ITHMAAR BANK B.S.C. (c)

CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2023

ITHMAAR BANK B.S.C. (c)
Consolidated financial statements
for the year ended 31 December 2023

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In the Name of Allah, the Beneficent, the Merciful

Report of the Sharia Supervisory Board on the activities of Ithmaar Bank B.S.C. (c) and subsidiaries for the Financial Year from 1 January 2023 until 31 December 2023, corresponding to the Year from 8 Jumada Al-Akhirah 1444 H until 18 Jumada Al-Akhirah 1445 H..

Praise be to Allah, the Lord of the worlds, and peace and blessings be upon our Master, Mohammed, the leader of Prophets and Messengers, and upon his scion and companions, and upon those who follow his guidance until the Day of Judgment.

The Sharia Supervisory Board of Ithmaar Bank B.S.C. (c) and subsidiaries (the Bank) performed the following during the financial year ended at 31 December 2023:

1. Issued fatwas and Sharia resolutions related to the Bank's products and activities through Sharia Coordination and Implementation Department and followed its execution through Internal Sharia Audit Department while also guiding different departments towards more diligence on Sharia-compliant transactions.

2. Studied different mechanisms of financing, investing and different Mudaraba investments and prepare its documents with the concerned departments that develop and present products.

3. Examined the books, records and transactions and auditing some of their samples through Internal Sharia Audit Department as per established Sharia Auditing Standards.

4. Examined sources of income and expenditures through reviewing the consolidated statement of financial position, consolidated income statement and the Bank's overall banking activities.

5. Examined and approved Sharia reports which are published by the Sharia Coordination and Implementation Department, Internal Sharia Audit Department and External Sharia Audit Department.

We have reviewed the principles and contracts relating to transactions and products launched by the Bank during the year ended at 31 December 2023. We have also conducted the required inspection to provide our opinion on whether the Bank had complied with the provisions and principles of Islamic Sharia, as well as fatwas, resolutions and specific guidance that was issued by us, the resolution of the Centralized Sharia Council and the regulations and instructions issued by the Central Bank of Bahrain.

The Bank's management is responsible for ensuring that the Bank operates in accordance with the provisions and principles of Islamic Sharia. Our responsibility is to express an independent legitimate opinion based on our observation of the Bank's operations, and prepare a report.

<u>In view of the above, the Sharia Supervisory Board hereby resolves as follows:</u>

<u>First: With regard to the Bank's business in general:</u>

a. The Bank's overall operations, investment and financing activities and banking services were conducted in full in compliance with the principles and provisions of Islamic Sharia and in accordance with the Sharia Supervisory Board approved standard contracts.

b. Mudaraba profit and loss distribution reserve is in compliance with the principles and provisions of Islamic Sharia.

Report of the Sharia Supervisory Board on the activities of Ithmaar Bank B.S.C. (c) and subsidiaries for the Financial Year from 1 January 2023 until 31 December 2023, corresponding to the Year from 8 Jumada Al-Akhirah 1444 H until 18 Jumada Al-Akhirah 1445 H

c. Gains made from sources prohibited by Sharia were identified and transferred to the Charity Fund.

d. Zakat is calculated in accordance to Sharia Standard on Zakat issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Ithmaar Bank's accounts are consolidated under Ithmaar Holding. Thus, Zakat calculation will be included in the consolidated Financial Statements of Ithmaar Holding.

e. Income and expenses and gains made from sources prohibited by Sharia is disclosed in Ithmaar Holding's financial statements, as the Bank's accounts are consolidated under Ithmaar Holding.

<u>Second: What has been transferred to the Bank after reorganization:</u>

The Sharia Supervisory Board has reviewed the structure of the Bank and its subsidiaries following the establishment of the Holding Company and the setting up of Ithmaar Bank B.S.C. (c) as subsidiary for commercial operations in Bahrain and Pakistan.

Since the bank's accounts are part of the accounts of Ithmaar Holding, the Shariah Supervisory Board directs the shareholders to refer to those accounts.

We pray to Almighty Allah to grant success to Ithmaar and whom are responsible and grant them success for everything He pleases. May peace and blessings be upon our Master, Mohammed, and upon his scion and companions.

This report has been issued on Sunday 1 Shaaban 1445, 11 February 2024.

رئيس الهيئة	عضو الهيئة	عضو الهيئة	عضو الهيئة
سماحة الشيخ عبدالله المنيع	فضيلة الشيخ أسامة بحر	فضيلة الشيخ محسن آل عصفور	فضيلة الشيخ نظام يعقوبي

ITHMAAR BANK B.S.C. (c)
Board of Directors' Report for the year ended 31 December 2023

The Directors submit their report dealing with the activities of ITHMAAR BANK B.S.C. (c) (“the Bank”) for the year ended 31 December 2023, together with the audited consolidated financial statements of the Bank and its subsidiaries (collectively the “Group”) for the year ended.

Principal activities

ITHMAAR BANK B.S.C. (c) (the “Bank”) was incorporated in the Kingdom of Bahrain on 12 May 2016 as a Closed Joint Stock entity and registered with the Ministry of Industry & Commerce under commercial registration number 99336-1 and was licensed as an Islamic retail bank by the Central Bank of Bahrain (the “CBB”) on 14 August 2016. As part of reorganization of erstwhile Ithmaar Bank B.S.C (now Ithmaar Holding B.S.C.), the identified assets & liabilities were transferred to the Bank on 2 January 2017. On 7 July 2022, the sale of the consumer banking business of the Bank to Al Salam Bank B.S.C. (ASB) was completed.

The principal activities of the Group are a wide range of financial services, including commercial, investment banking and private banking.

Consolidated financial position and results

The consolidated financial position of the Group as at 31 December 2023, together with the consolidated results for the year ended is set out in the accompanying consolidated financial statements.

The Group has reported a net income of BD3.96 million for the year ended 31 December 2023 attributable to the equity shareholders of the Group, as compared to a net income of BD3.1 million for 2022. Total assets at 31 December 2023 amounted to BD2,330.8 million (31 December 2022: BD2,309.6 million).

The consolidated Capital adequacy ratio of the Bank as at 31 December 2023 was 13.95% (31 December 2022: 13.21%) as compared to a minimum regulatory requirement of 12.5%. The Group’s risk weighted exposures and eligible capital are set out in note 31 of the accompanying consolidated financial statements.

Directors

The following served as Directors of the Bank during the year ended 31 December 2023:

HRH Prince Amr Mohammed Al-Faisal (Chairman)
Tunku Yaacob Khyra
Dr. Amani Khaled Bouresli
Sheikh Mohamed Abdullah Abdulkarim El Khereiji
Ms. Elham Ebrahim Abdulla Hassan
Mr. Mohammed A. Rahman Bucheerei (Resigned effective 31 December 2023)

Board of Directors’ & Executive Management Remuneration

In accordance with the provisions of the Commercial Companies Law No. (21) of 2001 and its amendments, and pursuant to the provisions of Article No. (188) of the Commercial Companies Law and Article No. (125) of the Executive Regulations of Resolution No. (3) for the year 2022, the table below shows the remuneration of members of the Board of Directors and the Executive Management for the fiscal year ended 31 December 2023.

Board of Directors’ & Executive Management Remuneration (continued)

First: Board of Directors’ remuneration details:

	Fixed remunerations				Variable remunerations						
Name	**the chairman and BOD**	**Total allowance for attending Board and committee meetings**	**Others***	**Total**	**Remunerations of the chairman and BOD**	**Incentive plans**	**Others****	**Total**	**End-of-service award**	**Aggregate amount (Does not include expense allowance)**	**Expenses Allowance**
First: Independent Directors											
1. Dr. Amani Khaled Bouresli	-	15,834	-	15,834	-	-	-	-	-	15,834	-
2. Ms. Elham Ebrahim Hassan	-	15,834	-	15,834	-	-	-	-	-	15,834	-
3. Tunku Yaacob Khyra	-	15,834	-	15,834	-	-	-	-	-	15,834	-
Second: Non-Executive Directors:											
1. HRH Prince Amr Mohammed Al-Faisal	-	9,048	-	9,048	-	-	-	-	-	9,048	-
2. Sheikh Mohamed Abdullah El Khereiji	-	9,048	-	9,048	-	-	-	-	-	9,048	-
Third: Executive Directors:											
1. Mr. Mohammed A. Rahman Bucheerei (Resigned effective 31 December 2023)	-	15,834	-	15,834	-	-	-	-	-	15,834	-
Total	**-**	**81,432**	**-**	**81,432**	**-**	**-**	**-**	**-**	**-**	**81,432**	**-**

Note: All amounts are stated in Bahraini Dinars

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

Note:
1.The Bank does not have any variable remuneration payments, end of service benefits, or expense allowances paid to its directors. Further there is no remuneration proposed for the year.

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
Remunerations for top 6 executives, including CEO and Senior Financial Officer	834,103	22,342	-	856,445

Note: All amounts are stated in Bahraini Dinars

Note:

1. The total bonus included BD8,596 as cash based remuneration and BD13,746 as shares based remuneration.
2. Remuneration details exclude any Board remuneration earned by executive management from their role in investee companies or other subsidiaries.

Dividend

No dividend has been proposed for 2023 (2022: Nil).

Auditors

The Board of directors recommend KPMG Fakhro Bahrain to be appointed as auditors of the Bank for the year ending 31 December 2024, subject to the regulatory and shareholder approvals.

By order of the Board of Directors

HRH Prince Amr Mohammed Al-Faisal
Chairman
13 February 2024

Elham Hassan

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CR No. 6220 - 2

Independent auditors' report

To the Shareholders of

Ithmaar Bank B.S.C. (c)
Seef Tower
Kingdom of Bahrain

Opinion

We have audited the accompanying consolidated financial statements of Ithmaar Bank B.S.C. (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 owner's equity, cash flows and changes in restricted investment accounts for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2023, and consolidated results of its operations, changes in owners' equity, its cash flows and changes in restricted investment accounts 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 Accountants (including International Independence Standards) (together "the Code"), together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Basis of going concern and significant subsequent event

We draw attention to Notes 1.1 and 1.2 to the consolidated financial statements, which describes significant judgments and assumptions relevant to the Board of Directors assessment of the appropriateness of the going concern assumption for preparation of the consolidated financial statements. Furthermore, subsequent to the reporting period ended 31 December 2023, the Board of Directors has accepted, in-principle, an overall framework of terms from a prospective third-party buyer to acquire certain assets and liabilities of the Group's corporate banking business and investment assets. Our opinion is not modified in respect of these matters.

