Al Salam Bank B.S.C.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2023

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Chairman's Report – 2023 FY Results

While economies appeared to stabilize in 2023 as inflation readings followed a downward trend and consumer confidence posted an increase, a sentiment of cautious optimism was overshadowed towards the end of the year with the rise of new geopolitical tensions. Despite the economic challenges brought by these tragedies, GCC countries exhibited resilience supplemented by high oil prices and growing government investment in national development programs.

Accordingly, the GCC is estimated to grow by 1.0% in 2023 before picking up again to 3.6% and 3.7% in 2024 and 2025, respectively (World Bank, 2023). Bahrain's GDP growth is set to surpass the global – and even regional – average in 2023 with projected growth of 2.7% supported by non-oil sectors which are forecasted to grow by 3.2% (IMF, 2023). While S&P revised Bahrain's outlook to "stable" from "positive", the agency maintained its "B+/B" ratings as it expects the Government to implement measures to reduce its budget deficit.

Al Salam Bank effectively addressed the macroeconomic challenges that characterized 2023, controlling costs and maintaining ample liquidity throughout the year. We continued to grow core banking operations and capture additional market share in line with our strategy to become a regional force within the Islamic banking industry. The Bank continues to be one of the country's largest and one of the fastest growing in the Middle East and North Africa, positioning us to capitalize on further opportunities that arise in 2024 and beyond.

The Bank posted a total operating income for the year ended 31 December 2023 of BD 279.3 million (US$ 740.7 million), reflecting a significant 79.7% increase compared to BD 155.4 million (US$ 412.2 million) for the same period in 2022. Through organic and inorganic expansion of key business lines, the Bank reported a net profit attributable to shareholders of BD 42.2 million (US$ 112.0 million), compared to BD 31.6 million (US$ 83.8 million) in 2022, reflecting a substantial increase of 33.7%. The Bank's total assets also increased by 32.0% to BD 5.1 billion (US$ 13.7 billion) on a year-on-year basis. Asset quality continues to be market leading with the Bank's NPF ratio standing at 3.8% in 2023 (2022: 2.5%). One highlight was the acquisition of a majority stake in

Algeria's fastest growing bank, with total assets of US$ 2.5 billion as of YE 2023, and consolidating during the year.

Other highlights from 2023 include improved ROAE and ROAA, which closed the year at 13.2% and 1.1%, respectively, compared to 10.5% and 1.0%, respectively in 2022. The Bank's improved operational efficiency through controlling costs and increasing total operating income which led to a better cost-to-income ratio of 47.9%, representing a 8.8% reduction in 2022. The Bank's financing book and customer deposits posted substantial increases of 34.7% and 36.2% respectively, closing the year at BD 2.7 billion and BD 3.5 billion respectively.

The Bank achieved growth across its verticals throughout 2023, while maintaining a robust capital adequacy ratio of 20.4% despite the marked inorganic growth, the 5% increase in the domestic financing portfolio and the 19% increase in the fixed income portfolio to BD 1 billion in 2023.

Based on the Bank's strong performance in 2023, the Board of Directors recommended a dividend distribution of 12% of the Bank's issued and paid-up share capital (7% cash dividends and 5% stock dividends), aggregating BD 31.0 million (US$ 82.3 million). This recommendation is subject to AGM and regulatory approval.

The Bank viewed 2023 as an opportunity to build on its new people-centric brand DNA launched in 2021. Key to this journey is ensuring our growth is sustainable and in line with current trends. We continued to uplift our offerings to address our clients' requirements. The Bank launched a Buy Now, Pay Later service, introduced Samsung Wallet to its clients and rolled out several digital offerings including an advance salary product. Furthermore, the Bank launched its newest ATM service enabling clients to use their identification cards to complete their banking transactions. These initiatives aim to keep pace with changing consumer demands but also technological advancements.

Similarly, Al Salam Bank expanded its digital investment platform, Al Salam Invest, by launching Bahrain Trade as part of its trading services, enabling retail clients to digitally trade in Bahrain Bourse securities online. The Bank also introduced an e-signature service to enable clients to complete virtual banking transactions without needing to visit a physical branch. This initiative, amongst others, reinforces our ongoing sustainability efforts, which includes the Inspired to Grow campaign aiming to increase green areas in Bahrain by planting 20,000 trees.

As we step forward into 2024, Al Salam Bank is committed to delivering sustainable value for all stakeholders, including shareholders, clients, employees and communities. We remain poised to tackle challenges, keep pace with changes and seize opportunities in an unpredictable and fast-moving market. On behalf of the Board of Directors, I wish to take this opportunity to thank our shareholders for their continued confidence.

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

بنك السلام
Al Salam Bank

Disclosure forms for the remuneration of members of the board of directors and the executive management in the report of the board of directors

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- Mr. Salim Abdullah Al Awadi	105,000	52,000	-	-	157,000	-	-	-	-	-	-	157,000	-
2-Mr. Alhur Mohammed Al Suwaidi	105,000	64,000	-	-	169,000	-	-	-	-	-	-	169,000	-
3-Mr. Tariq Abdul Hafidh Al- Aujaili	105,000	64,000	-	-	169,000	-	-	-	-	-	-	169,000	-
4-Mr. Khalid Salem Al Halyan	105,000	68,000	-	-	173,000	-	-	-	-	-	-	173,000	-
Second: Non-Executive Directors:													
1-H. E. Shaikh Khalid Al Mashani	125,000	75,000	-	-	200,000	-	-	-	-	-	-	200,000	-
2-Mr. Matar Mohamed Al Blooshi	105,000	52,000	-	-	157,000	-	-	-	-	-	-	157,000	-
3-Mr. Salman Saleh Al Mahmeed	105,000	56,000	-	-	161,000	-	-	-	-	-	-	161,000	-
4- Mr. Zayed Ali Al-Amin	105,000	44,000	-	-	149,000	-	-	-	-	-	-	149,000	-
5- Mr. Hisham Saleh Al-Saie	105,000	44,000	-	-	149,000	-	-	-	-	-	-	149,000	-
Total	965,000	519,000	-	-	1,484,000	-	-	-	-	-	-	1,484,000	-

Note: All amounts must be stated in Bahraini Dinars. The Bank does not have any Executive Directors
Other remunerations:
* No in-kind benefits.
** No share of the profits.
Board remuneration represents allocation of proposed remuneration for 2023, subject to approval of the Annual General Meeting.

بنك السلام
Al Salam Bank

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**	1,753,000	1,543,387	230,028	3,526,415

Note: All amounts must be stated in Bahraini Dinars.

* The highest authority in the executive management of the company, the name may vary: (CEO, President, General Manager (GM), Managing Director...etc).
** The company's highest financial officer (CFO, Finance Director, ...etc)
Notes:
1. Paid salaries and allowances exclude indirect staff expenses such as GOSI contributions, leave and indemnity accruals, medical insurance and air travel reimbursements.
2. Remuneration details include other board remuneration earned by executive management from their role in investee companies or other subsidiaries.
3. In addition to the benefits reported above, during the year, the Bank operates a long-term share incentive plan (LTIP) that allows employees to participate in a share-ownership plan. Under the terms of the LTIP, employees allocated shares, would vest and acquired by employees over a performance period of 5-6 years. The non-cash accounting charge for the LTIP is assessed under IFRS 2 - Share-based payment and recognized over the vesting period of 5 years. Refer to the Remuneration related disclosures in the Annual Report for a better understanding of the Bank's variable remuneration framework components.

H.E. Shaikh Khalid Bin Mustahil Al Mashani
Chairman
13 February 2024
Manama, Kingdom of Bahrain

بنــك الســلام
Al Salam Bank

In the name of Allah, the Beneficent and the Merciful

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

The Report of Shari'a Supervisory Board of Al Salam Bank B.S.C, ("the Board") submitted to the General Assembly on the Bank's activities during the financial year ending 31 December 2023.

First: Memorandum and Articles of Association

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

Second: Activities of the Bank and Board's Guidance

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

Third: Contracts and Transactions

The Board studied the operational structures that have been presented to it during the year, approved their contracts and documents, and responded to the questions and inquiries that were raised in respect thereof and issued decisions and fatwas in this regard. These fatwas and decisions have been circulated to the concerned departments of the Bank for execution and implementation. It has also reviewed and studied drafts of the contacts and agreements that were presented to it in respect to sukuks (investment certificates), syndicated financing transactions and investment funds and approved them after its comments were considered.

Fourth: Access to Records

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

Fifth: Shari'a Audit

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

Sixth: Training

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

Seventh: Balance Sheet

The Board has reviewed the balance sheet, profit and loss accounts, accounting policies for the preparation of the financial statement and the basis of distributing dividends and profits to the shareholders and depositors.
The Board believes that the financial information presented in the balance sheet, to the extent of correct presentation and information provided by the Bank's Management and the Bank's compliance with some observations, did not result in non-compliance of the underlying transactions with the rules and principles of Shari'a. The Bank have set-aside and purified non-Sharia compliant earnings by channelling them to relevant accounts established for disbursement of charity amounts. The Board, therefore, approved the balance sheet.

Eighth: Zakah

Since the Articles of Association of the Bank do not oblige the Bank to pay Zakah on behalf of shareholders, and on the invested Shareholder's equity, the Board has reviewed the calculation of the Zakah payable by the shareholders in order to be disclosed in the balance sheet. The Zakah calculation was prepared in line with Shari'a Standards no.35 on Zakah and Financial Accounting Standards no.39 on Financial Reporting for Zakah issued by Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI"). Resultantly, the Board approved the calculation of Zakah and instructed the bank to notify Shareholders of the Zakah for this year as a disclosure in the balance sheet.

Ninth: Charity Fund

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

Decision of the Board

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

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

Fatwa and Shari'a Supervisory Board

Shaikh Adnan Abdulla AlQattan

Signature:_

Dr. Fareed Yaqoob AlMeftah

Signature: ____________

Dr. Nedham Mohamed Yaqoobi

Signature:____________

Dr. Osama Mohamed Bahar

Signature:____________

Dr. Mohammed Arbouna
Head –Shari'a Compliance Department

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CR No. 6220 - 2

Independent auditors' report

To the Shareholders of
Al Salam Bank B.S.C.
Manama
Kingdom of Bahrain

Opinion

We have audited the accompanying consolidated financial statements of Al Salam Bank B.S.C. (the "Bank"), and its subsidiaries (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated statements of income, changes in equity, cash flows, for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

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

<table>
<tr><th colspan="2">Impairment allowance on financing assets</th></tr>
<tr><td colspan="2">Refer to accounting policy in Note 2.4 (d), disclosure on use of estimates and judgment in Note 2.3 and management of credit risk in Note 31.2 to the consolidated financial statements.</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>We focused on this area because:

▪ of the significance of financing assets representing 52% of total assets;

▪ impairment of financing assets 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 expected credit loss ('ECL) models which is determined as a function of the assessment of the probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD") associated with the underlying financial assets; and
➢ complex disclosure requirements regarding credit quality of the portfolio including explanation of key judgments and material inputs used in determination of expected credit losses;

▪ the need to measure ECLs on an unbiased forward-looking basis incorporating a range of economic conditions. Significant management judgment is applied in determining the economic scenarios used and the probability weightings applied to them; and

▪ adjustments to the ECL model results are made by management to address known impairment model limitations or emerging trends or risks.</td><td>Our procedures, amongst others, included:
▪ Evaluating the appropriateness of the accounting policies adopted based on the requirements of applicable accounting standards, regulatory guidance, our business understanding and industry practice.

▪ Confirming our understanding of management's processes, systems and controls over the ECL calculation process

Control testing
We performed process walkthroughs to identify key systems, applications and controls associated with the ECL calculation process.
Key aspects of our control testing involved the following:

▪ Testing controls over the transfer of data between underlying source systems and the ECL models that the Group operates.

▪ Performing a detailed credit risk assessment for a sample of performing corporate contracts to test controls over the credit rating and monitoring process.

▪ Testing controls over the review and approval of post model adjustments and management overlays and the governance process over such overlays.

▪ Testing controls over the modelling process, including governance over model monitoring, validation and approval.

Tests of details
Key aspects of our testing involved:

▪ Reviewing a sample of credit files for performing accounts and evaluating the financial performance of the borrower, source of repayment and eligible collateral and on this basis assess the appropriateness of credit rating and staging.

▪ Sample testing over key data inputs used in estimating the ECL and assessing the completeness, accuracy and relevance of data used.

▪ Re-performing key elements of the Group's model calculations and assessing performance results for accuracy.</td></tr>
</table>

- Sample testing over factors used to determine whether significant increase in credit risk has been appropriately identified.

- Selecting a sample of post model adjustments and management overlays to assess the reasonableness of the adjustments by challenging key assumptions, testing the underlying calculation and tracing a sample back to source data.

- Assessing the adequacy of provisions against individually impaired financing assets (stage 3) in accordance with the applicable FAS.

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 estimating expected credit losses. Key aspects of their involvement included the following:

- We involved our Information Technology Audit specialists to test the relevant General IT and Application Controls over key systems used for data extraction as part of the ECL calculation process.
- We involved our Financial Risk Management (FRM) specialists in:
  - Evaluating the appropriateness of the Group's ECL methodologies (including the staging criteria used);
  - On a test check basis, re-performing the calculation of certain components of the ECL model (including the staging criteria);
  - Evaluating the appropriateness of the Group's methodology for determining the economic scenarios used and the probability weights applied to them; and
  - Evaluating the overall reasonableness of the management forward-looking estimates by comparing it to external market data and our understanding of the underlying sector and macroeconomic trends.

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 by reference to the requirements of relevant accounting standards.

