-	-	-	-	-
Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	79,515	4,668	10,733	24,994
Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	85,042	74,501	712,759	683,972
- With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	-	-	-	-	-
Performing residential mortgages, of which:					
- With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	-	-
Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	-	-
Other assets:					
Physical traded commodities, including gold	-	-	-	-	-
Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs	-	-	-	-	-
NSFR Shari'a-compliant hedging assets	1,886	-	-	-	1,886
NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	-	-	-	-
All other assets not included in the above categories	104,980	-	-	8,320	113,299
OBS items	114,804	-	-	-	5,740
Total RSF	474,190	164,557	122,476	731,812	861,311
NSFR (%)					108.0%

29 RISK MANAGEMENT (continued)

g. Market Risk

The Group has accepted the definition of market risk as defined by CBB as "the risk of losses in on and off balance sheet positions arising from movements in market prices".

i) Profit rate risk

Profit rate risk is the sensitivity of financial products to changes in the profit rates. Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The profit distribution to equity of investment accountholders is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

However, the profit sharing agreements will result in displaced commercial risk when the Group's results do not allow the Group to distribute profits inline with the market rates.

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

To manage its profit rate risk on the sukuk portfolio, the group entered into a profit rate swaps with its Parent during the period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

29 RISK MANAGEMENT (continued)**g. Market Risk (continued)****ii) Equity price risk**

Equity price risk is the sensitivity of financial products to the changes in equity prices. Equity risk arises from holding open positions in equities or equity based instruments, thereby creating exposure to a change in the market price of the equity. In addition to Group performance expectations, equity prices are also susceptible to general economic data and sector performance expectations.

As at the consolidated statement of financial position date, the Group has unquoted (equities and Sukuk) of BD 39 million (2022: BD 40 million). The impact of changes in the value of these unquoted equities and Sukuk and the related impact on equity will only be reflected when the financial instrument is sold or deemed to be impaired.

iii) Foreign exchange risk

Foreign exchange risk is the sensitivity of financial products to changes in spot foreign exchange rates. The value of the Group's portfolio which is denominated in a number of currencies may be exposed to these risks when converted back to the Group's base currency.

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

	<i>Equivalent long (short) 2023 BD '000</i>	<i>Equivalent long (short) 2022 BD '000</i>
Currency		
Pound Sterling	(12)	32
Euro	114	117
Kuwaiti Dinars	20	8

As the Bahraini Dinar is pegged to the US Dollar, positions in US Dollars are not considered to represent significant foreign exchange risk.

Moreover, as the Group does not have significant exposures in other currencies, movement of the currency exchange rates against the Bahraini Dinar with other variables held constant will have an immaterial impact on the consolidated statement of income and owners' equity.

iv) Commodity risk

Commodity risk is defined as inherent risk in financial products arising from their sensitivity to changes in commodity prices. Since prices in commodity markets are determined by fundamental factors (i.e. supply and demand of the underlying commodity) these markets may be strongly correlated within a particular sector and less correlated across sectors.

h. Operational Risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

30 SEGMENTAL INFORMATION

For management purposes, the Group is organized into three major business segments;

Corporate	Principally handling equity of corporate investment accountholders', corporate current accounts, and providing Islamic financing facilities to corporate customers.
Retail	Principally handling equity of individual retail customers' investment accountholders', retail current accounts, and providing Islamic financing facilities to individual customers.
Investment	Principally handling equity of banks' and financial institutions' investment accountholders, providing money market, trading and treasury services as well as the management of the Group's investment activities. Investment activities involve handling debt and equity investments in local and international markets and investment in real estate.

These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at estimated market rates on an arm's length basis. Transfer charges are based on a pool rate which approximates the cost of funds.

Segment information is disclosed as follows:

	31 December 2023			
	Corporate	Retail	Investment	Total
	BD'000	BD'000	BD'000	BD'000
Total income	5,166	25,433	14,731	45,330
Total expenses	(5,310)	(19,590)	(2,659)	(27,559)
Provision for impairment	(3,566)	(2,241)	(828)	(6,635)
Profit / (loss) for the year	(3,710)	3,602	11,244	11,136
Other information				
Segment assets	303,460	686,073	368,558	1,358,091
Segment liabilities and equity	311,695	615,188	431,208	1,358,091
	31 December 2022			
	Corporate	Retail	Investment	Total
	BD'000	BD'000	BD'000	BD'000
Total income	10,935	27,817	11,574	50,326
Total expenses	(5,690)	(18,084)	(2,539)	(26,313)
Provision for impairment	(9,051)	(1,421)	(973)	(11,445)
Profit / (loss) for the year	(3,806)	8,312	8,062	12,568
Other information				
Segment assets	297,556	682,374	381,887	1,361,817
Segment liabilities and equity	437,693	611,674	312,450	1,361,817

The Group operates solely in the Kingdom of Bahrain and, as such, no geographical segment information is presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

31 FINANCIAL INSTRUMENTS***Fair value hierarchy***

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

Fair values of quoted securities/Sukuk are derived from quoted market prices in active markets, if available. For unquoted securities/Sukuk, fair value is estimated using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

In case of financing assets the average profit rate of the portfolio is in line with current market rates for similar facilities and hence after consideration of adjustment for prepayment risk and impairment charges it is expected that the current value would not be materially different from fair value of these assets. Unquoted shares and unquoted managed funds of BD 20,486 thousand (2022: BD 20,517 thousand) are treated as Level 3 investments. During the year, fair value movement of BD Nil thousand (2022: BD 509 thousand) was charged to income statement and BD 32 thousand fair value loss (2022: BD 41 thousand fair value gain) was charged to the fair value reserve. The estimated fair value of the Bank's other financial instruments are not significantly different from their carrying values due to their short-term nature.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

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

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

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy at 31 December:

	<i>Level 1</i> <i>BD'000</i>	<i>Level 2</i> <i>BD'000</i>	<i>Level 3</i> <i>BD'000</i>	<i>Total</i> <i>BD'000</i>
2023				
Investment securities				
Unquoted shares	-	-	20,050	20,050
Unquoted managed funds	-	-	436	436
Other Assets	-	738	-	738
Total	-	738	20,486	21,224
	<i>Level 1</i> <i>BD'000</i>	<i>Level 2</i> <i>BD'000</i>	<i>Level 3</i> <i>BD'000</i>	<i>Total</i> <i>BD'000</i>
2022				
Unquoted shares	-	-	20,081	20,081
Unquoted managed funds	-	-	436	436
Other Assets	-	1,886	-	1,886
Total	-	1,886	20,517	22,403

Transfers between Level 1, Level 2 and Level 3

During the years ended 31 December 2023 and 2022, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurement.

32 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a Qard fund account where the Group uses these funds for various charitable purposes. The movements in these funds is shown in the consolidated statement of sources and uses of good faith Qard fund. The non-Islamic income includes the penalties charged on late repayments for Islamic facilities.

33 SHARI'A SUPERVISORY BOARD

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

34 SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through Zakah and charity fund's expenditures and donations to good faith Qard fund for marriage, refurbishment, medical treatments, etc.

35 COMPARATIVE FIGURES

Certain prior year's figures have been regrouped to conform to the presentation adopted in the current year. Such regrouping did not affect previously reported profit for the year or total owners' equity.