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2022 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 20 February 2023.

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 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 directors' report is consistent with the consolidated financial statements;
c) the Group's total owners' equity as at 31 December 2023 stood at less than BD 100 million, the minimum regulatory total owner's equity required by CBB. Except for this, we are not aware of any other violations during the year of the Commercial Companies Law 20021 (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) 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.

KPMG

KPMG Fakhro
Partner Registration Number 137
14 February 2024

ITHMAAR BANK B.S.C. (c)
Consolidated statement of financial position
as at 31 December 2023
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Note	**At 31 December 2023 (Audited)**	At 31 December 2022 (Audited)
ASSETS			
Cash and balances with banks and central banks	3	135,403	122,377
Commodity placements with banks, financial and other institutions	4	4,908	18,440
Financing assets	5	1,163,742	1,152,284
Investment securities	6	860,688	815,341
Investment in associates	7	2,396	3,204
Other assets	8	38,106	67,527
Investment in real estate		3,989	4,792
Development properties	9	57,280	57,280
Property and equipment	10	57,669	59,745
Intangible assets	11	6,617	8,568
Total assets		**2,330,798**	**2,309,558**
LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS AND TOTAL EQUITY			
LIABILITIES			
Customers' current accounts	12	654,158	658,614
Due to banks, financial and other institutions	13	450,303	419,454
Due to investors		3,260	13,954
Other liabilities	14	100,198	144,781
Total liabilities		**1,207,919**	**1,236,803**
Equity of unrestricted investment accountholders	15	1,029,941	993,418
Total liabilities and equity of unrestricted investment accountholders		**2,237,860**	**2,230,221**
OWNERS' EQUITY			
Share capital	16	100,000	100,000
Reserves	17	(53,304)	(53,699)
Accumulated losses		(6,620)	(10,182)
Total owners' equity		**40,076**	**36,119**
Non-controlling interest	18	52,862	43,218
Total equity		**92,938**	**79,337**
Total liabilities, equity of unrestricted investment accountholders and total equity		**2,330,798**	**2,309,558**

These consolidated financial statements were approved by the Board of Directors on 13 February 2024 and signed on its behalf by:

HRH Prince Amr Mohammed Al-Faisal Chairman	Elham Hassan Director	Abdulla Taleb CEO

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

ITHMAAR BANK B.S.C. (c)

Consolidated income statement

for the year ended 31 December 2023

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Note	Year ended 31 December 2023 (Audited)	31 December 2022 (Audited) *(Refer Note 37)*
INCOME			
Income from financing contracts	19	137,978	115,693
Income from investments	20	137,161	95,888
Other income - net	21	13,785	17,498
Total income		**288,924**	229,079
Less: profit on placements from banks, financial and other institutions – net		(6,776)	(40,650)
Return on equity of investment accountholders before Group's share as a Mudarib		(276,999)	(176,985)
Group's share as a Mudarib		107,698	83,071
Share of profit of unrestricted investment accountholders		**(169,301)**	(93,914)
Net income		**112,847**	94,515
EXPENSES			
General and administrative expenses	22	(58,675)	(57,873)
Depreciation and amortization		(6,772)	(7,763)
Total expenses		**(65,447)**	(65,636)
Profit before impairment allowances and overseas taxation		**47,400**	28,879
Impairment allowance - net	23	(8,849)	(5,470)
Profit before overseas taxation		**38,551**	23,409
Tax expense	24	(26,328)	(20,680)
PROFIT FROM CONTINUING OPERATIONS		**12,223**	2,729
Net results from discontinued operations	36	-	5,615
PROFIT FOR THE YEAR		**12,223**	8,344
Attributable to:			
Equity holders of Ithmaar		3,957	3,104
Non-controlling interest		8,266	5,240
		12,223	8,344

HRH Prince Amr Mohammed Al-Faisal
Chairman

Elham Hassan
Director

Abdulla Taleb

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

ITHMAAR BANK B.S.C. (c)

Consolidated statement of changes in owners' equity

for the year ended 31 December 2023

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Share capital	**Reserves**	**Accumulated losses**	**Total owners' equity**	**Non-controlling interests**	**Total equity**
At 1 January 2023	**100,000**	**(53,699)**	**(10,182)**	**36,119**	**43,218**	**79,337**
Profit for the year	-	-	3,957	**3,957**	8,266	**12,223**
Movement from dividend distribution by subsidiaries	-	-	-	**-**	(2,058)	**(2,058)**
Increase in shareholding of subsidiary	-	-	-	**-**	7,187	**7,187**
Transfer to statutory reserve (i)	-	395	(395)	**-**	**-**	**-**
Movement in fair value of investment securities (i)	-	-	-	**-**	2,493	**2,493**
Movement in fair value of land and building (i)	-	-	-	**-**	42	**42**
Movement in fair value of investment in real estate (i)	-	-	-	**-**	82	**82**
Foreign currency translation adjustments (i)	-	-	-	**-**	(6,368)	**(6,368)**
At 31 December 2023 (Audited)	**100,000**	**(53,304)**	**(6,620)**	**40,076**	**52,862**	**92,938**

	Share capital	Reserves	Accumulated losses	Total owners' equity	Non-controlling interest	Total equity
At 1 January 2022	100,000	(40,120)	(16,150)	43,730	53,202	96,932
Profit for the year	-	-	3,104	3,104	5,240	8,344
Movement from dividend distribution by subsidiaries	-	-	-	-	(6,540)	(6,540)
Increase in shareholding of subsidiary	-	-	3,174	3,174	(3,174)	-
Transfer to statutory reserve (i)	-	310	(310)	-		-
Movement in fair value of investment securities (i)	-	(4,743)	-	(4,743)	(1,550)	(6,293)
Movement in fair value of investment in real estate (i)	-	353	-	353	177	530
Movement in fair value of land and building (i)	-	9,981	-	9,981	5,013	14,994
Movement in hedging reserve (i)	-	1,350	-	1,350	-	1,350
Foreign currency translation adjustments (i)	-	(20,830)	-	(20,830)	(9,150)	(29,980)
At 31 December 2022 (Audited)	100,000	(53,699)	(10,182)	36,119	43,218	79,337

(i) Please refer note 15 for allocation of investment in a subsidiary to for equity of unrestricted investment accountholders and note 17 for details of reserves.

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

ITHMAAR BANK B.S.C. (c)
Consolidated statement of cash flows
for the year ended 31 December 2023
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Note	Year ended 31 December 2023 (Audited)	Year ended 31 December 2022 (Audited)
OPERATING ACTIVITIES			
Net profit/(loss) before overseas taxation from:			
Continuing operations		38,551	23,409
Discontinued operations		-	5,615
Adjustments for:			
Depreciation and amortization		6,772	7,763
(Provision for)/reversal of impairment - net		8,849	5,470
Income from other investments		(137,161)	(95,888)
Loss on sale of fixed assets		(30)	-
Finance cost on net ijarah liability		1,821	(2,678)
Operating income/(loss) before changes in operating assets and liabilities		(81,198)	(56,309)
Balances with banks maturing after 90 days and including with central banks relating to minimum reserve requirement		(5,406)	(36,406)
Changes in operating assets and liabilities:			
Financing assets		(165,273)	(94,681)
Assets acquired for leasing		-	4,627
Other assets		28,569	(29,230)
Customers' current accounts		91,391	91,820
Due to banks, financial and other institutions		58,430	(10,906)
Due to investors		(8,056)	(30,347)
Other liabilities		(22,871)	51,578
Increase in equity of unrestricted investment accountholders		215,251	134,173
Taxes paid		(23,585)	(20,899)
Net cash generated from operating activities		**87,252**	**3,420**
INVESTING ACTIVITIES			
Investment securities		(67,227)	(53,647)
Property and equipment		(12,486)	(15,491)
Net cash used in investing activities		**(79,713)**	**(69,138)**
FINANCING ACTIVITIES			
Repayment of net Ijarah liability		(4,158)	(5,531)
Net cash used in financing activities		**(4,158)**	**(5,531)**
Foreign currency translation adjustments		(6,196)	(28,624)
Net decrease in cash and cash equivalents		**(2,815)**	**(99,873)**
Cash and cash equivalents at the beginning of the year		**125,656**	**225,529**
Cash and cash equivalents at the end of the year		**122,841**	**125,656**
Details of cash and cash equivalents:			
Cash and balances with banks and central banks		135,403	122,377
Commodity placements with banks, financial and other institutions		4,935	18,467
Less: Placements with original maturing after 90 days and balances with central banks relating to minimum reserve requirement		(17,497)	(15,188)
		122,841	**125,656**

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

ITHMAAR BANK B.S.C. (c)
Consolidated statement of changes in restricted investment accounts
for the year ended 31 December 2023
(Expressed in thousands of United States Dollars unless otherwise stated)

	At 1 January 2023	**Foreign exchange movements**	**Net Deposits / (Redemptions)**	**At 31 December 2023**
Shamil Bosphorus Modaraba*	2,356	-	-	2,356
European Real Estate Placements*	3,942	123	-	4,065
US Real Estate Placements*	9,514	-	-	9,514
Total (Audited)	**15,812**	**123**	**-**	**15,935**

	At 1 January 2022	Foreign exchange movements	Net Deposits / (Redemptions)	At 31 December 2022
Shamil Bosphorus Modaraba*	2,356	-	-	2,356
European Real Estate Placements*	4,793	(264)	(587)	3,942
US Real Estate Placements*	9,514	-	-	9,514
Total (Audited)	16,663	(264)	(587)	15,812

* Income/(loss) will be recognised and distributed at the time of disposal of the underlying investments

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

1 REPORTING ENTITY

ITHMAAR BANK B.S.C. (c) (the “Bank”) was incorporated in the Kingdom of Bahrain on 12 May 2016 as a Closed Joint Stock entity and registered with the Ministry of Industry and Commerce (MOIC) under commercial registration number 99336-1 and was licensed as an Islamic retail bank by the Central Bank of Bahrain (“CBB”) on 14 August 2016.