Business Combination

Refer to accounting policy in Note 2.2 (i) and disclosure related to the business combination in Note 45 to the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
During the year, the Group acquired controlling stake in Al Salam Bank Algeria through step-up acquisition. This transaction has been accounted for in accordance with IFRS 3 *Business Combinations* ("IFRS 3") using the acquisition method. We have considered this to be a key audit matter due to: ▪ significant increase in assets and liabilities acquired as a result of the acquisition; ▪ the complexity associated with application of acquisition accounting principles, including the recognition of newly identified intangible assets. ▪ the subjectivity and judgement in determining the fair value and its allocation to the assets acquired, including purchased or originated credit impaired (POCI) financial assets, and the liabilities assumed.	Our procedures, amongst others, included: ▪ involving our valuation specialist to review the appropriateness of fair value adjustment recognized by management on the acquired assets and liabilities to ascertain that they are in accordance with the requirements of IFRS 3; ▪ challenging management's basis and assumptions used in determining initial classification of the acquired assets and liabilities and identification of intangible assets; ▪ evaluating the accounting policy adopted by management for the identification of POCI financial assets and assessed the appropriateness of fair value adjustments made on initial recognition; ▪ reviewing the appropriateness of the useful lives assigned to the identified intangible assets; ▪ testing the process and controls put in place over consolidation of the financial position and results of the subsidiary from the date of acquisition, including assessing consistency of accounting policies used. ***Disclosures*** evaluating the appropriateness and adequacy of disclosures in relation to the business combination by reference to the relevant accounting standards.

Other Information

The board of directors is responsible for the other information. The other information comprises the annual report but does not include the consolidated financial statements and our auditors' report thereon. Prior to the date of this auditors' report, we obtained the board of directors' report 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 financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Board of Directors for the Consolidated Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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 2001 (as amended) and Volume 2 of the Rulebook 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 chairman's report is consistent with the consolidated financial statements;
c) we are not aware of any violations during the year of the Commercial Companies Law 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 Jalil Al Aali.

KPMG Fakhro
Partner Registration Number 100
13 February 2024

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	4	**537,874**	367,747
Placements with financial institutions	5	**293,580**	113,096
Investment in sukuk	6	**1,002,839**	837,381
Financing assets	7	**2,676,460**	1,986,465
Non-trading investments	9	**100,060**	106,796
Takaful and related assets	10	**67,370**	51,690
Investment in real estate	11	**78,070**	62,462
Investment in associates	12	**231,484**	254,006
Other assets	13	**81,228**	67,720
Goodwill and other intangible assets	14	**78,145**	51,998
TOTAL ASSETS		**5,147,110**	3,899,361
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, OWNERS' EQUITY AND NON-CONTROLLING INTEREST			
LIABILITIES			
Placements from financial institutions	5	**136,511**	187,724
Customers' current accounts		**1,066,031**	550,281
Murabaha term financing	15	**510,848**	320,989
Takaful and related liabilities	10	**114,493**	91,741
Other liabilities	16	**106,192**	78,798
TOTAL LIABILITIES		**1,934,075**	1,229,533
EQUITY OF INVESTMENT ACCOUNTHOLDERS			
Wakala from financial institutions	17	**379,768**	319,339
Wakala and mudaraba from customers	17	**2,424,617**	2,013,134
TOTAL EQUITY OF INVESTMENT ACCOUNTHOLDERS		**2,804,385**	2,332,473
OWNERS' EQUITY			
Share capital	18	**261,693**	249,231
Treasury shares	18	**(6,799)**	(1,325)
Employees incentive scheme shares		**(8,770)**	(10,696)
Share premium		**209**	209
Retained earnings		**44,348**	31,691
Reserves		**46,722**	34,141
Total owners' equity		**337,403**	303,251
Non-controlling interest		**71,247**	34,104
TOTAL EQUITY		**408,650**	337,355
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND TOTAL EQUITY		**5,147,110**	3,899,361

H.E. Shaikh Khalid bin Mustahil Al Mashani	Matar Mohamed Al Blooshi	Rafik Nayed
Chairman	Deputy Chairman	Group Chief Executive Officer

The accompanying notes 1 to 46 form part of these consolidated financial statements.

Al Salam Bank B.S.C.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2023

	Note	***2023*** ***BD '000***	*2022* *BD '000*
INCOME			
Finance income	21	**174,003**	95,158
Income from sukuk		**48,755**	34,778
Income from non-trading investments, net	22	**7,653**	2,720
Fees and commission, net	23	**16,383**	7,828
Share of profit from associates, net	12	**21,043**	9,329
Income from Takaful operations, net	24	**7,571**	3,773
Other income	25	**3,851**	1,802
Total income		**279,259**	155,388
Finance expense on placements from financial institutions		**(8,446)**	(4,955)
Finance expense on murabaha term financing		**(25,517)**	(6,046)
Return on equity of investment accountholders before Group’s share as a mudarib and wakil		**(168,658)**	(110,403)
Group's share as a mudarib and wakil		**68,571**	62,412
Share of profit of investment accountholders	17	**(100,087)**	(47,991)
Net operating income		**145,209**	96,396
EXPENSES			
Staff cost	26	**31,765**	23,564
Premises cost		**3,417**	1,987
Depreciation and amortization		**4,322**	2,293
Other operating expenses	27	**30,029**	22,799
Total expenses		**69,533**	50,643
PROFIT BEFORE IMPAIRMENT ALLOWANCES		**75,676**	45,753
Net impairment charge on financing assets, investments and other assets	8	**(22,989)**	(12,683)
PROFIT BEFORE TAX		**52,687**	33,070
Tax for the year		**(4,509)**	-
PROFIT FOR THE YEAR		**48,178**	33,070
ATTRIBUTABLE TO:			
- Shareholders of the bank		**42,226**	31,593
- Non-controlling interest		**5,952**	1,477
		48,178	33,070
Basic and diluted earnings per share (fils)	20	**17.2**	12.8

H.E. Shaikh Khalid bin Mustahil Al Mashani
Chairman

Matar Mohamed Al Blooshi
Deputy Chairman

Rafik Nayed
Group Chief Executive Officer

The accompanying notes 1 to 46 form part of these consolidated financial statements.

Al Salam Bank B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2023

Amounts in BD '000s

	Attributable to shareholders of the bank													
						Reserves								
	Share capital	*Treasury stock*	*Employee incentive scheme shares*	*Share premium*	*Retained earnings*	*Statutory reserve*	*Share grant scheme*	*Investment fair value reserve*	*Real estate fair value reserve*	*Foreign exchange translation reserve*	*Total reserves*	*Total owners' equity*	*Non-controlling interest*	*Total equity*
Balance at 1 January 2023	**249,231**	**(1,325)**	**(10,696)**	**209**	**31,691**	**21,759**	**1,934**	**(8,643)**	**22,799**	**(3,708)**	**34,141**	**303,251**	**34,104**	**337,355**
Profit for the year	-	-	-	-	**42,226**	-	-	-	-	-	-	**42,226**	**5,952**	**48,178**
Movement in fair value, net	-	-	-	-	-	-	-	**(2,475)**	-	-	**(2,475)**	**(2,475)**	-	**(2,475)**
Sale of investment in real estate	-	-	-	-	-	-	-	-	**(108)**	-	**(108)**	**(108)**	-	**(108)**
Movement in share of reserve of investment in associate	-	-	-	-	-	-	-	**8,511**	-	-	**8,511**	**8,511**	-	**8,511**
Appropriation towards charity fund	-	-	-	-	**(500)**	-	-	-	-	-	-	**(500)**	-	**(500)**
Movement in FX translation reserve	-	-	-	-	-	-	-	-	-	**2,244**	**2,244**	**2,244**	**243**	**2,487**
Total recognised income and expense	-	-	-	-	**41,726**	-	-	**6,036**	**(108)**	**2,244**	**8,172**	**49,898**	**6,195**	**56,093**
Bonus shares issued	**12,462**	-	-	-	**(12,462)**	-	-	-	-	-	-	-	-	-
Cash dividend for the year 2022	-	-	-	-	**(12,359)**	-	-	-	-	-	-	**(12,359)**	-	**(12,359)**
Purchase of treasury shares	-	**(5,474)**	-	-	-	-	-	-	-	-	-	**(5,474)**	-	**(5,474)**
Transfer to statutory reserve	-	-	-	-	**(4,223)**	**4,223**	-	-	-	-	**4,223**	-	-	-
Shares vested	-	-	**1,926**	-	**(25)**	-	**186**	-	-	-	**186**	**2,087**	-	**2,087**
Movements in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	**30,948**	**30,948**
Balance at 31 December 2023	**261,693**	**(6,799)**	**(8,770)**	**209**	**44,348**	**25,982**	**2,120**	**(2,607)**	**22,691**	**(1,464)**	**46,722**	**337,403**	**71,247**	**408,650**
Balance at 1 January 2022	241,972	(12,473)	-	209	19,531	18,600	-	9,532	22,865	(3,985)	47,012	296,251	508	296,759
Profit for the year	-	-	-	-	31,593	-	-	-	-	-	-	31,593	1,477	33,070
Movement in fair value, net	-	-	-	-	-	-	-	(6,137)	(66)	-	(6,203)	(6,203)	-	(6,203)
Reclassified to amortized cost	-	-	-	-	-	-	-	(4,627)	-	-	(4,627)	(4,627)	-	(4,627)
Movement in share of reserve of investment in associate	-	-	-	-	-	-	-	(7,411)	-	-	(7,411)	(7,411)	-	(7,411)
Movement in FX translation reserve	-	-	-	-	-	-	-	-	-	277	277	277	-	277
Total recognised income and expense	-	-	-	-	31,593	-	-	(18,175)	(66)	277	(17,964)	13,629	1,477	15,106
Bonus shares issued	7,259	-	-	-	(7,259)	-	-	-	-	-	-	-	-	-
Cash dividend for the year 2021	-	-	-	-	(9,121)	-	-	-	-	-	-	(9,121)	-	(9,121)
Shares granted	-	10,696	(10,696)	-	-	-	1,934	-	-	-	1,934	1,934	-	1,934
Transfer to statutory reserve	-	-	-	-	(3,159)	3,159	-	-	-	-	3,159	-	-	-
Movement of treasury shares, net	-	452	-	-	106	-	-	-	-	-	-	558	-	558
Movements in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	32,119	32,119
Balance at 31 December 2022	249,231	(1,325)	(10,696)	209	31,691	21,759	1,934	(8,643)	22,799	(3,708)	34,141	303,251	34,104	337,355

The accompanying notes 1 to 46 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2023

	2023	*2022*
	BD '000	*BD '000*
OPERATING ACTIVITIES		
Profit for the year	**48,178**	33,070
Adjustments:		
Tax for the year	**4,509**	-
Depreciation and amortisation	**4,322**	2,293
Amortisation of premium on sukuk, net	**114**	1,333
Loss from non-trading investments	**2,526**	929
Net impairment charge on financial instruments	**22,989**	12,683
Gain on bargin purchase	**(15,560)**	-
Share of profits from associates, net	**(21,043)**	(9,329)
Operating income before changes in operating assets and liabilities	**46,035**	40,979
Changes in operating assets and liabilities:		
Mandatory reserve with central bank	**(23,410)**	(57,129)
Financing assets	**(299,954)**	(161,698)
Takaful and related assets	**(15,680)**	12,713
Other assets	**(5,537)**	(28,139)
Placements from financial institutions	**(51,213)**	46,465
Customers' current accounts	**121,560**	32,270
Takaful liabilities	**22,752**	55,402
Other liabilities	**47,767**	57,128
Equity of investment accountholders	**163,039**	(46,359)
Net cash from / (used in) operating activities	**5,359**	(48,368)
INVESTING ACTIVITIES		
Acquisition of sukuk, net	**(168,385)**	(209,888)
Cash acquired as part of business combination	**297,407**	71,711
Disposal of non-trading investments and real estate	**6,227**	(21,010)
Dividend received from associates	**17,477**	-
Purchase of premises and equipment	**(2,000)**	(17,070)
Net cash from / (used in) investing activities	**150,726**	(176,257)
FINANCING ACTIVITIES		
Drawdown of murabaha term financing	**189,859**	220,773
Dividends paid	**(12,359)**	(9,121)
Movement of treasury shares, net	**(5,474)**	558
Net cash from financing activities	**172,026**	212,210
NET CHANGE IN CASH AND CASH EQUIVALENTS	**328,111**	(12,415)
Cash and cash equivalents at 1 January	**383,532**	395,947
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**711,643**	383,532
Cash and cash equivalents comprise of:*		
Cash and other balances with central bank	**295,383**	91,728
Balances with other banks **	**122,662**	178,634
Placements with financial institutions with original maturities of 90 days or less	**293,598**	113,170
	711,643	383,532

* Cash and cash equivalents is gross of the expected credit loss of BD 346 thousand (2022: BD 207 thousand).

** Balances with other banks is net of restricted cash of BD 4,240 thousand (2022: BD 5,013 thousand) which is not available for day to day operations .

The accompanying notes 1 to 46 form part of these consolidated financial statements.

1 REPORTING ENTITY

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

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

The principal subsidiaries of the Group are as follows:

Name of entity	Country of incorporation	Principal activities	Effective Holding % 2023	Effective Holding % 2022
Al Salam Bank- Seychelles	Seychelles	Provide Banking services	**70.0%**	70.0%
Solidarity Group Holding BSC(c)	Bahrain	Holding Company	**55.9%**	55.9%
Al Salam Bank Algeria *	Algeria	Provide Banking services	**68.0%**	-

The Bank and its principal banking subsidiary operates through 17 branches (2022: 23 branches) in the Kingdom of Bahrain, 24 branches in Algeria (2022: Nil) and 1 branch (2022: 1 branch) in Seychelles and offer a full range of Shari'a-compliant banking services and products. The activities of the Bank includes managing profit sharing investment accounts, offering Islamic financing contracts, dealing in Shari'a-compliant financial contracts as principal / agent, managing Shari'a-compliant financial contracts and other activities permitted for under the CBB's Regulated Islamic Banking Services as defined in the licensing framework.

*During the year, the Group has increased its legal shareholding in Al Salam Bank Algeria (ASBA) to 68.0%, thereby establishing control.

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries together ("the Group") as at 31 December 2023

These consolidated financial statements have been authorised for issue in accordance with a resolution of the Board of Directors dated 13 February 2024.

2 ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION AND PRESENTATION

The consolidated financial statements are prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), and in conformity with the Bahrain Commercial Companies Law 2001 (as amended) and the guidelines of CBB and Financial Institutions Law.

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

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

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

2 ACCOUNTING POLICIES (continued)

2.2 BASIS OF CONSOLIDATION

(i) Business combinations

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

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

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

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

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

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

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

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

(ii) Subsidiaries

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2023. The financial statements of the subsidiaries are prepared for the same reporting year. All subsidiaries are using consistent accounting policies of the Bank.

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

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

2 ACCOUNTING POLICIES (continued)

2.2 BASIS OF CONSOLIDATION (continued)

(ii) Subsidiaries (continued)

The financial statements of SPE are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's fiduciary assets under management is set out in note 36.

(iii) Non-controlling interests

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

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

(iv) Loss of control

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

(v) Transactions eliminated on consolidation

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

(vi) Foreign currency

(a) Functional and presentation currency

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

(b) Foreign currencies

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

(c) Translation of foreign operations

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

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

Estimation uncertainty

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

Impairment assessment of financial contracts subject to credit risk

In determining expected credit losses ('ECL') on financial contracts subject to credit risk, significant estimates are made in determination of inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information. Refer to notes 2.4 (d) and 31.2 for further details.

Impairment of goodwill

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

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

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

Impairment of investments fair value through equity

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

Fair value of unquoted equity

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

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Fair value of unquoted equity (continued)

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

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

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

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

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

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

Judgments

Going concern

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

Control over special purpose entities

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

Investment classification

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

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

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES

a) Financial instruments

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

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

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

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

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

The Group segregates its investment into following categories:

i) *Equity-type instruments:*

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

ii) *Debt-type instruments:*

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

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

iii) *Other investment instruments:*

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

b) Trade and settlement date accounting

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

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Derecognition

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

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

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

d) Impairment assessment

Impairment of financial assets and commitments

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

Stage 1: twelve months ECL

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

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

Stage 2: Lifetime ECL – not credit impaired

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

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

Stage 3: Lifetime ECL – credit impaired

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

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

Credit-impaired financial assets and assets acquired for leasing

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

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

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

Write-offs

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

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

e) Cash and cash equivalents

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

f) Financing assets

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

Modification of financing assets

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

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

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

f-i) Murabaha financing

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

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

f-ii) Mudaraba financing

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

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Financing assets (continued)

f-iii) Musharaka

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

f-iv) POCI financial assets

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

g) Ijara Muntahia Bitamleek (IMB also called as finance lease asset)

Ijarah Mutahia Bitamleek contracts is an agreement with the customers whereby, based on the customer's request and promise to lease, the Group purchases or acquires a specified tangible asset, either from a third-party seller or from the customer. The Group ("Lessor") leases an asset to the customer ("Lessee") against certain rental payments for a specific lease term / year, payable on fixed and / or variable rental basis.

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

The Lessor retains the ownership of the assets throughout the lease term. At the end of the lease term, the lessor transfers the leased asset to the lessee in line with the promise to purchase provided by the Lessee. upon fulfillment of all the obligations by the Lessee under the IMB agreement, based on sale undertaking given by the Lessor.

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

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

Modification of IMB assets

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

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

h) Placements with financial institutions

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

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Sovereign Sukuk and Corporate Sukuk

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

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

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

j) Assets and liabilities under conversion

Assets under conversion:

Loans and advances

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

Non-trading investments

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

k) Non-trading investments

Equity-type investments

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

Recognition and de-recognition

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

Measurement

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

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

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Investments in associates and joint ventures

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

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

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

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

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

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

m) Investment in real estate

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

n) Premises and equipment

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

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

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

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Goodwill and other intangible assets

(a) Goodwill

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

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

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

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

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is / are not larger than a segment based on either the Group's primary or the Group's geographic segment reporting format.

(b) Intangible assets

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

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

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

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

p) Offsetting

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

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Customers' current accounts

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

r) Equity of investment accountholders

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

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

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

s) Provisions

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

t) Employees' end-of-service benefits

Short term benefits

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

Post employment benefits

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

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

Share based payment

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

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Employees' end-of-service benefits (continued)

Deferred share-based annual incentives

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

u) Revenue recognition

Financing assets

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

Sukuk

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

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

Dividend

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

Ijara Muntahia Bitamleek

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

Fees and commission income

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

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

v) Fair value of financial assets

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

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

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

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

w) Fiduciary assets

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

x) Dividend on ordinary shares

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

y) 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.

z) Treasury shares

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

aa) Zakah

Zakah is calculated on the Zakah base of the Group in accordance with FAS 39 Zakah using the net assets method. Zakah is calculated based on the eligible reserve and retained earnings balances at the end of the year . The Bank calculates and notifies the shareholders of their pro-rata share of the Zakah payable annually. The calculation of Zakah is approved by the Sharia'a Supervisory Board. Payment of Zakah on the unrestricted investment and other accounts is the responsibility of the investment accountholders.

ab) Repossessed assets

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

ac) Earnings prohibited by Shari'a

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

ad) Takaful and retakaful contracts

Takaful contracts

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

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

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

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

ad) Takaful and retakaful contracts (continued)

Retakaful contracts

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

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

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

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

Gross contributions

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

Retakaful contributions

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

Unearned contributions

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

Gross claims

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

Claims recovered

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

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

ad) Takaful and retakaful contracts (continued)

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

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

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

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

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

(i) FAS 39 Financial Reporting for Zakah

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

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

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 Group has adopted this standard and has provided the necessary additional disclosures in its annual financial statements.

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 sharehlders. The Bank has adopted this standard and has provided the necessary additional disclosures in its annual financial statements (refer notes 40).

(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.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(ii) FAS 41 Interim financial reporting (continued)

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.

(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 expect any significant impact on its previously assessed control conclusions on the adoption of this standard. However, the Groups accounting policies and disclosures have been revised to be consistent with the revised definitions and principles clarified under FAS 44.

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

1) 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 an 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 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

a) the standard is aligned with the AAOIFI Conceptual Framework for Financial Reporting (Revised 2020) and FAS 1 General Presentation and Disclosures in the Financial Statements;

b) the presentation and disclosure in the standard have been amended to be aligned with the Sharia principles and rules relating to Takaful, whereby the Takaful operator is distinct from the participants' funds (including participants' Takaful fund (PTF) and participants' investment fund (PIF));

c) the PTF and PIF are considered to be off-balance sheet assets under management, therefore, separate from the Takaful Operator;

d) statements for the managed PTF and managed PIF have been introduced, including separate statements for financial position and financial activities of the managed PTF;

e) disclosures of Zakah, Charity and Qard funds have been relocated to the notes to the financial statements in line with FAS 1; and

f) new definitions of Takaful, Takaful institution, Takaful operator, PIF and PTF have been introduced.

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

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

3) FAS 43 Accounting for Takaful Recognition and Measurement

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

a) the standard is aligned with the AAOIFI Conceptual Framework for Financial Reporting (Revised 2020) and FAS 1 General Presentation and Disclosures in the Financial Statements;

b) the principal accounting treatments in respect of Takaful arrangements have been aligned with the globally generally accepted accounting principles and newer regulatory requirements (where applicable);

c) new accounting treatments have been introduced in respect of matters which were not addressed or superseded standards or were not in line with the global best practices, particularly with regard to the accounting for provisions (or liability, as appropriate) for Takaful arrangements and accounting treatment and presentation for the investment component;

d) accounting treatments mapped in the standard are mapped to the Sharia principles and rules relating to Takaful, including the rights and obligations of respective stakeholders of Takaful arrangements;

e) new definitions for the accounting terms in respect of the newly introduced accounting treatments, as well as, improved definitions for earlier used terms, have been incorporated; and

f) accounting treatments respect to ancillary transactions have been introduced, particularly the transactions and balances between various stakeholders of Takaful institutions, eg. Accounting for Wakala fees an Qard Hassan.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

3) FAS 43 Accounting for Takaful Recognition and Measurement (continued)

Under the transitional provisions of this standard, following approaches are prescribed upon first time adoption:
1) A full retrospective approach – whereby the effects of transition shall be incorporated from the beginning of the earliest period presented in the financial statements; however, the disclosure of the effect of such adoption in each line item and to the basic and diluted earnings per share shall not be mandatory; or

2) A modified retrospective approach – whereby effects of transition shall be taken to retained earnings, as well as accumulated surplus or deficit in the respective Takaful funds at the beginning of the current financial period; or

3) A fair value option – whereby the Takaful residual margin or loss component of the provision for the remaining entitlement period, at the transition date (beginning of the current period) shall be determined as the difference between fair value of Takaful arrangements at that date and the fair value of the fulfilment cashflows measured at that date, and the corresponding effects shall be adjusted in the retained earnings of Takaful institution, as well as accumulated surplus or deficit in the respective Takaful funds.

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

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

4) 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.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

5) 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 lii 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.

This standard shall be effective for the financial periods beginning on or after 1 January 2026 with an option to early adopt. This standard shall be adopted at the same time as adoption of FAS 45 “Quasi-Equity (Including Investment Accounts)”.

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

6) 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.

3 CLASSIFICATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS

	2023			
	At fair value through consolidated income statement	***At fair value through equity***	***At amortised cost/ others***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***
ASSETS				
Cash and balances with banks and central bank	**-**	**-**	**537,874**	**537,874**
Placements with financial institutions	**-**	**-**	**293,580**	**293,580**
Investment in sukuk	**-**	**364,518**	**638,321**	**1,002,839**
Financing assets	**-**	**-**	**2,676,460**	**2,676,460**
Non-trading investments	**86,205**	**13,855**	**-**	**100,060**
Takaful and related assets	**-**	**-**	**67,370**	**67,370**
Investment in real estate	**-**	**78,070**	**-**	**78,070**
Investment in associates	**-**	**-**	**231,484**	**231,484**
Other assets	**563**	**163**	**80,502**	**81,228**
Goodwill and other intangible assets	**-**	**-**	**78,145**	**78,145**
	86,768	**456,606**	**4,603,736**	**5,147,110**
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS				
Placements from financial institutions	**-**	**-**	**136,511**	**136,511**
Customers' current accounts	**-**	**-**	**1,066,031**	**1,066,031**
Murabaha term financing	**-**	**-**	**510,848**	**510,848**
Takaful and related liabilities	**-**	**-**	**114,493**	**114,493**
Other liabilities	**337**	**-**	**105,855**	**106,192**
Equity of investment accountholders	**-**	**-**	**2,804,385**	**2,804,385**
	337	**-**	**4,738,123**	**4,738,460**

	2022			
	At fair value through consolidated income statement	*At fair value through equity*	*At amortised cost/ others*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
ASSETS				
Cash and balances with banks and central bank	-	-	367,747	367,747
Placements with financial institutions	-	-	113,096	113,096
Investment in sukuk	-	228,479	608,902	837,381
Financing assets	-	-	1,986,465	1,986,465
Non-trading investments	94,871	11,925	-	106,796
Takaful and related assets	-	-	51,690	51,690
Investment in real estate	-	62,462	-	62,462
Investment in associates	-	-	254,006	254,006
Other assets	1,247	163	66,310	67,720
Goodwill and other intangible assets	-	-	51,998	51,998
	96,118	303,029	3,500,214	3,899,361
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS				
Placements from financial institutions	-	-	187,724	187,724
Customers' current accounts	-	-	550,281	550,281
Murabaha term financing	-	-	320,989	320,989
Takaful and related liabilities			91,741	91,741
Other liabilities	440	-	78,358	78,798
Equity of investment accountholders	-	-	2,332,473	2,332,473
	440	-	3,561,566	3,562,006

4 CASH AND BALANCES WITH BANKS AND CENTRAL BANK

	2023	*2022*
	BD '000	*BD '000*
Mandatory reserve with Central Bank*	**115,917**	92,507
Cash and other balances with Central Bank	**295,383**	91,728
Balances with other banks**	**126,574**	183,512
	537,874	367,747

* This balance is not available for use in the day-to-day operations of the Group.
** This balance is net of BD 328 thousand (2022: BD 134 thousand) amount of allowance for credit losses.