The Company's registered office is at Building 2080, Road 2825, Block 428, Al Seef, Kingdom of Bahrain.

Ithmaar Holding B.S.C.(formerly Ithmaar Bank B.S.C.) ["Ithmaar"], a Category 1 investment firm licensed and regulated by the Central Bank of Bahrain (CBB) is the immediate parent company of the Bank. Dar Al-Maal Al-Islami Trust (“DMIT”), a Trust incorporated in the commonwealth of Bahamas is the ultimate parent company of the Bank.

Pursuant to the reorganisation of Ithmaar at its Extraordinary General Meeting (EGM) held on 28 March 2016 where shareholders approved to restructure Ithmaar Bank B.S.C. into a holding company and two subsidiaries to segregate core and non-core assets, the core assets and liabilities of Ithmaar were transferred to the Bank along with control over the below mentioned subsidiaries on 2 January 2017.

The principal activities of the Bank and its subsidiaries (collectively the “Group”) are a wide range of financial services, including retail, commercial, investment banking, private banking, takaful and real estate development.

The Bank's activities are regulated by the CBB and are subject to the supervision of Sharia Supervisory Board.

The Group’s activities also include acting as a Mudarib (manager, on a trustee basis), of funds deposited for investment in accordance with Islamic laws and principles particularly with regard to the prohibition of receiving or paying interest. These funds are included in the consolidated financial statements as equity of unrestricted investment accountholders and restricted investment accounts. In respect of equity of unrestricted investment accountholders, the investment accountholders authorise the Group to commingle and invest the accountholders’ funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. In respect of restricted investment accounts, the investment accountholders impose certain restrictions as to where, how and for what purpose the funds are to be invested. Further, the Group may be restricted from commingling its own funds with the funds of restricted investment accounts.

The Group carries out its business activities through the Bank’s head office, 1 commercial branch in Bahrain and its following principal subsidiaries:

	% owned			
	2023	2022	**Country of Incorporation**	**Principal business activities**
Faysal Bank Limited (FBL) (Note 1)	67	67	Pakistan	Banking
Dilmunia Development Fund I L.P.	92	92	Cayman Islands	Real estate
Sakana Holistic Housing Solutions B.S.C. (c) (Sakana) [under Voluntary Liquidation]	50	50	Kingdom of Bahrain	Mortgage finance

Note 1: The Group owns 67% stake in FBL, through a direct legal ownership of 57% and 10% of indirect ownership of DMIT, held for the beneficial interest of the Bank.

1 REPORTING ENTITY (continued)

1.1 Going Concern

As of 31 December 2023, the consolidated equity of the Group stood at BD40.1 million (2022: BD36.1 million), which is below the minimum regulatory shareholder equity of BD100 million required by the CBB as per LR module of Volume 2 and CBB Rule Book.

The Group's management has assessed liquidity and equity projections of the Group for the next twelve months from reporting date of this consolidated financial statements. Management's assessment includes the following significant assumptions:

• No change in status of sanctioned liabilities and accordingly no repayments;
• Use of ALCO approved rollover/ renewal related behavioral patterns of liabilities;
• Ability to maintain core deposits through increased focus on corporate customers as part of the new business model of the remaining entity post the sale of consumer business (evidenced by actual cash flows till the reporting date);
• Reduction in operating expenses resulting from a leaner entity post sale of consumer business;
• Positive progress in key aspects of the Equity Strengthening Plans;
• Stressing the expected behavioral outflows of the liabilities and expected behavioral inflows from assets; and
• Putting in place the necessary liquidity lines in the form of medium term interbank liquidity support facilities.

The Board of Directors has reviewed the above assumptions and events, along with mitigating factors and concluded that there are no material uncertainties related to these events and conditions that may cast significant doubt on the Group's ability to continue as a going concern. Accordingly, the Board of Directors believe that the Group will be able to continue its business without any significant curtailment of operations and meet its obligations for the next twelve months from the date of reporting of these consolidated financial statements. In addition to the above assessment, the Board of Directors are also pursuing an active exit strategy for certain assets of the Group. Accordingly, these consolidated financial statements have been prepared on a going concern basis.

1.2 Subsequent event – Transfer of business and sale of assets

During February 2024, the Board of Ithmaar Holding, as part of its strategy of sale of core and non-core assets, provided an in-principle approval to an overall framework of terms with an interested buyer regarding sale of certain assets and liabilities of its corporate banking business and investment assets. The proposed transaction will be subject to final regulatory and shareholder approvals of affected group entities and signing of definitive agreements.

At the date of authorization of these financial statements, final transfer values and carrying values of assets and liabilities subject to the proposed transaction has not been finalized and will be mutually agreed as per contractual terms after completion of applicable regulatory and legal formalities and shareholders' approval. Hence, it is not possible to determine the financial impact of the proposed transaction with certainty at the date of authorization of these financial statements. The proposed transaction is expected to be significant to the overall consolidated financial position of the Group and is expected to yield positive outcomes for all stakeholders of the Group.

The assets and disposal group subject to the transaction were not classified as held for sale in the consolidated financial statements as at 31 December 2023, based on the Group's assessment of the criteria specified by IFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations". The Group's assessment was mainly based on the fact that assets subject to the proposed transaction were not available for immediate sale in present condition and the sale was not highly probable as at 31 December 2023. The proposed transaction will also subject to certain conditions, the finalization of tentative and definitive agreements and obtaining substantive shareholder and regulatory approvals.

2 ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION AND PRESENTATION

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

The consolidated financial statements are prepared on a historical cost basis, except for certain investment securities and investment properties which are carried at fair value.

The consolidated financial statements are presented in Bahraini Dinars (BD), being the presentation currency of the Bank. All values are rounded to nearest thousand [BD '000] unless otherwise indicated. The functional currency of the Bank is Bahraini Dinars and that of one subsidiary is Pakistani Rupees. Items included in the financial statements of each entity are measured using respective functional currency.

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

2.2 BASIS OF CONSOLIDATION

(i) Subsidiaries

Subsidiaries are those enterprises (including special purpose entities) controlled by the Group. The Group controls a business if, and only if, it has a) power over the business b) exposure, or rights, to variable returns from its involvement with the business; and c) the ability to use its power over the business to affect the amount of the institution's returns.

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

The Group considers only substantive voting rights in its assessment of whether it has power over a business. In order to be substantive, rights need to be exercisable when relevant decisions are required to be made and the holder of such rights must have the practical ability to exercise those rights. When making an assessment of whether the Group controls a business, it considers the voting and other rights emanating from the investment in the business duly funded by the Group itself and its equity of investment accountholders.

The Group in its ordinary course of business may manage an asset or a business for the benefit of stakeholders other than its equity holders through an agency (usually investment agency) or similar arrangement. Control does not include situations whereby the institution has the power, but such power is exercisable in a fiduciary capacity, and not for the variable returns to the institution itself. Performance incentives receivable by an agent are in a fiduciary capacity, and hence not considered to be variable returns for the purpose of control assessment.

(ii) Non-controlling interests

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

(iii) Assets under management

The Group in its fiduciary capacity manages and administers assets held in trust and other investment vehicles on behalf of investors. The financial statements of SPE are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's fiduciary assets under management is set out in consolidated statement of changes in RIA.

2 ACCOUNTING POLICIES (continued)

2.2 BASIS OF CONSOLIDATION (continued)

(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 statement of the Group are measured using the currency of the primary economic environment in which the entity operates, which is Bahraini Dinars (the "functional currency" 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 different from presentation currency are translated into the presentaion currency 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.

Foreign exchange translation arising from consolidation of a foreign operation attributable to unrestricted investment accountholders (URIA) is attributed to the equity of the investment accountholders.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of consolidated financial statements requires the management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The significant use of judgements and estimates are as follows:

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 note 2.4 (ah) for detailed policy.

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.

Impairment of investment securities at 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 12 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.

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

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

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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.

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:

a. valuation by independent external valuers for underlying properties / projects;
b. recent arm's length market transactions;
c. current fair value of another contract that is substantially similar;
d. present value of expected cash flows at current rates applicable for items with similar terms and risk characteristics; or
e. 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 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 properties and has engaged independent valuers to estimate the residual value of the development properties 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.

Deferred tax asset / liability

The Group accounts for deferred taxation on material temporary differences using the liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences. Deferred tax assets are recognised only if there is a reasonable expectation of realisation in the foreseeable future. Deferred tax is reduced to the extent that it is no longer probable that related tax benefits will be realised.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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.

2.4 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, non-trading investments in equity securities, and other receivables.

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

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.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Financial instruments (continued)

The Group segregates its investment into following categories:

i) Equity-type instruments - instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities and quasi-equity balances, including ordinary equity instruments and such other structured investment instruments that classify as equity instrument in accordance with AAOIFI FAS.

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 - Investment instruments which do not meet the definition of either debt-type or equity-type 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").

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

(b) Trade date accounting

Purchases and sale of all other financial assets and liabilities are recognised on the trade date, i.e. the date that the Group contracts to purchase or sell the asset or liability.

(c) Derecognition

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay. Financial liabilities are derecognised when the obligation specified in the contract is legally discharged, cancelled, or expired.

(d) Financing assets

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

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 made in Murabaha to the purchase orderer as obligatory.

Other financings represent conventional loans and advances, which are non-derivative financial assets with fixed or determinable payments. These are initially recorded at fair value and are subsequently carried at amortised cost using the effective yield method.

The Group receives collateral in the form of cash or other securities including bank guarantees, mortgage over property or shares and securities for Murabaha and other financings where deemed necessary. The Group's policy is to obtain collateral where appropriate. To ensure that the market value of the underlying collateral remains sufficient, collateral is valued periodically.

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.

Musharaka financing

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.

(e) Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash on hand, non-restricted balance with central banks and other banks, and short term liquid investments on demand or with an original maturity of three months or less.

(f) Finance lease assets

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

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

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

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Finance lease assets (continued)

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

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

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

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

(g) Placements with financial institutions

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

(h) 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.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Non-trading investments (continued)

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 consolidated 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.

(i) Investments in associates

The Group's investments in associates, that are acquired for strategic purposes, are accounted for under the equity method of accounting. Other equity investments in associates and joint ventures 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.

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.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Investments 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.