5 PLACEMENTS WITH / FROM FINANCIAL INSTITUTIONS

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

	2023	*2022*
	BD '000	*BD '000*
Placements with financial institutions		
Wakala asset	**63,546**	67,018
Mudaraba asset	**2,860**	-
Commodity murabaha asset	**227,192**	46,151
Allowance for credit losses	**(18)**	(73)
	293,580	113,096
Placements from financial institutions		
Commodity murabaha Iiability	**136,511**	187,724
	136,511	187,724

6 INVESTMENT IN SUKUK

	2023			*2022*
	Sovereign Sukuk	***Corporate Sukuk***	***Total***	*Total*
	BD '000	***BD '000***	***BD '000***	*BD '000*
Carried at FVTE				
At 1 January	**210,846**	**15,771**	**226,617**	639,688
Profit received	**-**	**-**	**-**	(6,546)
Reclassification to amortised cost	**-**	**-**	**-**	(449,072)
Purchases	**268,020**	**11,753**	**279,773**	131,368
Sale/ redemption	**(137,165)**	**(3,768)**	**(140,933)**	(84,061)
Fair value movement	**(2,137)**	**(338)**	**(2,475)**	(6,144)
(Impairment) / reversal of ECL	**(98)**	**(7)**	**(105)**	-
Profit accrual / Dividend	**1,369**	**272**	**1,641**	3,246
At 31 December	**340,835**	**23,683**	**364,518**	228,479

This includes sukuk with carrying value of BD 228,250 thousand (2022: BD 76,360 thousand) pledged against murabaha term financing. (Note 15)

6 INVESTMENT IN SUKUK (continued)

	2023			2022
	Sovereign Sukuk	***Corporate Sukuk***	***Total***	*Total*
	BD '000	***BD '000***	***BD '000***	*BD '000*
Carried at Amortised cost				
At 1 January	**587,277**	**23,487**	**610,764**	-
Reclassification from FVTE	**-**	**-**	**-**	449,072
Reclassification of cumulative reserve	**-**	**-**	**-**	(4,627)
Purchases	**255,328**	**21,208**	**276,536**	197,106
Acquired through business combination	**3,215**	**4,303**	**7,518**	18,817
Redemptions	**(242,178)**	**(15,779)**	**(257,957)**	(58,143)
Write-off	**(1)**	**-**	**(1)**	-
(Impairment) / reversal of ECL	**(414)**	**257**	**(157)**	246
Amortisation of discount / premium	**(135)**	**21**	**(114)**	(531)
Profit accrual / Dividend	**1,591**	**141**	**1,732**	6,962
At 31 December	**604,683**	**33,638**	**638,321**	608,902

This includes sukuk with carrying value of BD 354,258 thousand (2022: 332,242 thousand) pledged against murabaha term financing. (Note 15)
Sukuk with carrying value of BD 14,905 thousand (2022: BD 16,182 thousand) are treated as equity sukuk.

Breakup of sukuk by issuer	***2023***	*2022*
	BD '000	*BD '000*
Sovereign Sukuk	**945,518**	797,177
Corporate Sukuk	**57,321**	40,204
	1,002,839	837,381

The rating of corporate sukuk are as follows:	***2023***	*2022*
	BD '000	*BD '000*
Investment grade (AAA - BBB+)	**22,615**	22,712
High Yielding (Below BBB-)	**8,868**	840
Un-rated Sukuk	**25,886**	16,759
Allowance for credit losses	**(48)**	(107)
	57,321	40,204

7 FINANCING ASSETS

	2023				
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Stage 3: Lifetime ECL credit-impaired***	***Purchased credit-impaired POCI***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***	***BD '000***
Ijarah*	**829,724**	**23,152**	**33,670**	**5,027**	**891,573**
Murabaha financing	**697,789**	**21,244**	**26,545**	**5,533**	**751,111**
Mudaraba financing	**592,379**	**33,848**	**20,279**	**44**	**646,550**
Musharaka financing	**30,234**	**415**	**152**	**-**	**30,801**
Credit cards	**13,709**	**353**	**1,288**	**-**	**15,350**
Salam financing	**321,848**	**8,807**	**4,752**	**1,396**	**336,803**
Istisnaa financing	**39,734**	**3,000**	**4,769**	**498**	**48,001**
Total financing assets	**2,525,417**	**90,819**	**91,455**	**12,498**	**2,720,189**
Allowance for credit losses	**(16,334)**	**(8,332)**	**(23,922)**	**(435)**	**(49,023)**
Foreign currency translation	**4,993**	**164**	**108**	**29**	**5,294**
	2,514,076	**82,651**	**67,641**	**12,092**	**2,676,460**

7 FINANCING ASSETS (continued)

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

Movement on allowance for credit losses

	2023				
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Stage 3: Lifetime ECL credit-impaired***	***Purchased credit-impaired POCI***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***	***BD '000***
Balance at 1 January	**17,309**	**12,290**	**19,337**	**-**	**48,936**
Movement between stages, net	**(3,486)**	**(2,427)**	**5,913**	**-**	**-**
Movement on loss allowance, net	**2,511**	**(1,531)**	**19,499**	**(2,317)**	**18,162**
Amounts written off during the year	**-**	**-**	**(20,827)**	**-**	**(20,827)**
Exchange adjustments and other transfers on settlement	**-**	**-**	**-**	**2,752**	**2,752**
Balance at 31 December	**16,334**	**8,332**	**23,922**	**435**	**49,023**

	2022			
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Balance at 1 January	15,028	7,279	13,907	36,214
Movement between stages, net	(1,499)	1,067	432	-
Movement on loss allowance, net	5,196	3,944	4,849	13,989
Amounts written off during the year	(1,416)	-	(2)	(1,418)
Exchange adjustments and other transfers on settlement	-	-	151	151
Balance at 31 December	17,309	12,290	19,337	48,936

The POCI assets are currently carried at 25.8% compared to their original contractual outstanding amounts. On a cumulative basis, the impaired assets (Stage 3 and POCI) have an effective loss coverage of 42.1% compared to their original contractual outstanding amounts.

7 FINANCING ASSETS (continued)

Murabaha financing is reported net of deferred profits of BD 102,116 thousand (2022: BD 71,281 thousand).

During the year, the Group acquired financing assets of BD 479,418 thousand through business combination (note 45).

***Ijarah Muntahia Bitamleek (IMB)**

This represents assets leased (land and buildings) under a IMB arrangement with customers of the Bank. Under this arrangement the Bank (lessor) undertakes to transfer the leased assets to the customer (lessee) at the end of the lease term upon the lessee fulfilling all the obligations under the IMB agreement.

	2023	*2022*
	BD '000	*BD '000*
Ijarah Muntahia Bitamleek	**920,407**	778,343
Depreciation	**(28,834)**	(17,415)
Ijarah Muntahia Bitamleek net of depreciation	**891,573**	760,928
Allowance for impairment	**(8,314)**	(9,555)
At 31 December	**883,259**	751,373

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

	2023	*2022*
	BD '000	*BD '000*
Due within one year	**120,655**	83,775
Due in one to five years	**237,391**	147,883
Due after five years	**525,213**	519,715
	883,259	751,373

The accumulated depreciation / amortisation netted from IMB assets amounted to BD 154,680 thousand (2022: BD 104,513 thousand).

8 NET IMPAIRMENT CHARGE ON FINANCING ASSETS, INVESTMENTS AND OTHER ASSETS

	2023				
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Stage 3: Lifetime ECL credit-impaired***	***POCI***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***	***BD '000***
Balance at 1 January	**18,257**	**12,327**	**27,151**	**-**	**57,735**
- transferred to Stage 1: 12 month ECL	**1,122**	**(777)**	**(345)**	**-**	**-**
- transferred to Stage 2: Lifetime ECL not credit-impaired	**(3,528)**	**3,872**	**(344)**	**-**	**-**
- transferred to Stage 3: Lifetime ECL credit-impaired	**(1,143)**	**(5,459)**	**6,602**	**-**	**-**
Net remeasurement of loss allowance	**4,487**	**(1,476)**	**19,598**	**(2,317)**	**20,292**
Recoveries / write-backs	**-**	**-**	**(461)**	**-**	**(461)**
Allowance for credit losses	**938**	**(3,840)**	**25,050**	**(2,317)**	**19,831**
Exchange adjustments and other transfers	**27**	**-**	**(77)**	**2,752**	**2,702**
Exposures written off during the year*	**-**	**-**	**(25,674)**	**-**	**(25,674)**
Balance at 31 December	**19,222**	**8,487**	**26,450**	**435**	**54,594**

* Represents exposures charged off during the year for which recovery efforts are continuing.

8 NET IMPAIRMENT CHARGE ON FINANCING ASSETS, INVESTMENTS AND OTHER ASSETS (continued)

	2023				
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Stage 3: Lifetime ECL credit-impaired***	***POCI***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***	***BD '000***
Cash and balances with banks and central bank	**328**	**-**	**-**	**-**	**328**
Placements with financial institutions	**18**	**-**	**-**	**-**	**18**
Investment in sukuk	**508**	**-**	**-**	**-**	**508**
Financing assets (Note 7)	**16,334**	**8,332**	**23,922**	**435**	**49,023**
Financing other assets	**529**	**5**	**333**	**-**	**867**
Other receivables	**-**	**-**	**2,183**	**-**	**2,183**
Financing commitments and financial guarantee contracts	**1,505**	**150**	**12**	**-**	**1,667**
	19,222	**8,487**	**26,450**	**435**	**54,594**

Net impairment charge on financing assets,investments and other assets

	2023	*2022*
	BD '000	*BD '000*
Net impairment charge on financing assets	**10,593**	8,020
Day 1 ECL, on financing assets acquired	**7,569**	5,969
	18,162	13,989
Net impairment charge on investments	**3,158**	3,714
Net impairment charge on other assets	**1,669**	(5,020)
	22,989	12,683

	2023	*2022*
	BD '000	*BD '000*
Cash and balances with banks and central bank	**196**	53
Placements with financial institutions	**7**	69
Sukuk	**299**	91
Financing assets (note 7)	**18,162**	13,989
Other Assets	**949**	(5,394)
Financing commitments and financial guarantee contracts	**218**	161
Investments	**3,158**	3,714
	22,989	12,683

8 NET IMPAIRMENT CHARGE ON FINANCING ASSETS, INVESTMENTS AND OTHER ASSETS (continue

	2022				
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	*POCI*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*	*BD '000*
Balance at 1 January	15,627	7,332	21,525	-	44,484
- transferred to Stage 1: 12 month ECL	1,055	(1,050)	(5)	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(1,728)	2,761	(1,033)	-	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(829)	(642)	1,471	-	-
Net remeasurement of loss allowance	5,549	3,926	5,721	(5,478)	9,718
Recoveries / write-backs	-	-	(749)	-	(749)
Allowance for credit losses	4,047	4,995	5,405	(5,478)	8,969
Exchange adjustments and other transfers	(1,417)	-	(3)	(73)	(1,493)
Adjustment on repayment or derecognition	-	-	-	5,551	5,551
Amounts written back during the year, net	-	-	224	-	224
Balance at 31 December	18,257	12,327	27,151	-	57,735

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

9 NON-TRADING INVESTMENTS

	2023	2022
	BD '000	*BD '000*
At fair value through income statement:		
Equity securities	**79,192**	86,618
Funds	**7,013**	8,253
At fair value through equity	**13,855**	11,925
	100,060	106,796

The Group holds 40% stake (2022: 40%) in Manara Developments Company B.S.C.(c) ("Manara") & Bareeq Al Retaj Real Estate Services WLL ("Bareeq"), incorporated in Bahrain and engaged in the business of property development. The investments measured at fair value through income statement using the fair value scope exemption of FAS 24. As part of restructuring, net assets of Manara will be novated to Bareeq, which is pending legal formalities.

During the year, non-trading investments of BD Nil (2022: BD 19,620 thousand) were aligned as part of a business combination.

10 TAKAFUL ASSETS AND LIABILITIES

	2023	2022
	BD '000	*BD '000*
Retakaful share of outstanding claims	**11,065**	6,837
Retakaful share of unearned contribution	**20,849**	16,275
Takaful and other receivables	**35,456**	28,578
Takaful assets	**67,370**	51,690
Outstanding claims	**27,803**	23,550
Unearned contributions and other reserves	**46,415**	39,615
Unearned commission	**654**	636
Takaful and other payable	**39,621**	27,940
Takaful liabilities	**114,493**	91,741

Movement in Retakaful share of outstanding claims

	2023		
	Gross	***Retakaful***	***Net***
	BD '000	***BD '000***	***BD '000***
Reported claims	15,107	(5,055)	10,052
Incurred But Not Reported (IBNR)	8,443	(1,782)	6,661
At 1 January	**23,550**	**(6,837)**	**16,713**
Change in liabilities	714	(2,049)	(1,335)
Acquisition of subsidiary	3,539	(2,179)	1,360
At 31 December	**27,803**	**(11,065)**	**16,738**
Reported claims	19,776	(8,749)	11,027
IBNR	8,027	(2,316)	5,711
At 31 December	**27,803**	**(11,065)**	**16,738**

	2022		
	Gross	*Retakaful*	*Net*
	BD '000	*BD '000*	*BD '000*
Reported claims	15,768	(6,411)	9,357
Incurred But Not Reported (IBNR)	9,577	(1,120)	8,457
At 1 July	25,345	(7,531)	17,814
Change in liabilities	(1,795)	694	(1,101)
At 31 December	23,550	(6,837)	16,713
Reported claims	15,115	(5,725)	9,390
IBNR	8,435	(1,112)	7,323
At 31 December	23,550	(6,837)	16,713

10 TAKAFUL ASSETS AND LIABILITIES (continued)

Movement in Retakaful, share of unearned contribution

	2023		
	Gross	***Retakaful***	***Net***
	BD '000	***BD '000***	***BD '000***
At 1 January	**39,615**	**(16,275)**	**23,340**
Net movement	**6,800**	**(4,574)**	**2,226**
At 31 December	**46,415**	**(20,849)**	**25,566**

	2022		
	Gross	*Retakaful*	*Net*
	BD '000	*BD '000*	*BD '000*
At 1 July	39,983	(15,727)	24,256
Net movement	(368)	(548)	(916)
At 31 December	39,615	(16,275)	23,340

Takaful related receivables	***2023***	*2022*
	BD '000	*BD '000*
Outstanding claims – Gross	**27,803**	23,550
Unearned contributions, commission and other reserves	**46,415**	39,615

11 INVESTMENT IN REAL ESTATE

	2023	*2022*
	BD '000	*BD '000*
Land	**76,195**	60,124
Buildings	**1,875**	2,338
	78,070	62,462

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

	Fair value measurement using significant unobservable inputs	
	Level 3	
	2023	*2022*
	BD '000	*BD '000*
At 1 January	**62,462**	57,961
Fair value changes through income statement	**(283)**	(200)
Additions from acquisition of Subsidiary (Refer note 45)	**13,683**	5,982
Additions during the year*	**2,983**	-
Disposals during the year	**(235)**	(1,281)
Others	**(540)**	-
At 31 December	**78,070**	62,462

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

The fair value of the investment in real estate are derived based on valuations carried out by independent external valuers using adjusted sales comparable method and classified as stage 2 in the fair value hierachy.

For sensitivity analysis of the investment in real estate, an increase of 5% in value of properties will impact equity by BD 816 thousand (2022: BD 787 thousand) and decrease of 5% in value of properties will impact income statement by BD 434 thousand (2022: BD 405 thousand).

12 INVESTMENT IN ASSOCIATES, NET

The Group holds 20.9% (2022: 20.9%) stake in Gulf African Bank ("GAB"), an Islamic commercial bank incorporated as the first Islamic bank in Kenya in August 2006, licensed by the Central Bank of Kenya.

During 2022, as part of its acquisition of the retail business of Ithmaar Holding, the Group acquired economic interests in a sharia compliant financing arrangement provided to FINCORP W.L.L (formerly Al Salam International W.L.L. ("ASI")), who is the holder of 26.2% stake in Bank of Bahrain and Kuwait B.S.C. ("BBK"), a retail bank incorporated in Bahrain and licensed by the Central Bank of Bahrain. FINCORP W.L.L's investment in BBK forms part of a security package assigned to the Bank under a shariah compliant financing structure. The Bank or its investment accountholders do not directly participate in the underlying business activities of FINCORP W.L.L and are not legal owners of its underlying assets. The returns generated by the Bank are to the extent of the profit and the respective repayment, if any, generated from the sharia compliant financing arrangement only. As per the requirements of the financial accounting standards, the effective economic interest of this arrangement is recognized in these financial statements.

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

	2023	*2022*
	BD '000	*BD '000*
Balance at 1 January	**254,006**	14,533
New acquisitions during the year	**-**	217,820
Additional stake acquired during the year	**-**	19,897
Decrecognition of associate due to step up acquisition (Note 45)	**(33,767)**	-
Share of profits	**21,043**	9,329
Share of other changes is equity	**8,511**	(7,411)
Dividends received from associates	**(17,477)**	-
Foreign exchange differences	**(832)**	(162)
Balance 31 December	**231,484**	254,006

Following is the summary of financial information of the Group's material investment in associates, which is adjusted for changes in accounting policies and fair value adjustments on acquisition.

	Indirect exposure BBK	*Indirect exposure BBK*
	BD '000	*BD '000*
Group's holding	**26.2%**	26.2%
Total assets	**4,005,203**	3,823,947
Total liabilities	**3,384,400**	3,242,400
Net assets (100%)	**620,803**	581,547
Group's share of recognised net assets	**162,588**	152,307
Acquisition accounting related adjustments	**65,202**	65,202
Carrying amount of interest in associate	**227,790**	217,509

12 INVESTMENT IN ASSOCIATES, NET (continued)

	BBK	*BBK*
	BD '000	*BD '000*
Revenue	**163,500**	97,600
Profit (100%)	**84,800**	28,179
Other change in equity (comprehensive income)	**32,497**	(28,300)
Total comprehensive income (100%)	**111,197**	41,121
Group's share of profits	**19,246**	7,380
Groups share of other changes in equity	**8,511**	7,411

The market value of listed associates stood at BD 228.4 million as at 31 December 2023 (2022: BD 215.8 million). The values for disclosure purposes were determined using market value per share and were not adjusted for any block holdings or unit of account related adjustments.

For other associates based on the summarized financial statements, the revenue, profit and Group’s share of profit were BD 8,548 thousand (2022: BD 21,068 thousand), BD 1,683 thousand (2022: BD 9,831 thousand) and BD 1,797 thousand (2022: BD 1,949 thousand), respectively.

13 OTHER ASSETS

	2023	*2022*
	BD '000	*BD '000*
Assets under conversion (a)		
Loans and advances to customers	**46**	234
Non-trading investments - fair value through equity (b)	**163**	163
	209	397
Other receivables and advances	**37,261**	36,344
Prepayments	**13,753**	11,616
Premises and equipment including right of use assets	**30,005**	19,363
	81,228	67,720

(a) These represent non-Shari'a compliant assets resulting from the acquisition of ASBS, BMI B.S.C. (c) and Bahraini Saudi Bank B.S.C. Income derived from these assets are transferred to charity and as such are not recognised as revenue in the consolidated income statement. During the year, Shari'a prohibited income amounting to BD 343 thousand (2022: BD 450 thousand) has been transferred to charity, which has been included under "Accounts payable" (note 16).

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

	Fair value measurement using significant unobservable inputs Level 3	
	2023	*2022*
	BD '000	*BD '000*
At 1 January	**163**	192
Write down during the year	**-**	(29)
At 31 December	**163**	163

14 GOODWILL AND OTHER INTANGIBLE ASSETS

During the year, the group acquired a controling stake in Al Salam Bank Algeria (ASBA), as a result intangable assets of BD 24,476 thousand was recognised. (refer note 45).

On 7 July 2022, the Group had acquired a portfolio of assets from Ithmaar holding BSC, as result of this transaction BD 19,105 thousand was recognized as intangible assets.

In 30 March 2014, the Bank had acquired 100% of the paid-up capital of BMI. Goodwill of BD 25,971 thousand (2022: BD 25,971 thousand) arose from the business combination and is associated with the banking segment of the Group.

The recoverable amount of goodwill is based on value-in-use, calculated through cash flow projections from financial forecasts approved by the Board of Directors extrapolated for three years projection to arrive at the terminal value. A steady growth rate of 1% and discount rate of 14.2% is applied to the estimated cash flows.

The Bank assesses, on annual basis, whether there is an indication, based on either internal or external source of information, that the goodwill may be impaired in accordance with IAS 36 (‘impairment of non-financial assets'). As of 31 December 2023, there are no indication of impairment of the CGU associated with the goodwill.

A sensitivity analysis was conducted to assess the impact of recoverable amount as compared to the carrying value of the CGU. Two variable factors are considered in the analysis, an increase in the discount rate by 1.0% and a reduction of earnings by 0.5%, the recoverable amount is greater than the carrying value of goodwill in the sensitivity analysis and did not result in any impairment.

			2023			2022
Particulars	**Goodwill**	**License**	**Core deposits**	**Customer Relationship**	**Total**	Total
	BD '000	***BD '000***	***BD '000***	***BD '000***	***BD '000***	*BD '000*
Balance at 1 January	**33,529**	**-**	**14,878**	**3,591**	**51,998**	25,971
Acquired during the year	**3,723**	**12,000**	**-**	**12,476**	**28,199**	26,663
Amortised during the year	**-**	**-**	**(1,024)**	**(1,028)**	**(2,052)**	(636)
Balance as at 31 December	**37,252**	**12,000**	**13,854**	**15,039**	**78,145**	51,998

15 MURABAHA TERM FINANCING

These represent short-term to long-term financings obtained from various financial institutions and are collateralised by corporate and sovereign sukuk with total carrying value BD 582,508 thousand (2022: BD 408,602 thousand). (note 6)

16 OTHER LIABILITIES

	2023	*2022*
	BD '000	*BD '000*
Accounts payable	**77,701**	36,854
Accrued expenses	**14,383**	21,436
Manager cheques	**6,370**	5,696
LC margin deposit	**2,875**	8,898
Project payables	**225**	2,817
End of service benefits and other employee related accruals	**2,971**	2,624
Allowance for credit losses relating to financing commitments and financial guarantee contracts	**1,667**	473
	106,192	78,798

17 EQUITY OF INVESTMENT ACCOUNTHOLDERS (EIAH)

Equity of investment accountholders comprise:

	2023	*2022*
	BD '000	*BD '000*
Wakala from financial institutions	**379,768**	319,339
Wakala and Mudaraba from customers	**2,424,617**	2,013,134
The Group utilizes the funds from EIAH to finance assets.	**2,804,385**	2,332,473

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

	2023	*2022*
Assets	***BD '000***	*BD '000*
Mandatory reserve with central bank	**93,158**	92,507
Cash and other balances with central bank	**-**	40,693
Investment in associate	**227,790**	217,509
Placements with financial institutions	**217,380**	113,170
Financing assets	**1,525,505**	1,164,956
Ijara Muntahia Bitamleek	**740,552**	703,638
	2,804,385	2,332,473

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

The Group does not allocate non-performing assets to EIAH pool. All the impairment allowances are allocated to owners’ equity. Recoveries from non-performing financial assets are also not allocated to IAH accountholders. Only profits earned on pool of assets funded from IAH are allocated between the owners’ equity and IAH. As per the policy of the Group, minimum of 15% of return on assets earned is distributed to investment accountholders and up to 85% is retained by the Group as mudarib share. During the year, the Bank has sacrificed portion of its share of mudarib, in order to maintain a competitive profit distribution to the EIAH. The Group did not charge any administration expenses to investment account holders. The average profit rate attributed to the equity of investment accountholders based on the above ratio for the year ended 31 December 2023 was 3.6% (2022: 2.4%).

18 SHARE CAPITAL

	2023	*2022*
	BD '000	*BD '000*
Authorised:		
5,000,000,000 ordinary shares (2022: 5,000,000,000 shares) of BD 0.100 each	**500,000**	500,000
Issued and fully paid: (BD 0.100 per share)		
Number of shares 2,616,930,150 (2022: 2,492,314,429)	**261,693**	249,231

Names and nationalities of the major shareholders and the number of equity shares in which they own 5% or more of outstanding share as of 31 December 2023 is as follows:

Investor Name	**Nationality**	**No. of Shares**	**% of the outstanding shares**
Bank Muscat (S.A.O.G.)	Omani	385,639,674	14.7%
Overseas Investment S.P.C.	Bahraini	250,278,483	9.6%
Sayacorp B.S.C (c)	Bahraini	164,262,106	6.3%

18 SHARE CAPITAL (continued)

A distribution schedule of equity shares, setting out the number of holders and the percentages as of 31 December 2023 is presented below:

Categories	No. of Shares	No. of the shareholders	% of the outstanding shares
Less than 1%	**906,542,809**	**22,816**	**34.6**
1% up to less than 5%	**910,207,078**	**13**	**34.8**
5% up to less than 10%	**414,540,589**	**2**	**15.8**
10% up to less than 20%	**385,639,674**	**1**	**14.8**
Total	**2,616,930,150**	**22,832**	**100.0**

18.1 Appropriation

The Board of Directors is proposing a cash dividend of 7 fils per share or 7% (2022: 5%) of the par value of BD 0.100 per share excluding treasury shares and 5% of the paid up capital to be paid by issue of bonus shares (1 share for every 20 shares held). This amounts to BD 31,032 thousand (2022: BD 24,821 thousand) for the year ended 31 December 2023.

18.2. Treasury shares

Total number of treasury shares outstanding as of 31 December 2023 was 53,005,000 shares (2022: 20,384,279 shares).

18.3. Employee incentive scheme

The Bank operates a long term share based incentive scheme under which share awards were issued to employees with future performance conditions. As of 31 December 2023, 105,552,007 (2022: 124,615,721 shares) share awards remain unvested.

19 STATUTORY RESERVE

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

20 BASIC AND DILUTED EARNINGS PER SHARE

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

20 BASIC AND DILUTED EARNINGS PER SHARE (continued)

	2023	2022
Net profit attributable to Shareholders of the Bank (BD '000)	**42,226**	31,593
Weighted average number of shares (thousand)	**2,457,468**	2,463,839
Basic and diluted earnings per share (fils)	**17.2**	12.8

21 FINANCE INCOME

	2023 BD '000	2022 BD '000
Murabaha financing	**50,543**	28,614
Mudaraba financing	**39,949**	25,086
Ijarah income, net*	**51,053**	36,469
Musharaka	**2,266**	1,867
Salam financing	**16,003**	-
Istisna financing	**2,013**	-
Placements with financial institutions	**12,176**	3,122
	174,003	95,158

* Ijarah income is net of depreciation of BD 28,834 thousand (2022: BD 17,415 thousand).

22 INCOME FROM NON-TRADING INVESTMENTS, NET

	2023 BD '000	2022 BD '000
Fair value changes on investments	**(2,241)**	(729)
Loss on sale of investments, net	**(6,887)**	-
Dividend income	**1,221**	213
Gain on sale of investments, net	**-**	3,236
Gain on bargain purchase (Note 45)	**15,560**	-
	7,653	2,720

23 FEES AND COMMISSION, NET

	2023 BD '000	2022 BD '000
Transaction related fees and income	**5,017**	2,728
Arrangement fees	**2,324**	1,727
LC and LG commission	**4,522**	1,206
Card income and others	**4,520**	2,167
	16,383	7,828

24 INCOME FROM TAKAFUL OPERATIONS, NET

	2023 BD '000	2022 BD '000
Net premium earned	**41,079**	20,782
Net commission earned	**4,340**	1,147
	45,419	21,929
Less: Net claims incurred	**(29,895)**	(14,398)
Less: General and administrative expenses – Takaful operations	**(7,953)**	(3,758)
Income from Takaful operations, net	**7,571**	3,773

25 OTHER INCOME

	2023 BD '000	2022 BD '000
Recoveries	**-**	2,330
Foreign exchange gain / (loss)	**2,476**	(482)
Gain / (Loss) from properties,net	**48**	(222)
Others	**1,327**	176
	3,851	1,802

26 STAFF COST

	2023	*2022*
	BD '000	*BD '000*
Salaries and short term benefits	**27,322**	21,748
Employees' social insurance expenses	**2,850**	1,727
Other staff expenses	**1,593**	89
	31,765	23,564

During the year 2022, under the future performance awards structure of the Bank, an LTIP scheme was introduced where the employees are compensated in form of shares as a percentage on achievement of certain pre-determined performance conditions. The LTIP sets performance and service conditions and has a rateable vesting schedule over a period of five years. Accelerated vesting may occur on exceeding performance conditions leading to true up of share-based payment charges. The issue price is determined based on a defined adjustment to market price on the date of the award. The LTIP shares include financing features and are entitled to dividends, if any, released along with the vested shares.