(k) Development properties

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

(l) 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.

In limited circumstances where the Group is unable to determine reliable measure of fair value of equity type instruments, the cost of the instruments may be deemed as an approximation of fair value. If on a subsequent date, a reliable measure of fair value is determinable, the instrument is fair valued in accordance with the policy.

(m) Property and equipment

Property and equipment are stated at cost less accumulated depreciation except for lands & buildings. Depreciation is calculated on the straight-line method to write off the cost of each asset over its estimated useful life as follows:

Buildings	50 years
Leasehold improvements	over the period of the lease
Furniture, equipment and motor vehicles	3-10 years
Right-of-use assets	life of lease

In 2022 the management has changed the accounting policy for land and building from cost method to revaluation method' (refer note 10). Land & buildings are initially recognised at cost. After initial recognition, these are carried at the revalued amount. The revaluation is carried out periodically by independent professional property valuers.

The property and equipment fair value reserve is used to record increments and decrements on the revaluation of property and equipment. In the event of a sale of an asset, any balance in the reserve in relation to the asset is transferred to retained earnings.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Property and equipment (continued)

Depreciation is calculated separately for each significant part of an asset category. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The asset's residual value and useful life are reviewed, and adjusted if appropriate, at each date of the statement of financial position.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost can be measured reliably. All other repairs and renewals are charged to the consolidated income statement during the financial period in which they are incurred.

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with carrying amounts.

(n) Goodwill and other intangible assets

a. Goodwill

Goodwill acquired at the time of acquisitions of subsidiaries is reported in the consolidated statement of the financial position as an asset. Goodwill is initially measured at cost being the excess of the cost of acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary undertaking at the date of acquisition. At the end of the financial period, the goodwill is reported in the consolidated statement of financial position at cost less any accumulated impairment losses.

Negative goodwill resulting from the acquisition of a business or entity is recognised in the consolidated income statement.

Acquisition of non-controlling interests is accounted using the Economic Entity Method. Under the Economic Entity Method, the purchase of a non-controlling interests is a transaction with a shareholder. As such, any excess consideration over the Group's share of net assets is recorded in owners' equity.

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

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Goodwill and other intangible assets (continued)

b. Intangible assets

Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (three to five years). Costs associated with maintaining computer software programs are recognised as an expense as incurred.

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised using the straight line method over their expected useful lives.

Other acquired intangible assets

Other acquired intangible assets determined to have finite lives, such as core deposits, brand and customer relationships, are amortised on a straight line basis over their estimated useful lives of up to twenty years. The original carrying amount of core deposits and customer relationships is determined by independent appraisers, based on the profit rate differential on the expected deposit duration method.

Other acquired intangible assets are tested annually or more often if indicators exist for impairment and carried at cost less accumulated amortization.

Other acquired intangible assets with infinite lives are tested annually for impairment and carried at cost less accumulated amortization.

An intangible asset is derecognised upon disposal (i.e., at the date the recipient ceases 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 income statement.

(o) Assets classified as held-for-sale

Non-current assets (or disposal groups) are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying value and fair value less costs to sell.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

(p) Current taxation

There is no tax on corporate income in the Kingdom of Bahrain. However, taxation related to the subsidiaries incorporated in tax jurisdictions are recorded as per local regulations.

(q) Deferred taxation

Deferred taxation is recognised using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

A deferred tax asset is recognised for all deductible temporary differences and carry forward of unused tax losses and tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and unused tax losses and tax credits can be utilised. Enacted tax rates are used to determine deferred income tax.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Zakah

Zakah is calculated on the Zakah base of the Group in accordance with AAOIFI Sharia Standard FAS 35 "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 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. Zakah is not required to be paid by law or by virtue of its constitution documents of the Group.

(s) Provision for staff benefits

Staff benefits and entitlements to annual leave, holiday air passage and other short-term benefits are recognised when they accrue to employees. The Group's contributions to defined contribution plans are charged to the consolidated income statement in the period to which they relate. In respect of these plans, the Group has a legal and constructive obligation to pay the contributions as they fall due and no obligation exists to pay future benefits.

In respect of end of service benefits, to which certain employees of the Group are eligible, costs are assessed in accordance with the labour law requirements of the applicable jurisdiction.

For variable remuneration, a provision is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be measured reliably.

For share incentive based variable remuneration, provision is recognized in accordance with the CBB guidelines, based on the adjusted net asset value of the latest audited consolidated financial statements.

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

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

(t) Due to investors

Funds received from depositors who take the corporate risk of the Bank or its subsidiaries are classified as "Due to investors"

(u) 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.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Equity of unrestricted 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.

(w) Restricted investment accounts (off-balance sheet)

Under the restricted investment accounts (RIA), the investment accountholders impose certain restrictions as to where, how and for what purpose the funds are to be invested. These accounts are disclosed separately in Statement of changes in RIA.

Investment accounts are initially recognised at fair value of the consideration received at the date on which the contract becomes effective.

After initial recognition, subsequent measurement of investment acocunts takes into account undistributed profits and other reserves created specifically for the account of investment accountholders less any losses on assets attributable to investment accountholders.

(x) Treasury shares

These shares are treated as a deduction from the owners’ equity. Gains and losses on sale of own shares are included in owners’ equity.

(y) Statutory reserve

In accordance with the Bahrain Commercial Companies Law, 10% of the Group’s consolidated net income for the year is transferred to a statutory reserve until such time as reserve reaches 50% of the paid up share capital. The reserve is not distributable, but can be utilized as stipulated in the Bahrain Commercial Companies Law and other applicable statutory regulations.

(z) 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.

(aa) Provisions

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

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ab) URIA Protection Scheme

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

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

(ac) Repossessed assets

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

(ad) Revenue recognition

1. Profit participation and management fees

   Income from profit participation and management fees charged to funds managed by the Group is recognised on the basis of the Group's entitlement to receive such income from restricted and unrestricted investment accounts as defined in the Mudaraba agreement (trust deed), except when the Group temporarily waives its entitlement.

2. Profit on financing assets

   Profit on Murabaha transactions is recognised by proportionately allocating the attributable profits over the period of the contract where each financial period carries its portion of profits irrespective of whether or not cash is received. However, profit accrual is suspended on Murabaha transactions in respect of which repayment instalments are past due for more than ninety days, unless, in the opinion of the management of the Bank, the accrual is justified.

   Income from other financings is accrued based on the effective yield method over the period of the transaction. Where income is not contractually determined or quantifiable, it is recognised when reasonably certain of realisation or when realised.

3. Income from assets acquired for leasing

   Lease rental revenue is recognised on a time-apportioned basis over the lease term.

4. Income from Mudaraba contracts

   Income from Mudaraba contracts are recognised when the Mudarib distributes profits. Any share of losses for the period are recognized to the extent such losses are being deducted from the Mudaraba capital.

5. Profit on Musharaka contracts

   In respect of Musharaka contracts that continue for more than one financial period, the Group's share of profits are recognised when a partial or final settlement takes place and its share of the losses are recognised to the extent that such losses are deducted from the Group's share of Musharaka capital. However, in respect of diminishing Musharaka transactions, profits or losses are recognised after considering the decline in the Group's share of the Musharaka capital and, consequently, its proportionate share of the profits or losses.

6. Income from 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.

7. Dividend income

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

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ad) Revenue recognition (continued)

8. Gain on sale of investment in equity securities

   It is recognised on trade date at the time of derecognition of the investment securities. The gain or loss is the difference between the carrying value on the trade date and the consideration received or receivable.

9. Fees and commissions

   Fees and commissions are recognised when earned.

   Commissions on letters of credit and letters of guarantee are recognised as income over the period of the transaction.

   Fees for structuring and arrangement of financing transactions for and on behalf of other parties are recognised when the Bank has fulfilled all its obligations in connection with the related transaction.

(ae) Profit allocation between group and investment accountholders

The Group holds separate books for assets financed by owners, unrestricted and restricted investment accounts. All income generated from the assets financed by the investment accounts are allocated to the customers after deducting provisions, investment risk reserve, profit equalisation reserves, mudarib's share of profit and management fees.

Administrative expenses incurred in connection with the management of the funds are borne directly by the Group.

Some profit incentives are recognised based on term of the contracts with restricted account holders.

(af) Assets transfer between Owner's equity, Unrestricted Investment Accounts and Restricted Investment Accounts

Assets are transferred between Owner's equity, Unrestricted Investment Accounts and Restricted Investment Accounts at agreed values.

(ag) Shari'a compliant risk management instruments and hedge accounting

The Group uses certain shari'a compliant risk management instruments (similar to derivatives) to economically hedge exposures to foreign exchange and profit rate risks. Such instruments are initially recognised at fair value on the date on which the contract is entered into and are subsequently remeasured at their fair value. The fair value of a hedging instrument is the equivalent to its prevailing market rates or is based on broker quotes. Instruments with positive market values are disclosed as assets and instruments with negative market values are disclosed as liabilities in the statement of financial position.

In certain circumstances the Group enters into shari'a compliant risk management instruments to hedge foreign currency risks. Changes in the fair value of derivative financial instruments that are designated, and qualify as fair value hedges, are included in the consolidated income statement together with the corresponding change in the fair value of the hedged asset or liability that is attributable to the risk being hedged. Unrealised gains or losses on hedged assets which are attributable to the hedged risk are adjusted against the carrying values of the hedged assets or liabilities. For derivatives that are not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in the statement of changes in owners' equity.

Cash flow hedging attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in statement of changes in owners' equity and presented in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in consolidated income statement. The Group currently has hedged cash flows to manage its profit rate risk on variable rate financial liabilities.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ag) Shari'a compliant risk management instruments and hedge accounting (continued)

Hedges directly affected by variable profit rate benchmark reforms

For the purpose of evaluating whether there is an economic relationship between the hedged item(s) and the hedging instrument(s), the Group assumes that the benchmark variable profit rate is not altered as a result of global variable profit rate benchmark reform.

For a cash flow hedge of a forecast transaction, the Group assumes that the benchmark variable profit rate will not be altered as a result of variable profit rate benchmark reform for the purpose of assessing whether the forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss. In determining whether a previously designated forecast transaction in a discontinued cash flow hedge is still expected to occur, the Group assumes that the variable profit rate benchmark cash flows designated as a hedge will not be altered as a result of variable profit rate benchmark reform.