27 OTHER OPERATING EXPENSES

	2023	*2022*
	BD '000	*BD '000*
Business related expenses	**9,644**	5,119
Information Technology expenses	**4,968**	2,864
Professional expenses	**2,698**	2,261
Board of directors related expenses	**1,717**	1,372
Other expenses	**11,002**	11,183
	30,029	22,799

28 RELATED PARTY TRANSACTIONS

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

The balances with related parties at 31 December 2023 and 31 December 2022 were as follows:

	2023				
	Associates and joint ventures	***Major shareholders***	***Directors and related entities***	***Senior management***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***	***BD '000***
Assets:					
Cash and balances with banks and central bank	**-**	**95**	**-**	**-**	**95**
Financing assets	**23,237**	**9,376**	**1,637**	**1,340**	**35,590**
Non-trading investments	**67,054**	**-**	**-**	**-**	**67,054**
Investment in associates	**231,484**	**-**	**-**	**-**	**231,484**
Liabilities and equity of investment accountholders:					
Customers' current accounts	**1,846**	**463**	**4,136**	**467**	**6,912**
Equity of investment accountholders	**4,376**	**1,646**	**6,926**	**2,651**	**15,599**
Other liabilities	**91**	**-**	**953**	**16**	**1,060**
Contingent liabilities and commitments	**8**	**-**	**651**	**-**	**659**

28 RELATED PARTY TRANSACTIONS (continued)

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

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

	2023				
	Associates and joint ventures	***Major shareholders***	***Directors and related entities***	***Senior management***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***	***BD '000***
Income:					
Finance income	**1,401**	**690**	**123**	**55**	**2,269**
Fees and commission, net	**18**	**-**	**8**	**-**	**26**
Share of profit from associates	**21,043**	**-**	**-**	**-**	**21,043**
Expenses:					
Takaful Expenses	**451**	**-**	**-**	**-**	**451**
Share of profits on equity of investment accountholders	**154**	**299**	**362**	**88**	**903**
Other operating expenses	**-**	**-**	**3,863**	**162**	**4,025**
Net impairment charge on investments	**3,070**	**-**	**-**	**-**	**3,070**

28 RELATED PARTY TRANSACTIONS (continued)

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

Key management personnel compensation

Board of Directors' remuneration for the year 2023 amounted to BD 965 thousand (2022: BD 780 thousand) and sitting fees for the year 2023 amounted to BD 519 thousand (2022: BD 498 thousand).

Sharia Supervisory Boards' remuneration for the year 2023 amounted to BD 55 thousand (2022: BD 52 thousand).

Key management personnel of the Bank comprise key members of management having authority and responsibility for planning, directing and controlling the activities of the Bank. Compensation of key management personnel for the year 2023 includes salaries and other benefits of BD 5,732 thousand (2022: BD 4,427 thousand).

29 CONTINGENT LIABILITIES AND COMMITMENTS

	2023	*2022*
	BD '000	*BD '000*
Contingent liabilities on behalf of customers		
Guarantees	**137,932**	60,217
Letters of credit	**170,259**	12,611
Acceptances	**1,648**	1,254
	309,839	74,082
Unutilised commitments		
Unutilised financing commitments	**313,076**	196,652
Unutilised non-funded commitments	**37,261**	4,912
	350,337	201,564

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

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

30 WA’AD BASED FX TRANSACTIONS FOR RISK MANAGEMENT

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

	2023		*2022*	
	Notional Amount	**Fair Value**	Notional Amount	Fair Value
	BD '000	***BD '000***	*BD '000*	*BD '000*
FX Wa’ad instruments				
Assets position	**42,630**	**563**	62,926	1,247
Liabilities position	**52,515**	**337**	14,509	440

31 RISK MANAGEMENT

31.1 Introduction - Risk management of Banking operations

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

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

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

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

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

Credit Investment Committee
Credit and Investment Committee (CIC) reviews the Credit Risk Policies and Investment Policies to ensure they are consistent with the corporate values and strategy of the Bank. The Committee will discuss, review and approve all investments and financing transactions.
The Committee establishes the framework for setting country, product and sector limits, consider proposals for changes in such limits, review periodic reports to monitor compliance and agree actions to be taken to address exceptions.

It assesses and approves credit risk parameters (including pricing) relating to new products and changes in credit risk for existing products.

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

31 RISK MANAGEMENT (continued)

31.1 Introduction (continued)

Operational Risk Committee

The Operational and Market Risk (OPMA) and Compliance Committee - it reviews the risk management policies (excluding Credit Risk policies). It ensures Bank's compliance with applicable Regulations with the assistance of the relevant stakeholders.

Information Security Committee

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

Audit and Risk Committee

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

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

Internal Audit

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

Risk measurement and reporting systems

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

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

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

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information. Briefing is given to all relevant members of the Group on the utilization of market limits, proprietary investments and liquidity, plus any other risk developments.

31 RISK MANAGEMENT (continued)

31.1 Introduction (continued)

Risk measurement and reporting systems (continued)

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

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

31.2 Credit risk

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

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

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

Credit risk grades

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

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

	Gross maximum exposure 2023 BD '000	*Gross maximum exposure 2022 BD '000*
ASSETS		
Balances with other banks	**126,902**	183,646
Placements with financial institutions	**293,598**	113,169
Corporate Sukuk	**57,369**	40,311
Financing assets	**2,725,483**	2,035,401
Financing contracts under other assets	**2,376**	1,881
Total	**3,205,728**	2,374,408
Contingent liabilities and commitments	**660,176**	275,646
Total credit risk exposure	**3,865,904**	2,650,054

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

31 RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

Type of credit risk

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

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

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

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

Measurement of ECL

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

The key parameters into the measurement of ECL are the following variables:

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

These parameters are generally derived from internally developed models, historical and projected data. These are further adjusted to reflect forward-looking scenarios as described below.

Definition of default

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

31 RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

Probability of default

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

Generating the term structure PD

Credit risk grades are a primary parameters into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by credit risk grading for corporate and days-past-due for retail portfolio. The Group employs credit risk estimation models for analysing the data collected and generate estimates of PD of exposures and how these are expected to change as a result of the passage of time.

Incorporation of forward - looking information

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

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

Loss Given Default

LGD is the magnitude of the likely loss if there is a default. LGD parameters based on the history of recovery rates of claims against defaulted counterparties, based on historical data using both internal and external factors. The LGD is estimated using below factors:

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

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

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

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

31 RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

Exposure At Default

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

Significant Increase in Credit Risk

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

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

The criteria for determining whether credit risk has increased significantly vary on a portfolio level and include quantitative and qualitative factors, including days past due, restructured status and relative migration in risk rating. Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk grade deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 4 and 5.

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

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

Renegotiated financial assets

The contractual terms of a financing may be modified for a number of reasons including changing market conditions, and other factors not related to the current or potential credit deterioration of a customer. When the terms of a financial asset are modified and the modification does not result in a derecognition, the determination of whether the asset’s credit risk has increased significantly reflects a comparison of its remaining lifetime PD at the reporting date based on modified terms, with the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

31 RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

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

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

Backward transition

FAS 30 staging model is of symmetrical nature as exposures may migrate from lifetime ECL measurement (Stage 2 and Stage 3) to 12 month ECL measurement (Stage 1). However, movement across stages are not immediate once SICR indicators are no longer triggered. Once such indicators are no longer triggered, movement back to Stage 1 or Stage 2 has to be calibrated and cannot be automatic or immediate. Certain criteria like cooling off year, SICR indicators and payment history are considered for migrating customers to Stage 2 or Stage 1.

Credit Conversion Factor

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

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

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

Expected credit Losses

ECLs were estimated based on a range of forecast economic conditions as at that date the Group has considered the impact of volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECL determination.

31 RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

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

Key model inputs	Model assumptions
Probability of default (PD's)	Point-in-time PD's updated using latest available macro-economic forecasts by using historical correlation to Volume of imports of goods and services; Inflation average consumer prices; Domestic credit growth (%); Unemployment rate and Gross national savings as percentage of GDP
Probability weighted outcomes	Probability weights - Base 65, Stressed 25, Improved 10
Loss Given Default (LGD)	Unsecured LGD is 65% and it is consistent with those used in 2022.

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

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

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

31 RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

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

	2023			
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Stage 3: Lifetime ECL credit-impaired***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***
Good (R1-R4)	**327,751**	**-**	**-**	**327,751**
Satisfactory (R5-R7)	**92,749**	**-**	**-**	**92,749**
Allowance for credit losses	**(346)**	**-**	**-**	**(346)**
	420,154	**-**	**-**	**420,154**

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

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

i) Corporate Sukuk

	2023			
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Stage 3: Lifetime ECL credit-impaired***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***
Good (R1-R4)	**47,308**	**-**	-	**47,308**
Satisfactory (R5-R7)	**10,061**	**-**	-	**10,061**
Allowance for credit losses	**(48)**	**-**	-	**(48)**
	57,321	**-**	-	**57,321**

31 RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

i) Corporate Sukuk (continued)

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

ii) Financing assets

	2023				
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Stage 3: Lifetime ECL credit-impaired***	***POCI***	***Total***
	BD '000	***BD '000***	***BD '000***		***BD '000***
Good (R1-R4)	**2,327,900**	**30,400**	**-**	**-**	**2,358,300**
Satisfactory (R5-R7)	**202,510**	**60,583**	**-**	**-**	**263,093**
Default (D8-D10)	**-**	**-**	**91,563**	**12,527**	**104,090**
Allowance for credit losses and impairment	**(16,334)**	**(8,332)**	**(23,922)**	**(435)**	**(49,023)**
	2,514,076	**82,651**	**67,641**	**12,092**	**2,676,460**

	2022				
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	*POCI*	*Total*
	BD '000	*BD '000*	*BD '000*		*BD '000*
Good (R1-R4)	1,804,731	38,538	-	-	1,843,269
Satisfactory (R5-R7)	63,863	78,498	-	-	142,361
Default (D8-D10)	-	-	39,846	9,925	49,771
Allowance for credit losses and impairment	(17,309)	(12,290)	(19,337)	-	(48,936)
	1,851,285	104,746	20,509	9,925	1,986,465

As 31 December 2023, profit in suspense amounted to BD 24,980 thousand (2022: BD 22,549 thousand).

31 RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

iii) Financing other assets

	2023			
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Stage 3: Lifetime ECL credit-impaired***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***
Good (R1-R4)	**1,487**	**-**	**-**	**1,487**
Satisfactory (R5-R7)	**297**	**65**	**-**	**362**
Default (D8-D10)	**-**	**-**	**527**	**527**
Allowance for credit losses	**(529)**	**(5)**	**(333)**	**(867)**
	1,255	**60**	**194**	**1,509**

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

iv) Financing commitments and financial guarantee contracts

	2023			
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Stage 3: Lifetime ECL credit-impaired***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***
Good (R1-R4)	**486,192**	**1,117**	**-**	**487,309**
Satisfactory (R5-R7)	**161,588**	**5,067**	**-**	**166,655**
Default (D8-D10)	**-**	**-**	**6,212**	**6,212**
Allowance for credit losses	**(1,505)**	**(150)**	**(12)**	**(1,667)**
	646,275	**6,034**	**6,200**	**658,509**

31 RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

iv) Financing commitments and financial guarantee contracts (continued)

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

The aging analysis of Financing Assets:

	2023			
	Stage 1	***Stage 2***	***Stage 3 / POCI***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***
Current	**2,417,399**	**65,656**	**28,155**	**2,511,210**
< 30 days	**93,746**	**8,164**	**2,611**	**104,521**
30 to 90 Days	**19,265**	**17,163**	**12,070**	**48,498**
> 90 days	**-**	**-**	**61,254**	**61,254**
	2,530,410	**90,983**	**104,090**	**2,725,483**

	2022			
	Stage 1	*Stage 2*	*Stage 3 / POCI*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Current	1,744,738	92,147	14,793	1,851,678
< 30 days	122,667	3,773	1,796	128,236
30 to 90 Days	1,189	21,116	28,710	51,015
> 90 days	-	-	4,472	4,472
	1,868,594	117,036	49,771	2,035,401

The maximum credit risk, without taking into account the fair value of any collateral and Shari'a-compliant netting agreements, is limited to the amounts on the consolidated statement of financial position plus commitments to customers disclosed in note 29 except capital commitments.

During the year BD 24,536 thousand (2022: BD 25,630 thousand) of financing facilities were renegotiated. Most of the renegotiated facilities are performing and are secured.

Write-off policy
The Group writes off an asset/security balance (net of any related allowances for impairment losses) when it determines that the asset/security are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the counterparty’s financial position such that they can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. During the year, the Group has written back net financing facilities amounting to BD Nil thousand (2022: BD 224 thousand) which were fully impaired.

31 RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

Collateral held and other credit enhancements

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

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

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

Type of credit exposure	*Principal type of collateral held*	***2023***	*2022*
		BD '000	*BD '000*
Financing assets to corporates	Cash, Property, or listed Shares and Sukuk	**2,009,902**	1,380,953
Financing assets to retail customers	Cash, Property, or listed Shares and Sukuk	**1,383,696**	1,181,410

FTV ratio

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

	2023	*2022*
	BD '000	*BD '000*
Less than 50%	**864,185**	988,811
51-70%	**134,188**	229,424
71-90%	**182,617**	273,392
91-100%	**201,788**	160,682
More than 100%	**1,342,705**	383,092
	2,725,483	2,035,401

Key drivers of credit risk and credit losses

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

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

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

31 RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

Key drivers of credit risk and credit losses (continued)

The various types of credit risk are defined as follows:

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

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

31.3 Legal risk and claims

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

As at 31 December 2023, legal suits amounting to BD 1,555 thousand (2022: BD 1,302 thousand) were pending against the Group. Based on the opinion of the Group’s legal counsel, the total estimated liability arising from these cases is not considered to be material to the Group's consolidated financial position as the Group has also filed counter cases against these parties.