The Group will cease to apply the specific policy for assessing the economic relationship between the hedged item and the hedging instrument (i) to a hedged item or hedging instrument when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the variable profit rate benchmark-based cash flows of the respective item or instrument or (ii) when the hedging relationship is discontinued. For its highly probable assessment of the hedged item, the Group will no longer apply the specific policy when the uncertainty arising from variable profit rate benchmark reform about the timing and the amount of the variable profit rate benchmark-based future cash flows of the hedged item is no longer present, or when the hedging relationship is discontinued.

(ah) Impairment

Impairment of financial assets is assessed in accordance with FAS 30 "Impairment, credit losses & onerous commitments" as follows:

1. Financings and receivables

Impairment

The Group recognizes loss allowances for ECL on the following type of financial instruments:

• All Islamic financing and certain other assets (including Commodity and Murabaha receivables)
• Debt instruments that are measured at amortised cost or at fair value through equity.
• Financing commitments that are not measured at fair value through profit and loss (FVTPL)
• Financial guarantee contracts that are not measured at fair value through profit and loss (FVTPL)
• Lease receivables and contract assets
• Balances with banks
• Related party balances

The Group measures loss allowances at an amount equal to lifetime ECL, except for financial instruments on which credit risk has not increased significantly since their initial recognition, for which ECL is measured as 12-month ECL.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The measurement of the expected credit loss allowance of a receivable or exposure measured with the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

• Determining the criteria for significant increase in credit risk;
• Determining the criteria for definition of default;
• Choosing appropriate models and assumptions for the measurement of ECL;
• Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and

• Establishing groups of similar receivables for the purpose of measuring ECL

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ah) Impairment (continued)

ECL – Significant increase in credit risk (SICR)

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

For the Corporate portfolio, the Group assess for significant increase in credit risk (SICR) at a counterparty level as the internal rating is currently carried out at a counterparty level and rating is not assigned at facility level. The Group maintains a facility level rating being the counterparty's internal rating at date of facility origination and date of assessment.

For the Retail portfolio, the Group currently manages its retail portfolio at a facility level, therefore assessment for SICR on the retail portfolio is done on a facility level. Days past due (DPD) of individual facilities will reflect on the counterparty SICR assessment.

Determining whether credit risk has increased significantly

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

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

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

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

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

• Stage 1- 12 month ECL: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Group recognises an allowance based on the 12-month ECL.

• Stage 2 - lifetime ECL-not credit impaired: for financial instruments where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the Group recognises an allowance for the lifetime ECL for all financings categorized in this stage based on the actual / expected maturity profile including restructuring or rescheduling of facilities.

• Stage 3 - lifetime ECL-credit impaired: for credit-impaired financial instruments, the Group recognises the lifetime ECL. Default identification process i.e. DPD of 90 more is used as stage 3.

Default

FAS 30 seeks to align accounting for impairment of financial instruments with the manner in which credit risk is internally managed within the banks. In this context, the 'risk of default' of a financial instrument is a key component of the expected loss model under FAS 30.

In general, counterparties with facilities exceeding 90 days past due are considered in default.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ah) Impairment (continued)

Non-Retail:

The Group has set out the following definition of default (as provided by the Basel document and FAS 30 guidelines):

Non-retail customers with the following characteristics:

• All or any of the facility/ies in which any instalment or part thereof is outstanding for a period of 90 days or more
• All or any of the facility/ies put on non-accrual status (i.e. profit suspended)
• All or any of the facility/ies wherein 'specific provision' is set aside individually

Event driven defaults such as declaration of bankruptcy, death of borrower (in absence of succession plan or professional management), and other specific events which would significantly impact the borrower's ability the Group.

The Group will not consider the 90 days past due criteria in cases of technical defaults (e.g. facilities marked as 90+DPD due to administrative reasons and not credit related concerns and there is no dispute regarding repayment).

Its subsidiary, FBL has incorporated an additional criterion of days past due for determining SICR, which requires that all financing facilities in which any installment or part thereof is outstanding for 60 days or more at the reporting date shall be marked as stage 2, irrespective of the credit risk rating.

Retail:

The Group has set out the following definition of default:

All facilities in which any instalment or part thereof is outstanding for a period of 90 days or more

The Bank will not consider the 90 days past due criteria in cases of technical defaults (e.g. facilities marked as 90+DPD due to administrative reasons and not credit related concerns and there is no dispute regarding repayment).

Measurement of ECL

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

• financial assets that are not credit-impaired at the reporting date: as the value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);

• financing assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

• financing guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

• undrawn financing commitment: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn and the cash flows that the Group expects to receive.

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

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

I. Probability of default (PD);
II. Loss given default (LGD);
III. Exposure at default (EAD).

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ah) Impairment (continued)

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

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

LGD is the magnitude of the likely loss if there is a default. In case of non-availability of recovery data, the Bank uses LGD estimate based on market practice.

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

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

Subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Incorporation of forward looking information

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

Management judgement is exercised when assessing the macroeconomic variables. The macro economic variables used for FAS 30 PD modelling include, among others, GDP, Inflation and Domestic Credit Growth.

Generating the term structure of PD

Credit risk grades and days past due (DPD) are primary inputs into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analyzed by type of borrower, days past due and as well as by credit risk grading.

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

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP Inflation and Domestic Credit Growth.

Based on consideration of a variety of external actual and forecast information, The Group calculates PiT PD estimates under three scenarios, a base case, good case and bad case. An appropriate probability weighted ECL is then calculated by assigning probabilities, based on current market conditions, to each scenario.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ah) Impairment (continued)

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

The retail portfolio is segmented based on products that exhibit distinguished behavior into the following categories:

• Auto finance;
• Mortgage finance;
• Personal Finance; and
• Credit cards.

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

The PD's derived are adjusted with forward looking information based on macro-economic variables and calibrated to derive the final PD's separately for Corporate and Retail portfolio.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

• If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

• If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial asset.

Credit-impaired financial assets

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

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

All or any of the facility/ies in which any instalment or part thereof is outstanding for a period of 90 days or more.

All or any of the facility/ies put on non-accrual status (i.e. profit suspended).

All or any of the facility/ies wherein 'specific provision' is set aside individually.

Breach of financial covenants that are considered material. The Bank will determine materiality based on negative impact of breach on the credit rating of the obligor.

Event driven defaults such as declaration of bankruptcy (filed by the borrower or initiated by the Bank against the borrower), death of borrower (in absence of succession plan or professional management), and other specific events which would significantly impact the borrower's ability the Bank.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ah) Impairment (continued)

The Bank makes a charge-off or account-specific provision resulting from a significant perceived decline in credit quality subsequent to the Bank taking on the exposure;

The Bank transfers the credit obligation at less than the cash equivalent value;

The Bank consents to a distressed restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness, or postponement, of repayment instalments;

Distressed restructuring refers to situations when the Bank grants a concession that it would not otherwise consider, irrespective of whether the concession is at the discretion of the Bank or otherwise. Forgiveness means reduction in repayment amount or profit. Postponement could include grace periods or changes in instalments leading to delayed maturity.

The Bank considers that the obligor is unlikely to pay its credit obligations in full (i.e. principal, profit, fees or any other amount), without taking actions such as realizing security (if held).

Presentation of allowance for ECL in the statement of financial position

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

Write-off

Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

The Group writes off financial assets, in a whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on a collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full. The Group may however write-off financial assets that are still subject to enforcement activity.

(ai) Impairment of non-financial assets

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

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

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(aj) 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.

(ak) Profit Equalisation Reserve (PER)

PER is appropriated out of the income arising from owners or equity of unrestricted investment accountholders for the purpose of managing rate of return risk (including displaced commercial risk).

Contribution to PER is recognised in consolidated income statement allocated to owners or unrestricted investment accountholders as appropriate.

Utilization/ reversal of PER is recognised when the reserve is no longer needed as per management's opinion. The reversal is recognised in consolidated income statement allocated to owners or unrestricted investment accountholders as appropriate.

PER is disclosed as part of the equity of unrestricted investment accountholders or owners' equity as appropriate.

The adequacy of PER is assessed on annual basis using quick update approach in accordance with the Group's risk management policies.

Adjustments or transfers between PER and IRR are accounted for when the underlying event occurs.

(al) Investment Risk Reserve (IRR)

IRR is appropriated out of the income arising from owners or equity of unrestricted investment accountholders for the purpose of creating cushion against credit, market and equity investment risk mainly pertaining to residual future probable losses (after impairment and credit losses accounted for under impairment policy).

Contribution to IRR is recognised in consolidated income statement allocated to owners' equity or unrestricted investment accountholders as appropriate.

Utilization/ reversal of IRR is recognised when the loss event occurs or the reserve is no longer needed as per management's opinion. The reversal is recognised in consolidated income statement allocated to owners or unrestricted investment accountholders as appropriate and not netted off with the respective loss.

IRR is disclosed as part of the equity of unrestricted investment accountholders or owners' equity as appropriate.

The adequacy of IRR is assessed on annual basis using quick update approach in accordance with the Group's risk management policies.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

A. New standards, amendments, and interpretations issued and effective for annual periods beginning on or after 1 January 2023:

(i) FAS 39 Financial Reporting for Zakah

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

This standard shall apply to 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 does not have any obligation to pay Zakah as per its constitutional documents. The Group has adopted this standard and has provided the necessary additional disclosures in its annual financial statements (refer note 26).

(ii) FAS 41 Interim financial reporting

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

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

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) FAS 44 Determining control of assets and business

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

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

The Group has assessed the revised framework for control assessment provided by FAS 44 and does not 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.

B. New standards, amendments, and interpretations issued but not yet effective

The following new standards and amendments to standards are effective for financial years beginning after 1 January 2024 with an option to early adopt. However, the Group has not early adopted any of these standards.

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

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

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

Some of the significant revisions to the standard are as follows:
a) Revised conceptual framework is now integral part of the AAOIFI FAS’s;
b) Definition of Quassi equity is introduced;
c) Definitions have been modified and improved;
d) Concept of comprehensive income has been introduced;
e) Institutions other than Banking institutions are allowed to classify assets and liabilities as current and non-current;
f) Disclosure of Zakah and Charity have been relocated to the notes to the financial statements;
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; and
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.