31.4 Operational risk management

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

As of 31 December 2023, the Group did not have any significant issues relating to operational risks.

31.5 Risk Management for Takaful operations of the Group

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

31 RISK MANAGEMENT (continued)

31.5 Risk Management for Takaful operations of the Group (continued)

(i) Underwriting Policy

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

(ii) Retakaful Policy

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

32 CONCENTRATIONS

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

32 CONCENTRATIONS (continued)

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

	2023			*2022*		
	Assets	***Liabilities and equity of investment account holders***	***Contingent liabilities and Commitments***	*Assets*	*Liabilities, and equity of investment account holders*	*Contingent liabilities and Commitments*
	BD '000	***BD '000***	***BD '000***	*BD '000*	*BD '000*	*BD '000*
Geographic region						
GCC	**4,043,110**	**3,220,903**	**271,629**	3,652,878	3,071,611	266,346
Middle East and North Africa	**930,425**	**1,161,581**	**216,105**	80,126	216,848	7,504
Europe	**70,385**	**215,535**	**60,504**	65,514	196,728	18
Asia	**5,260**	**68,462**	**-**	8,794	32,140	738
America	**79,948**	**16,567**	**111,938**	81,480	20,492	1,040
Others	**17,982**	**55,412**	**-**	10,569	24,187	-
	5,147,110	**4,738,460**	**660,176**	3,899,361	3,562,006	275,646

	2023			*2022*		
	Assets	***Liabilities and equity of investment account holders***	***Contingent liabilities and Commitments***	*Assets*	*Liabilities, and equity of investment account holders*	*Contingent liabilities and Commitments*
	BD '000	***BD '000***	***BD '000***	*BD '000*	*BD '000*	*BD '000*
Industry sector						
Government and public sector	**1,180,065**	**245,592**	**47,338**	1,273,552	301,168	41,390
Banks and financial institutions	**1,327,682**	**786,189**	**40,608**	102,058	690,306	61,071
Real estate	**273,681**	**90,793**	**78,441**	394,200	101,511	48,096
Trading and manufacturing	**688,935**	**422,595**	**397,490**	131,925	109,239	64,208
Aviation	**383**	**-**	**-**	-	-	-
Individuals	**1,249,470**	**2,471,106**	**43,182**	1,370,883	1,595,041	32,867
Others	**426,894**	**722,185**	**53,117**	626,743	764,741	28,014
	5,147,110	**4,738,460**	**660,176**	3,899,361	3,562,006	275,646

33 MARKET RISK

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

33.1 Equity price risk

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

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

	2023			
	10% increase		***10% decrease***	
	Effect on net profit BD '000	***Effect on equity BD '000***	***Effect on net profit BD '000***	***Effect on equity BD '000***
Quoted investment	**1,014**	**2,231**	**(1,014)**	**(2,231)**

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

33.2 Profit return risk

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

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

The sensitivity on income solely due to reasonably possible immediate and sustained changes in profit return rates, affecting both floating rate assets and liabilities and fixed rate assets and liabilities with maturities up to one year (re-pricing maturity on cumulative basis) are as follows:

	2023			
	Change in rate %	***Effect on net profit BD '000***	***Change in rate %***	***Effect on net profit BD '000***
Bahraini dinars	**0.10**	**(14,714)**	**(0.10)**	**14,714**

33 MARKET RISK (continued)

33.2 Profit return risk (continued)

	2022			
	Change in rate %	*Effect on net profit BD '000*	*Change in rate %*	*Effect on net profit BD '000*
Bahraini dinars	0.10	(13,652)	(0.10)	13,652

Profit rate benchmark reform (PBOR)

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

33.3 Currency risk

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

Substantial portion of the Group's assets and liabilities are denominated in Bahraini Dinars, US Dollars or Saudi Riyals. As the Bahraini Dinar and Saudi Riyals are pegged to the US Dollars, positions in these currencies are not considered to represent significant currency risk as of 31 December 2023 and 2022.

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

	Long (short) 2023 BD '000	*Long (short) 2022 BD '000*
Sterling Pounds	**(58)**	(19,260)
Euro	**895**	-
Algerian Dinar	**-**	(46,827)
Others	**144**	1,897

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

	Change in currency rate %	***Effect on profit 2023 BD '000***	***Effect on equity 2023 BD '000***	*Change in currency rate %*	*Effect on profit 2022 BD '000*	*Effect on equity 2022 BD '000*
Sterling Pounds	**10**	**(6)**	-	10	(1,926)	-
Euro	**10**	**90**	-	10	-	-
Algerian Dinar	**10**	**-**	-	10	-	(4,683)
Others	**10**	**14**	-	10	190	-
Total		**98**	-		(1,736)	(4,683)

34 LIQUIDITY RISK

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

The Bank has computed the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) as per the requirements of the CBB rulebook. The LCR at the Group level as at 31 December 2023 is 146.7% and the simple average of the daily consolidated LCRs of the last three months is 185.0%. The NSFR as at 31 December 2023 is 115.5%.

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

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

As at the reporting date the liquidity and funding position of the Group remains strong and is well placed to absorb and manage the impacts of this disruption. Further information on the regulatory liquidity and capital ratios as at 31 December 2023 have been disclosed in note 44 to the consolidated financial statements.

	2023				
	Up to 3 months BD '000	***3 months to 1 year BD '000***	***1 to 5 years BD '000***	***Over 5 years BD '000***	***Total BD '000***
ASSETS					
Cash and balances with banks and central bank	**537,874**	**-**	**-**	**-**	**537,874**
Placements with financial institutions	**279,961**	**13,403**	**-**	**216**	**293,580**
Investment in sukuk	**118,376**	**130,455**	**409,346**	**344,662**	**1,002,839**
Financing assets	**298,904**	**308,395**	**909,368**	**1,159,793**	**2,676,460**
Non-trading investments	**-**	**5,874**	**1,885**	**92,301**	**100,060**
Takaful and related assets	**-**	**67,370**	**-**	**-**	**67,370**
Investment in real estate	**-**	**-**	**-**	**78,070**	**78,070**
Investment in associates	**-**	**-**	**-**	**231,484**	**231,484**
Other assets	**5,403**	**9,341**	**6,484**	**60,000**	**81,228**
Goodwill and other intangible assets	**-**	**-**	**-**	**78,145**	**78,145**
	1,240,518	**534,838**	**1,327,083**	**2,044,671**	**5,147,110**

34 LIQUIDITY RISK (continued)

	2023				
	Up to 3 months BD '000	***3 months to 1 year BD '000***	***1 to 5 years BD '000***	***Over 5 years BD '000***	***Total BD '000***
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS					
Placements from financial institutions	**71,258**	**65,253**	**-**	**-**	**136,511**
Customers' current accounts	**1,062,093**	**-**	**2**	**3,936**	**1,066,031**
Murabaha term financing	**379,961**	**105,536**	**21,854**	**3,497**	**510,848**
Takaful and related liabilities	**-**	**114,493**	**-**	**-**	**114,493**
Other liabilities	**37,982**	**40,823**	**4**	**27,383**	**106,192**
Equity of investment accountholders	**1,611,766**	**874,860**	**292,732**	**25,027**	**2,804,385**
	3,163,060	**1,200,965**	**314,592**	**59,843**	**4,738,460**

	2022				
	Up to 3 months BD '000	*3 months to 1 year BD '000*	*1 to 5 years BD '000*	*Over 5 years BD '000*	*Total BD '000*
ASSETS					
Cash and balances with banks and central bank	367,747	-	-	-	367,747
Placements with financial institutions	84,488	28,608	-	-	113,096
Investment in sukuk	37,793	58,238	467,328	274,022	837,381
Financing assets	208,458	271,127	674,069	832,811	1,986,465
Non-trading investments	-	-	-	106,796	106,796
Takaful and related assets	-	51,690	-	-	51,690
Investment in real estate	-	-	-	62,462	62,462
Investment in associates	-	-	-	254,006	254,006
Other assets	35,436	10,494	2,083	19,707	67,720
Goodwill and other intangible assets	-	-	-	51,998	51,998
	733,922	420,157	1,143,480	1,601,802	3,899,361
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS					
Placements from financial institutions	145,111	42,613	-	-	187,724
Customers' current accounts	550,281	-	-	-	550,281
Murabaha term financing	203,651	89,399	22,557	5,382	320,989
Takaful and realted liabilities	-	91,741	-	-	91,741
Other liabilities	38,321	2,249	512	37,716	78,798
Equity of investment accountholders	1,109,264	822,348	310,064	90,797	2,332,473
	2,046,628	1,048,350	333,133	133,895	3,562,006

34 LIQUIDITY RISK (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2023 and 2022 based on contractual undiscounted payment obligation:

	2023					
	On demand BD '000	***Up to 3 months BD '000***	***3 months to 1 year BD '000***	***1 to 5 years BD '000***	***Over 5 years BD '000***	***Total BD '000***
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, COMMITMENTS AND CONTINGENT LIABILITIES						
Placements from financial institutions	**-**	**71,772**	**66,822**	**-**	**-**	**138,594**
Customers' current accounts	**1,066,031**	**-**	**-**	**-**	**-**	**1,066,031**
Murabaha term financing	**-**	**379,962**	**105,536**	**21,854**	**5,382**	**512,734**
Equity of investment accountholders	**518,016**	**1,099,257**	**902,087**	**306,314**	**50,324**	**2,875,998**
Contingent liabilities and commitments	**-**	**142,951**	**167,990**	**322,782**	**26,453**	**660,176**
Other financial liabilities	**18,925**	**-**	**-**	**-**	**-**	**18,925**
	1,602,972	**1,693,942**	**1,242,435**	**650,950**	**82,159**	**5,272,458**

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

35 SEGMENT INFORMATION

Primary segment information

For management purposes, after completion of the recent acqusitions (refer note 45), the Group is organised into the following primary business segments:

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

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

Segment information is disclosed as follows:

	2023					
	Banking	***Treasury***	***Investments***	***Takaful***	***Unallocated***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***	***BD '000***	***BD '000***
Finance income	**161,474**	**11,103**	**-**	**1,426**	**-**	**174,003**
Income from sukuk	**-**	**47,550**	**-**	**1,205**	**-**	**48,755**
Fees and commission, net	**13,320**	**3,063**	**-**	**-**	**-**	**16,383**
Income from non-trading investments, net	**15,394**	**(7,923)**	**(1,026)**	**1,208**	**-**	**7,653**
Share of profit from associates, net	**19,246**	**-**	**1,763**	**34**	**-**	**21,043**
Income from Takaful operations, net	**-**	**-**	**-**	**7,571**	**-**	**7,571**
Other income	**2,269**	**1,162**	**(115)**	**535**	**-**	**3,851**
Finance expense on placements from financial institutions	**(179)**	**(8,267)**	**-**	**-**	**-**	**(8,446)**
Finance expense on murabaha term financing	**-**	**(25,517)**	**-**	**-**	**-**	**(25,517)**
Return on equity of investment accountholders	**(83,309)**	**(16,770)**	**(8)**	**-**	**-**	**(100,087)**
Net operating income	**128,215**	**4,401**	**614**	**11,979**	**-**	**145,209**

35 SEGMENT INFORMATION (continued)

	2023					
	Banking	***Treasury***	***Investments***	***Takaful***	***Unallocated***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***	***BD '000***	***BD '000***
Staff cost	**25,221**	**5,615**	**929**	**-**	**-**	**31,765**
Premises cost & depreciation	**6,679**	**929**	**131**	**-**	**-**	**7,739**
Other operating expenses	**19,686**	**3,801**	**1,072**	**5,470**	**-**	**30,029**
Operating income before impairment allowances	**76,629**	**(5,944)**	**(1,518)**	**6,509**	**-**	**75,676**
Net impairment charge	**(19,914)**	**(194)**	**(2,793)**	**(88)**	**-**	**(22,989)**
Tax for the year	**(4,509)**	**-**	**-**	**-**	**-**	**(4,509)**
Segment result	**52,206**	**(6,138)**	**(4,311)**	**6,421**	**-**	**48,178**
Segment assets	**3,274,290**	**1,485,734**	**181,630**	**158,944**	**46,512**	**5,147,110**
Segment liabilities	**3,387,058**	**1,184,538**	**1,315**	**107,580**	**57,969**	**4,738,460**

Goodwill and other intangibles include BD 66,865 thousand (2022: BD 44,441 thousand) allocated from prior acquisitions within the banking segment and BD 11,280 thousand (2022: BD 7,557 thousand) attributable to the takaful segment.

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

	2022					
	Banking	*Treasury*	*Investments*	*Takaful*	*Unallocated*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*
Finance income	90,666	3,848	-	644	-	95,158
Income from sukuk	-	34,395	-	383	-	34,778
Fees and commission, net	5,238	2,590		-	-	7,828
Income from non-trading investments, net	-	-	2,880	(160)	-	2,720
Share of profit from associates, net	7,380	-	1,937	12	-	9,329
Income from Takaful operations, net	-	-	-	3,773	-	3,773
Other income	2,212	(374)	(64)	28	-	1,802
Finance expense on placements from financial institutions	(334)	(4,621)	-	-	-	(4,955)
Finance expense on murabaha term financing	-	(6,046)	-	-	-	(6,046)
Return on equity of investment accountholders	(41,138)	(6,848)	(5)	-	-	(47,991)
Net operating income	64,024	22,944	4,748	4,680	-	96,396
Staff cost	17,618	4,949	997	-	-	23,564
Premises cost & depreciation	3,188	935	157	-	-	4,280
Other operating expenses	15,764	3,503	1,243	2,289	-	22,799
Operating income before impairment allowances	27,454	13,557	2,351	2,391	-	45,753

35 SEGMENT INFORMATION (continued)

	2022					
	Banking	*Treasury*	*Investments*	*Takaful*	*Unallocated*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*
Net impairment charge	(8,956)	(13)	(3,714)	-	-	(12,683)
Segment result	18,498	13,544	(1,363)	2,391	-	33,070
Segment assets	2,211,788	1,286,557	197,264	154,523	49,229	3,899,361
Segment liabilities	2,451,096	937,770	952	93,397	78,791	3,562,006

Goodwill resulting from BMI acquisition is allocated to banking segment.