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

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

3 CASH AND BALANCES WITH BANKS AND CENTRAL BANKS

	31 December 2023	31 December 2022
Cash reserve with central banks	17,497	15,188
Cash and balances with banks and central banks	117,906	107,189
	135,403	122,377

4 COMMODITY PLACEMENTS WITH BANKS, FINANCIAL AND OTHER INSTITUTIONS

	31 December 2023	31 December 2022
Commodity placements/contracts	4,935	18,467
Less: Allowance for impairment	(27)	(27)
	4,908	18,440

5 FINANCING ASSETS

	31 December 2023	31 December 2022
Murabaha and tawarruq financings	747,772	628,864
Musharaka financing	426,675	579,533
Istisna financings	69,927	61,374
Ijarah financing	591	591
	1,244,965	1,270,362
Less: Allowance for impairment	(81,223)	(118,078)
	1,163,742	1,152,284

Murabaha financings include conventional loans and advances totalling BD21.4 million (31 December 2022: BD33.5 million) made by a subsidiary of the Bank.

The movement on allowance for impairment is as follows:	**31 December 2023**	31 December 2022
At 1 January	118,078	141,386
Charge for the year	12,652	11,478
Write back during the year	(7,184)	(8,193)
Utilised during the year	(35,051)	(2,304)
Movement due to sale of assets	-	(13,333)
Exchange differences	(7,272)	(10,956)
At 31 December	**81,223**	118,078

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

6 INVESTMENT SECURITIES

	31 December 2023	31 December 2022
Investment securities at fair value through income statement		
Debt-type instruments – listed	-	42
Debt-type instruments – unlisted	6,259	418
Equity-type securities – listed	1,935	746
	8,194	1,206
Investment securities at fair value through equity		
Debt-type instruments – listed	55,494	82,661
Debt-type instruments – unlisted	745,558	684,424
Equity-type securities – listed	7,510	16,424
Equity-type securities – unlisted	2,440	2,152
	811,002	785,661
Less: Allowance for impairment	(4,155)	(3,248)
	806,847	782,413
Investment securities carried at amortised cost		
Debt-type instruments – listed	36,332	15,442
Debt-type instruments – unlisted	11,205	18,727
	47,537	34,169
Less: Allowance for impairment	(1,890)	(2,447)
	45,647	31,722
	860,688	815,341

Investment securities include BD36.3 million Sukuk which have been repoed with another counterparty.

Sovereign Sukuk comprises 90% of the total debt-type instruments (31 December 2022: 90%).

Investment securities include conventional investments totalling BD12.4 million (31 December 2022: BD25.2 million) made by a subsidiary of the Bank.

The movement in allowance for impairment is as follows:

	31 December 2023	31 December 2022
At 1 January	5,695	7,875
Charge for the year	3,306	-
Write back during the year	(1,837)	(509)
Exchange differences and other movements	(1,119)	(1,671)
At 31 December	**6,045**	5,695

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

6 INVESTMENT SECURITIES (continued)

FAS 33 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets and liabilities. □

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – inputs for the investments that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

Investments measured at fair value

	Level 1	**Level 2**	**Level 3**	**Total**
At 31 December 2023				
Investment securities at fair value through income statement				
Debt-type instruments	6,259	-	-	6,259
Equity-type securities	1,935	-	-	1,935
Investment securities at fair value through equity				
Debt-type instruments	-	800,149	-	800,149
Equity securities	5,849	144	705	6,698
	14,043	**800,293**	**705**	**815,041**
Investments not measured at fair value				
Investment securities carried at amortised cost				
Debt-type instruments	**33,653**	**9,330**	**-**	**42,983**

	Level 1	Level 2	Level 3	Total
At 31 December 2022				
Investment securities at fair value through income statement				
Debt-type instruments	460	-	-	460
Equity-type securities	746	-	-	746
Investment securities at fair value through equity				
Debt-type instruments	82,233	684,626	-	766,859
Equity securities	13,364	2,190	-	15,554
	96,803	686,816	-	783,619
Investments not measured at fair value				
Investment securities carried at amortised cost				
Debt-type instruments	13,476	16,514	-	29,990

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

7 INVESTMENT IN ASSOCIATES

Investment in associated entities, as adjusted for the Group's share of their results comprise:

Name of entity	31 December 2023	% holding	31 December 2022	% of Shareholding	Country of incorporation	Nature of business
Unlisted:						
Faysal Stock Fund	9	11	440	32	Pakistan	Mutual funds
Faysal Islamic Saving Growth Fund	-	-	1,405	32	Pakistan	Mutual funds
Faysal Islamic Stock Fund	168	29	160	21	Pakistan	Mutual funds
Faysal Saving Growth Fund (B)	-	-	1,199	29	Pakistan	Mutual funds
Faysal Halal Amdani Fund	2,062	4	-	-	Pakistan	Mutual funds
Faysal Islamic Financial Growth Fund F	151	29	-	-	Pakistan	Mutual funds
Faysal Islamic Sovereign Fund FISIP-1	4	0	-	-	Pakistan	Mutual funds
Faysal Islamic Special Income Fund FIF	2	5	-	-	Pakistan	Mutual funds
	2,396		3,204			

During the period, the Group's subsidiary increased its shareholding in these funds, thereby classifying them as associates.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

8 OTHER ASSETS

	31 December 2023	31 December 2022
Accounts receivable	48,975	68,414
Due from related parties (note 30)	5,231	5,401
Taxes – deferred	-	1,508
Taxes – current	21	4,870
Assets acquired against claims	316	1,747
	54,543	81,940
Less: Allowance for impairment	(16,437)	(14,413)
	38,106	67,527

The movement in provision for impairment is as follows:

	31 December 2023	31 December 2022
At 1 January	14,413	15,758
Charge for the year	1,508	-
Write back during the year	(53)	(131)
Reclassification	-	(949)
Exchange differences and other movements	569	(265)
At 31 December	**16,437**	14,413

9 DEVELOPMENT PROPERTIES

	31 December 2023	31 December 2022
Land	51,340	51,340
Development costs	5,940	5,940
	57,280	57,280

Development costs represent the infrastructure costs incurred such as roads and networks, electricity stations and design and supervision costs. The infrastructure cost commitments are expected to be met by anticipated sale of plots. Based on this, the management has estimated that the current carrying value is not lower than the net realisable value, and accordingly, no impairment has been considered necessary.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

10 PROPERTY AND EQUIPMENT

	31 December 2023			31 December 2022		
	Cost	**Accumulated depreciation**	**Net book amount**	Cost	Accumulated depreciation	Net book amount
Land and building	27,107	(480)	26,627	26,210	(24)	26,186
Leasehold improvements	10,396	(5,969)	4,427	10,711	(6,178)	4,533
Furniture and equipment	25,651	(15,423)	10,228	24,041	(16,477)	7,564
Motor vehicles	1,048	(586)	462	966	(638)	328
Right-of-use assets	17,981	(2,056)	15,925	22,954	(1,820)	21,134
	82,183	**(24,514)**	**57,669**	84,882	(25,137)	59,745

The movement in land and building is as follows:

	31 December 2023	31 December 2022
At 1 January	**26,186**	12,203
Additions	1,995	110
Depreciation	(476)	(110)
Movement in fair value	42	14,994
Exchange differences and other movements	(1,120)	(1,011)
At 31 December	**26,627**	26,186

Depreciation charge for the year ended 31 December 2023 amounted to BD3.3 million (31 December 2022: BD3.5 million).

Due to change in its business model post the transaction with Al Salam and in order to provide more reliable and relevant information, on 31 December 2022, the Group has changed its accounting policy in respect of the measurement of the carrying amount of its freehold land, leasehold land, buildings on freehold land and buildings on leasehold land subsequent to initial recognition. In this respect the Group has decided to follow the revaluation model as allowed under International Accounting Standard 16: 'Property, Plant and Equipment', which lays down that 'Items of property, plant and equipment under the revaluation model are carried at fair value at the date of revaluation, less any subsequent accumulated depreciation and any subsequent accumulated impairment losses'.

Had there been no revaluation, the carrying amount of land and building would have been BD11.2 million.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

11 INTANGIBLE ASSETS

	31 December 2023	31 December 2022
Goodwill	1,358	2,163
Customer relations	790	1,057
Core deposits	958	991
Others	3,511	4,357
	6,617	8,568

Amortisation charge for the year ended 31 December 2023 amounted to BD3.5 million (31 December 2022: BD4.8 million).

The carrying amount of goodwill has been allocated to cash-generating units as follows:

	31 December 2023	31 December 2022
Faysal Bank Limited	1,358	2,163
	1,358	**2,163**

The recoverable amount of the cash-generating units were determined based on Value-in-Use (VIU) and Fair Value Less Cost to Sell (FVLCTS). VIU calculations were determined using cash flow projections from financial budgets approved by the Group's senior management covering a three year period. The discount rate applied to cash flow projections represent the cost of capital adjusted for an appropriate risk premium for these cash-generating units. For FVLCTS calculations, the Comparable Companies Multiple (CCM) method was used, whereby the price to book value multiple of the listed Islamic banks operating in the region was considered. The key assumptions used in estimating the recoverable amounts of cash-generating units were assessed to ensure reasonableness of the VIU and FVLCTS and resulting adjustment, if any, is recorded in the consolidated income statement.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

12 CUSTOMERS' CURRENT ACCOUNTS

Customers' current accounts include relating to a customer to BD74.5 million who is subject to sanctions under US measures (31 December 2022: BD72.2 million).

13 DUE TO BANKS, FINANCIAL AND OTHER INSTITUTIONS

	31 December 2023	31 December 2022
Due to banks	417,507	388,824
Due to financial and other institutions	32,796	30,630
	450,303	419,454

Due to banks, financial and other institutions include balances totalling BD160.2 million from two counterparties which are subject to sanctions under US measures (31 December 2022: BD158.9 million).

Due to banks, financial and other institutions include BD36.3 million which have been repoed with another counterparty.

Due to banks as of 31 December 2022 included certain wakala deposits amounting to BD21.4 million which have been reclassified to Equity of unrestricted investment accountholders during the year and the comparatives have been restated.