The distribution of assets, liabilities and equity of investment account holders by geographic segment was as follows:

	2023			*2022*		
	Assets	***Liabilities and equity of investment account holders***	***Contingent liabilities and Commitments***	*Assets*	*Liabilities and equity of investment account holders*	*Contingent liabilities and Commitments*
	BD '000	***BD '000***	***BD '000***	*BD '000*	*BD '000*	*BD '000*
GCC	**4,043,110**	**3,220,903**	**271,629**	3,652,878	3,071,611	266,346
International	**1,104,000**	**1,517,557**	**388,547**	246,483	490,395	9,300
Total	**5,147,110**	**4,738,460**	**660,176**	3,899,361	3,562,006	275,646

Secondary segment information

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

36 FIDUCIARY ASSETS

Funds under management at the year end amounted to BD 108,814 (2022: BD 111,500 thousand). These assets are held in a fiduciary capacity, measured at remaining subscription amounts and are not included in the consolidated statement of financial position. Further, the Group through its SPV's, acts as an agent/custodian on behalf of certain clients to facilitate transactions as per terms and instructions from their customers.

37 SHARI'A SUPERVISORY BOARD

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

38 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

During the year, the Group earned Shari'a prohibited income totalling BD 343 thousand (2022: BD 450 thousand). These include income earned from the conventional financing and investments due to acquiring BMI, ASBS and BSB, penalty charges from customers and interest on balances held with correspondent banks. These funds were allocated to charitable account for disbursment.

39 SOCIAL RESPONSIBILITY

The Group discharges its social responsibility through charity fund expenditures and donations to individuals and organisations which are used for charitable purposes. During the year, the Group paid an amount of BD 677 thousand (2022: 478 thousand) out of which BD 302 thousand (2022: BD 110 thousand) was paid from Sharia prohibited income pool.

40 ZAKAH

Pursuant to a resolution of the shareholders in an Extra-ordinary General Meetings (EGM) held on 12 November 2009, it was resolved to amend the articles of association of the Bank to inform the shareholders of their obligation to pay Zakah on income and net worth. Consequently, Zakah is not recognised in the consolidated income statement as an expense. The total Zakah payable by the shareholders for 2023 has been determined by the Shari'a supervisory board as 1.2 fils (2022: 2.7 fils) per share. Under FAS 39, Zakah payable for the year ended 2023 was calculated at 2.577% of the Zakah base of BD 118,596 thousand (2022: BD 245,883 thousand) which was determined on the Net assets method.

41 FAIR VALUE HIERARCHY

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

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

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

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

31 December 2023	***Level 1***	***Level 2***	***Level 3***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***
Sovereign sukuk at fair value through equity	**270,865**	**69,970**	**-**	**340,835**
Corporate sukuk at fair value through equity	**23,337**	**346**	**-**	**23,683**
Equity securities at fair value through income statement	**3,611**	**6,622**	**75,972**	**86,205**
Equity securities at fair value through equity	**11,133**	**-**	**2,722**	**13,855**
FX Wa'ad assets position	**-**	**563**	**-**	**563**
	308,946	**77,501**	**78,694**	**465,141**
FX Wa'ad liabilities position	**-**	**337**	**-**	**337**
	-	**337**	**-**	**337**

Financial instruments measured at amortized cost

	Level 1	***Level 2***	***Level 3***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***
Sovereign sukuk at amortized cost	**540,408**	**64,275**	**-**	**604,683**
Corporate sukuk at amortized cost	**33,638**	**-**	**-**	**33,638**
	574,046	**64,275**	**-**	**638,321**

The fair value of sukuk carried at amortized cost is BD 750,394 thousand at 31 December 2023 (2022: BD 579,528 thousand) 31 December 2022.

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

41 FAIR VALUE HIERARCHY (continued)

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

	2023	*2022*
	BD '000	*BD '000*
At 1 January	**85,718**	87,173
Transferred from Solidarity	**-**	2,805
Purchases	**-**	49
Disposals	**-**	(23)
Transfers	**(1,462)**	-
Fair value changes	**(2,410)**	(275)
Impairment	**(3,152)**	(4,014)
At 31 December	**78,694**	85,715

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

Valuation technique used	**Key unobservable inputs**	**Fair value at 31 December 2023 BD'000**	**Reasonable possible shift +/- (in average input)**	**Increase/ (decrease) in valuation**
Asset Valuation	Underlying real estate	104,101	+/- 5%	5,217 / (5,217)

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

	2023	*2022*
	BD '000	*BD '000*
At 1 January	**14,313**	-
Reclassified from FVTE	**(14,313)**	11,774
Additions / redemptions	**-**	2,539
At 31 December	**-**	14,313

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

The estimated fair values of other financial assets are not expected to be materially different from their carrying values as of 31 December 2023 and 31 December 2022 due to their short term nature.

42 FINANCIAL RISK MANAGEMENT

The Group’s financial risk management objectives and policies are consistent with those disclosed in the annual consolidated financial statements for the year ended 31 December 2022.

Russia-Ukraine conflict

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

42 FINANCIAL RISK MANAGEMENT (continued)

The management has carried out an assessment of its portfolio and has concluded that it does not have any direct exposures to / from the impacted countries. However, potential for indirect exposures continue to exist. At this stage it is difficult to quantify the full impact of this conflict since it depends largely on the nature and duration of uncertain and unpredictable events, such as further military action, additional sanctions, and reactions to ongoing developments by global financial markets. The management will continue to closely monitor impact of this evolving situation on its portfolio to assess indirect impact, if any. As at 31 December 2023 the Group does not have any direct material impact of this conflict.

43 DEPOSIT PROTECTION SCHEME

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

44 REGULATORY RATIOS

1) Liquidity Coverage Ratio (LCR)

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

LCR is computed as a ratio of Stock of HQLA over the Net cash outflows. The average Consolidated LCR for three months calculated as per the requirements of the CBB rulebook, as of 31 December 2023 and 31 December 2022, is as follows:

	Total weighted value	
	2023	*2022*
	BD '000	*BD '000*
Stock of HQLA	**640,852**	538,323
Net cashflows	**351,585**	219,621
LCR %	**185.0%**	251.4%
Minimum required by CBB	**100%**	100%

2) Capital Adequacy Ratio

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

44 REGULATORY RATIOS (continued)

2) Capital Adequacy Ratio (continued)

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

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

	As at 31 December	
	2023	*2022*
	BD '000	*BD '000*
CET 1 Capital before regulatory adjustments	**337,263**	302,173
Less: regulatory adjustments	**49,667**	34,562
CET 1 Capital after regulatory adjustments	**287,596**	267,611
AT 1 Capital	**3,574**	44
T 2 Capital adjustments	**52,160**	38,415
Regulatory Capital	**343,330**	306,070
Risk weighted exposure:		
Credit Risk Weighted Assets	**1,548,447**	1,244,559
Market Risk Weighted Assets	**1,300**	38,237
Operational Risk Weighted Assets	**137,610**	113,494
Total Regulatory Risk Weighted Assets	**1,687,357**	1,396,290
Total Adjusted Risk Weighted Exposures	**1,687,357**	1,396,290
Capital Adequacy Ratio	**20.4%**	21.9%
Tier 1 Capital Adequacy Ratio	**17.3%**	19.2%
Minimum required by CBB	**12.5%**	12.5%

As of 31 December 2023, aggregate of modification loss of BD 16,512 thousand (2022: BD 24,768 thousand) has been added back to Tier 1 capital.

3) Net Stable Funding Ratio (NSFR)

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

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

44 REGULATORY RATIOS (continued)

3) Net Stable Funding Ratio (NSFR) (continued)

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

BD'000	Unweighted Values (before applying relevant factors)				
Item	**No specified maturity**	**Less than 6 months**	**More than 6 months and less than one year**	**Over one year**	**Total weighted value**
<u>Available Stable Funding (ASF):</u>					
Capital:					
Regulatory Capital	**325,754**	**-**	**-**	**52,160**	**377,914**
Retail deposits and deposits from small business customers:					
Stable deposits	**-**	**340,231**	**15,956**	**10,512**	**348,890**
Less stable deposits	**-**	**1,215,891**	**363,513**	**273,026**	**1,694,490**
Wholesale funding:					
Other wholesale funding	**-**	**2,028,868**	**133,881**	**104,315**	**610,515**
Other liabilities:					
All other liabilities not included in the above categories	**-**	**144,683**	**-**	**-**	**-**
Total ASF	**325,754**	**3,729,673**	**513,350**	**440,013**	**3,031,809**

44 REGULATORY RATIOS (continued)

3) Net Stable Funding Ratio (NSFR) (continued)

BD'000	Unweighted Values (before applying relevant factors)				
Item	**No specified maturity**	**Less than 6 months**	**More than 6 months and less than one year**	**Over one year**	**Total weighted value**
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	38,622
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	-	415,492	883	4,333	67,098
Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	854,332	262,593	1,124,303	1,480,761
With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	-	-	-	166,799	108,419
Performing residential mortgages, of which:	-	-	-	355,894	231,331
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	355,894	231,331
Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	18,929	7,212	2,789	15,441
Other assets:					
All other assets not included in the above categories	682,607	18,413	1,638	93,168	758,424
OBS items	-	659,523	-	-	32,976
Total RSF	682,607	1,966,689	272,326	1,580,487	2,624,653
NSFR (%)	-	-	-	-	115.5%

44 REGULATORY RATIOS (continued)

3) Net Stable Funding Ratio (continued)

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

BD'000	Unweighted Values (before applying relevant factors)				
Item	No specified	Less than 6 months	More than 6 months and	Over one year	Total weighted
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	279,592	-	-	38,415	318,007
Retail deposits and deposits from small business customers:					
Stable deposits	-	315,809	21,822	15,879	336,629
Less stable deposits	-	936,116	233,070	133,844	1,186,111
Wholesale funding:					
Other wholesale funding	-	1,452,526	184,892	87,198	473,702
Other liabilities:					
All other liabilities not included in the above categories	-	51,422	-	46,593	46,593
Total ASF	279,592	2,755,873	439,784	321,929	2,361,042
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	34,634
Performing financing and sukuk/ securities:					
Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	285,379	-	6,496	49,302
Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	357,123	154,489	1,222,473	1,268,029
With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	-	-	-	134,393	87,356
Performing residential mortgages, of which:	-	-	-	221,246	143,810
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	221,246	143,810
Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	12,236	2,458	12,357	17,850
Other assets:					
All other assets not included in the above categories	557,037	14,025	-	88,124	652,174
OBS items	-	275,333	-	-	13,767
Total RSF	**557,037**	944,096	156,947	1,550,696	2,179,566
NSFR (%)	-	-	-	-	108.3%

45 BUSINESS COMBINATION

2023

Acquisition of subsidiary

During the year, the Group has increased its stake in Al Salam Bank Algeria (ASBA) to 68.0%, thereby establishing control, accordingly the Group has applied the acquisition method and consolidated the results and financial position of ASBA from 1 April 2023.

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

a) Total consideration

Total cash consideration of BD 18,450 thousand.

b) Fair value of identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed.

ASSETS ACQUIRED	***BD '000***
Cash and bank balances with Central Bank of Algeria	**297,407**
Financing portfolio	**479,418**
Investment properties	**13,683**
Other assets	**15,034**
Intangible assets	**24,476**
Total assets (A)	**830,018**
LIABILITIES ASSUMED	
Customer current accounts	**401,096**
Other liabilities	**35,873**
Total liabilities	**436,969**
Equity of investment accountholders	**293,422**
Total liabilities and equity of investment accountholders (B)	**730,391**
Total identifiable net assets acquired (C = A-B)	**99,627**

The fair value of ASBA's intangible assets (banking license and customer relationships) has been measured provisionally.

c) Gain on bargain purchase

	BD '000
Consideration	**18,450**
Non controlling interest based on proportionate of identifiable net assets	**31,850**
Fair value of existing interest in ASBA	**33,767**
Fair value of identifiable net assets (C)	**99,627**
Gain on bargain purchase	**15,560**

45 BUSINESS COMBINATION (continued)

For the year ended 31 December 2023 , ASBA contributed revenue of BD 34,878 thousand and profit of BD 12,395 thousand net of provisional acquisition adjustments to the Group's results. If the acquisition had occured on 1 January 2023, management estimates that consolidated revenue would have been BD 45,331 thousand. It is impracticable to determine the profit or loss of the combined entity for the current reporting period assuming the acquisition had occured on 1 January 2023, due to the impact of acquistion accounting adjustments and foreign exchange differences.

2022

Acquisition of certain group of assets

In the first quarter of 2022, the Bank entered into definitive discussions in relation to the acquisition of certain group of assets from Ithmaar Holding's group of companies consisting of the consumer banking business of Ithmaar Bank, the entire 26.2% underlying shareholdings of Ithmaar Holding in Bank of Bahrain and Kuwait B.S.C. (BBK) and 55.9% holdings in Solidarity Group Holding. The acquisition was completed to on 7 July 2022 after obtaining required regulatory and corporate approvals.

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

46 COMPARATIVE FIGURES

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