Due to banks, financial and other institutions include conventional deposits totalling BDNil million (31 December 2022: BD9.8 million), accepted by a subsidiary of the Bank.

14 OTHER LIABILITIES

	31 December 2023	31 December 2022
Accounts payable	68,363	108,768
Lease liabilities related to Right-of-use assets	18,901	23,083
Accrued expenses	12,925	12,914
Due to related parties (note 30)	9	16
	100,198	144,781

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

15 EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS

Equity of unrestricted investment accountholders comprise:

	31 December 2023	31 December 2022
Modaraba accounts - corporates	534,521	477,238
Modaraba accounts - financial institutions	237,202	200,075
Modaraba accounts - individuals	246,555	294,340
Wakala from financial institutions	21,825	21,765
Fair value & foreign exchange translation movement from investments attributable to unrestricted investment accountholders (i)	(10,162)	-
	1,029,941	993,418

The Group utilizes the above funds to invest in the following assets:

	31 December 2023	31 December 2022
Cash and balances with banks and central banks	117,279	89,438
Placements with banks, financial and other institutions	-	6,736
Financing assets	822,668	813,892
Investment securities	-	15,442
Other assets	9,013	9,472
Due from the Group	-	58,438
Investments in equity (i)	80,981	-
	1,029,941	993,418

(i) Effective 1 January 2023, the unrestricted Modaraba pool of the parent includes an allocation to its investment in subsidiaries as they form part of the income generating pool of assets that support the Modaraba investment accounts. In line with the requirements of Financial Accounting Standards, at the time of preparation of the condensed consolidated interim financial information, foreign exchange translation & fair value reserves arising from consolidation of a foreign subsidiary is attributed to the equity of the investment accountholders. While this attribution is at a consolidated level, the URIA pool considers the net asset value of the investment in subsidiary for the purpose of allocation of assets to Modaraba pools. Any subsequent changes in the value of the net investments is recognised respectively in income statement and equity of the investment accountholders.

At 1 January 2023	**Investments fair value reserve**	**Fixed assets fair value reserve**	**Investment in real estate fair value reserve**	**Foreign currency translation reserve**	**Total**
Movement in fair value of Investment securities	4,624	-	-	-	**4,624**
Movement in fair value of land and building	-	1,869	-	-	**1,869**
Foreign currency translation adjustments	340	(1,953)	(167)	(14,875)	**(16,655)**
At 31 December 2023	**4,964**	**(84)**	**(167)**	**(14,875)**	**(10,162)**

The average gross rate of return in respect of unrestricted investment accounts was 5.5% per annum for 2023 (2022: 4.8%) of which 6.1% per annum (2022: 3.2%) was distributed to the investors and the balance was either set aside as provision for impairment, management fee of BD0.5 million (up to 1.5% of the total invested amount per annum to cover administration and other expenses related to the management of such funds) and/or retained by the Group as share of profits in its capacity as a Mudarib.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

16 SHARE CAPITAL

	Number of shares (thousands)	Share capital
Authorised	7,540,000	754,000
Issued and fully paid		
Total outstanding as at 1 January 2022	1,000,000	100,000
At 31 December 2022 (Audited)	1,000,000	100,000
Issued and fully paid		
Total outstanding as at 1 January 2023	1,000,000	100,000
At 31 December 2023 (Audited)	**1,000,000**	**100,000**

The Bank's total issued and fully paid share capital at 31 December 2023 comprises 1,000,000,000 shares at 100 fils per share amounting to BD100,000,000. The Chief Executive Officer owns 1 share and remaining shares are held by Ithmaar Holding B.S.C. The share capital of the Bank is denominated in Bahraini Dinars.

The Bank grants shadow shares to employees calculated based on the net asset value of the Bank since the Bank is not listed. The number of shadow shares granted to employees as of 31 December 2023 was 15.5 million shares (31 December 2022: 15.5 million shares) of which the unvested shadow shares amount to 1 million shares (31 December 2022: 2.7 million shares).

17 RESERVES

							31 December 2023
	Statutory reserve	**Investments fair value reserve**	**Hedging reserve**	**Fixed Assets fair value reserve**	**Investment in real estate fair value reserve**	**Foreign currency translation reserve**	**Total**
At 1 January 2023	609	1,787	-	9,981	951	(67,027)	(53,699)
Transfer to statutory reserve	395	-	-	-	-	-	395
At 31 December 2023	**1,004**	**1,787**	**-**	**9,981**	**951**	**(67,027)**	**(53,304)**

							31 December 2022
	Statutory reserve	Investments fair value reserve	Hedging reserve	Fixed Assets fair value reserve	Investment in real estate fair value reserve	Foreign currency translation reserve	Total
At 1 January 2022	299	6,609	(1,350)	-	746	(46,424)	(40,120)
Transfer to statutory reserve	310	-	-	-	-	-	310
Movement in fair value of Investment securities	-	(4,743)	-	-	-	-	(4,743)
Movement in hedging reserve	-	-	1,350	-	-	-	1,350
Movement in fair value of land and building	-	-	-	9,981	-	-	9,981
Movement in fair value of investment in real estate	-	-	-	-	353	-	353
Foreign currency translation adjustments	-	(79)	-	-	(148)	(20,603)	(20,830)
At 31 December 2022	609	1,787	-	9,981	951	(67,027)	(53,699)

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

18 NON-CONTROLLING INTERESTS

The consolidated financial statements include 100% of the assets, liabilities and earnings of subsidiaries. The ownership interests of the other shareholders in the subsidiaries are called non-controlling interests.

The following table summarises the non-controlling shareholders' interests in the equity of consolidated subsidiaries.

	31 December 2023		31 December 2022	
	Non-controlling %		**Non-controlling %**	
Faysal Bank Limited	33	47,947	33	38,206
Dilmunia Development Fund I L.P.	8	4,305	8	4,402
Sakana Holistic Housing Solutions B.S.C. (c)	50	610	50	610
		52,862		43,218

Non-controlling interests in the consolidated income statement of BD8.3 million (31 December 2022: BD5.2 million) represents the non-controlling shareholders' share of the earnings of these subsidiaries for the respective years.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

19 INCOME FROM FINANCING CONTRACTS

	Year ended 31 December 2023	Year ended 31 December 2022
Income from Murabaha and tawarruq financings	41,592	43,297
Income from Istisna financings	7,491	4,763
Income from Musharaka financing	88,895	67,633
	137,978	**115,693**

20 INCOME FROM INVESTMENTS

	Year ended 31 December 2023	Year ended 31 December 2022
Income from investment securities at amortised cost	3,210	1,871
Income from investment securities at fair value through equity	125,026	87,503
Income from investment securities at fair value through income statement	8,583	6,396
Income from investment in real estate	342	118
	137,161	**95,888**

21 OTHER INCOME - NET

	Year ended 31 December 2023	Year ended 31 December 2022
Income from banking services	11,457	15,072
Income from commodity placements	3,285	2,599
Foreign exchange loss	(988)	(269)
Other income	31	96
	13,785	**17,498**

22 GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2023	Year ended 31 December 2022
Salaries and other benefits	23,660	23,008
Office expenses	24,587	25,397
Professional fees	2,265	2,382
Other administrative expenses	8,163	7,086
	58,675	**57,873**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

23 IMPAIRMENT ALLOWANCE

	31 December 2023	31 December 2022
At 1 January	173,178	194,481
Charge for the year	17,922	14,276
Write back during the year	(9,073)	(8,806)
Utilised during the year	(35,051)	(2,305)
Movement due to sale of assets	-	(13,333)
Exchange differences	(7,819)	(11,135)
At 31 December	**139,157**	**173,178**

Provision utilised during the year represents write-offs during the period, which pertains to stage 3.

The allocation of the provision for impairment to the respective assets is as follows:

	31 December 2023	31 December 2022
Financing assets	81,223	118,078
Commodity placements with banks, financial and other institutions	27	27
Investment securities	6,045	5,695
Other assets	16,437	14,413
Investment in real estate	8,630	8,171
Intangible assets	26,795	26,794
	139,157	**173,178**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

23 IMPAIRMENT ALLOWANCE (continued)

Loss allowance

The following table sets out information about the credit quality of financings and receivables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

31 December 2023

	Stage 1	Stage 2	Stage 3	Total
Commodity placements with banks, financial and other institutions				
Gross exposure	4,935	-	-	**4,935**
Less: expected credit loss	(27)	-	-	**(27)**
Net exposure	**4,908**	**-**	**-**	**4,908**
Financing assets				
Gross exposure	1,053,280	117,266	74,419	**1,244,965**
Less: expected credit loss	(28,477)	(10,175)	(42,571)	**(81,223)**
Net exposure	**1,024,803**	**107,091**	**31,848**	**1,163,742**
Other assets				
Gross exposure	13,210	25,649	15,684	**54,543**
Less: expected credit loss	(678)	(75)	(15,684)	**(16,437)**
Net exposure	**12,532**	**25,574**	**-**	**38,106**
Total gross exposure	1,071,425	142,915	90,103	1,304,443
Less: Total expected credit loss	(29,182)	(10,250)	(58,255)	(97,687)
Total Net exposure	**1,042,243**	**132,665**	**31,848**	**1,206,756**

31 December 2022

	Stage 1	Stage 2	Stage 3	Total
Commodity placements with banks, financial and other institutions				
Gross exposure	18,467	-	-	18,467
Less: expected credit loss	(27)	-	-	(27)
Net exposure	18,440	-	-	18,440
Financing assets				
Gross exposure	795,500	361,058	113,804	1,270,362
Less: expected credit loss	(30,031)	(8,276)	(79,771)	(118,078)
Net exposure	765,469	352,782	34,033	1,152,284
Other assets				
Gross exposure	48,965	20,099	12,876	81,940
Less: expected credit loss	(1,498)	(39)	(12,876)	(14,413)
Net exposure	47,467	20,060	-	67,527
Total gross exposure	862,932	381,157	126,680	1,370,769
Less: Total expected credit loss	(31,556)	(8,315)	(92,647)	(132,518)
Total Net exposure	831,376	372,842	34,033	1,238,251

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

23 IMPAIRMENT ALLOWANCE (continued)

Included in Stage 1 under “Acceptable risks (4-6)” is the financing extended to the Group’s affiliate, IB Capital, amounting to BD319.3 million. This financing originated on 2 January 2017 as part of the reorganization pursuant to the Extraordinary General Meeting (EGM) held on 28 March 2016 where the shareholders approved to restructure the erstwhile Ithmaar Bank B.S.C into a holding company and two subsidiaries to segregate core and non-core assets with IB Capital holding the non-core assets. The financing is collateralized by the underlying assets of IB Capital and the recovery is based on the sale of these underlying assets through an asset sale plan approved by the Board of Directors of the Group.

As part of the Group’s staging policy to determine whether credit risk has significantly increased since initial recognition, the Group compared the risk of default at the assessment date with the risk of default at initial recognition. Following factors were analyzed as part of this assessment:

● The recovery of the financing at initial recognition was based on the sale of the underlying assets by IB Capital.
● the delays in the sale of underlying assets were mainly due to the COVID-19 pandemic. All principal and profit payments are current.
● The ECL has been calculated under various stressed scenarios and the resulting impairment is within the existing ECL range.

Accordingly, the Group concluded that there has been no significant increase in credit risk of the exposure since initial recognition and classification of the above financing in Stage 1 is appropriate as of 31 December 2023.

24 OVERSEAS TAXATION

	Year ended	
	31 December 2023	31 December 2022
Current taxes	30,131	18,706
Deferred taxes	(3,803)	1,974
	26,328	20,680

The Group is subject to income taxes in some foreign jurisdictions. Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences impact the income tax and deferred tax provisions in the period in which such determination is made.

Current tax receivable/(payable)

	31 December 2023	31 December 2022
At 1 January	11,110	34
Charge for the year	(30,131)	(18,706)
Payments made	23,585	20,899
Exchange differences and other movements	(8,647)	8,883
At 31 December	**(4,083)**	11,110

Deferred tax asset/(liability)

	31 December 2023	31 December 2022
At 1 January	1,508	3,955
Charge for the year	3,803	(1,974)
Charges due to fair value reserve	(6,547)	235
Exchange differences and other movements	(270)	(708)
At 31 December	**(1,506)**	1,508

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

25 SEGMENT REPORTING

The Group constitutes of two main business segments, namely;

(i) Retail & Corporate banking business, in which the Group receives customer funds and deposits and extends financing to its retail and corporate clients.
(ii) Asset Management/ Investment Banking, in which the Group directly participates in investment opportunities.

	31 December 2023			31 December 2022		
	Retail & Corporate banking	**Asset Management / Investment Banking**	**Total**	Retail & Corporate banking	Asset Management / Investment Banking	Total
Operating income/(loss)	112,927	(80)	**112,847**	93,783	732	94,515
Total expenses	(62,163)	(3,284)	**(65,447)**	(62,402)	(3,234)	(65,636)
Net income/(loss) before provision and overseas taxation	**50,764**	**(3,364)**	**47,400**	31,381	(2,502)	28,879
Provision and overseas taxation	(32,885)	(2,292)	**(35,177)**	(25,783)	(367)	(26,150)
Net income/(loss) from continuing operations	**17,879**	**(5,656)**	**12,223**	5,598	(2,869)	2,729
Net results for the period from discontinued operations	**-**	**-**	**-**	5,615	-	5,615
Net income/(losses) for the period	**17,879**	**(5,656)**	**12,223**	11,213	(2,869)	8,344
Attributable to:						
Equity holders of the Bank	9,114	(5,157)	**3,957**	4,966	(1,862)	3,104
Non-controlling interests	8,765	(499)	**8,266**	6,247	(1,007)	5,240
	17,879	**(5,656)**	**12,223**	11,213	(2,869)	8,344
Total assets	**2,256,529**	**74,269**	**2,330,798**	2,241,531	68,027	2,309,558
Total liabilities and equity of unrestricted investment account holders	**2,222,916**	**14,944**	**2,237,860**	2,221,116	9,105	2,230,221

The Group constitutes of two geographical segments which are Middle East & Asia

	31 December 2023			31 December 2022		
	Middle East & Africa	**Rest of Asia and others**	**Total**	Middle East & Africa	Rest of Asia and others	Total
Operating income/(loss)	(2,704)	115,551	**112,847**	6,013	88,502	94,515
Total expenses	(9,592)	(55,855)	**(65,447)**	(14,028)	(51,608)	(65,636)
Net (loss)/income before provision and overseas taxation	**(12,296)**	**59,696**	**47,400**	(8,015)	36,894	28,879
Provision and overseas taxation	(1,923)	(33,254)	**(35,177)**	(8,352)	(17,798)	(26,150)
Net income/(loss) from continuing operations	**(14,219)**	**26,442**	**12,223**	(16,367)	19,096	2,729
Net results for the period from discontinued operations	**-**	**-**	**-**	5,615	-	5,615
Net income/(losses) for the period	**(14,219)**	**26,442**	**12,223**	(10,752)	19,096	8,344
Attributable to:						
Equity holders of the Bank	(13,379)	17,336	**3,957**	(9,605)	12,709	3,104
Non-controlling interests	(840)	9,106	**8,266**	(1,147)	6,387	5,240
	(14,219)	**26,442**	**12,223**	(10,752)	19,096	8,344
Total assets	**514,147**	**1,816,651**	**2,330,798**	515,241	1,794,317	2,309,558
Total liabilities and equity of unrestricted investment account holders	**452,274**	**1,785,586**	**2,237,860**	566,282	1,663,939	2,230,221

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

26 ZAKAH

Zakah is directly borne by the owners and investors in restricted and equity of unrestricted investment accountholders. The Bank does not collect or pay Zakah on behalf of its owners and its investment accountholders.

27 CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities

	31 December 2023	31 December 2022
Acceptances and endorsements	17,638	11,530
Guarantees and irrevocable letters of credit	175,890	172,813
Customer and other claims	39,316	52,871
	232,844	237,214

Commitments

	31 December 2023	31 December 2022
Undrawn facilities, financing lines and other commitments to finance	**457,687**	488,187

As at 31 December 2023, there are legal suits pending against the Group in the normal course. 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.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

28 CONCENTRATION OF ASSETS, LIABILITIES AND LETTERS OF CREDIT AND GUARANTEE

Assets and liabilities of the Group, including equity of unrestricted investment accountholders, and letters of credit and guarantee are distributed over the following industry sectors and geographical regions:

31 December 2023	Banks and Financial Institutions	Trading and Manu-facturing	Property and Cons-truction	Government & Services	Individuals	Textile	Other	Total
Cash and balances with banks and central banks	135,403	-	-	-	-	-	-	135,403
Commodity placements with banks, financial and other institutions	4,908	-	-	-	-	-	-	4,908
Financing assets	324,686	318,275	38,527	346,132	62,096	67,821	6,205	1,163,742
Investment securities	1,119	6,831	79	852,245	-	231	183	860,688
Investment in associates	2,396	-	-	-	-	-	-	2,396
Other assets	10,673	-	11,544	-	15,889	-	-	38,106
Investment in real estate	2,269	-	1,720	-	-	-	-	3,989
Development properties	-	-	57,280	-	-	-		57,280
Fixed assets	57,245	-	424	-	-	-	-	57,669
Intangible assets	3,316	2,381	-	-	-	-	920	6,617
Total assets	**542,015**	**327,487**	**109,574**	**1,198,377**	**77,985**	**68,052**	**7,308**	**2,330,798**
Customer current accounts	137,825	238,497	33,036	89,739	117,357	4,212	33,492	654,158
Due to banks, financial and other institutions	445,409	-	-	-	-	-	4,894	450,303
Due to investors	-	646	27	1,038	1,538	11	-	3,260
Other liabilities	46,647	957	8,753	17,828	2,061	-	23,952	100,198
Total liabilities	**629,881**	**240,100**	**41,816**	**108,605**	**120,956**	**4,223**	**62,338**	**1,207,919**
Equity of unrestricted investment accountholders	98,399	372,670	42,885	163,738	347,298	4,951	-	1,029,941
Total liabilities and equity of unrestricted investment accountholders	**728,280**	**612,770**	**84,701**	**272,343**	**468,254**	**9,174**	**62,338**	**2,237,860**
Contingent liabilities and commitments	**194,664**	**383,411**	**1,595**	**48,054**	**1,289**	**13,827**	**47,691**	**690,531**
31 December 2022								
Total assets	568,308	432,209	116,119	991,401	84,709	59,325	57,487	2,309,558
Total liabilities and equity of unrestricted investment accountholders	677,069	626,562	117,452	269,980	490,793	5,695	42,670	2,230,221
Contingent liabilities and commitments	165,594	345,936	27,602	97,071	974	19,866	68,358	725,401

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

28 CONCENTRATION OF ASSETS, LIABILITIES AND LETTERS OF CREDIT AND GUARANTEE (continued)

31 December 2023	Asia / Pacific	Middle East	Europe	Others	Total
Cash and balances with banks and central banks	117,279	18,124	-	-	135,403
Commodity placements with banks, financial and other institutions	-	4,908	-	-	4,908
Financing assets	782,967	380,058	717	-	1,163,742
Investment securities	823,650	36,855	183	-	860,688
Investment in associates	2,396	-	-	-	2,396
Other assets	26,613	11,477	16	-	38,106
Investment in real estate	2,269	1,720	-	-	3,989
Development properties	-	57,280	-	-	57,280
Fixed assets	57,245	424	-	-	57,669
Intangible assets	3,316	3,301	-	-	6,617
Total assets	**1,815,735**	**514,147**	**916**	**-**	**2,330,798**
Customer current accounts	479,285	91,184	75,714	7,975	654,158
Due to banks, financial and other institutions	227,400	222,599	304	-	450,303
Due to investors	3,260	-	-	-	3,260
Other liabilities	81,058	19,140	-	-	100,198
Total liabilities	**791,003**	**332,923**	**76,018**	**7,975**	**1,207,919**
Equity of unrestricted investment accountholders	901,313	119,351	7,297	1,980	1,029,941
Total liabilities and equity of unrestricted investment accountholders	**1,692,316**	**452,274**	**83,315**	**9,955**	**2,237,860**
Contingent liabilities and commitments	**675,254**	**15,277**	**-**	**-**	**690,531**
31 December 2022					
Total assets	1,794,317	504,775	10,466	-	2,309,558
Total liabilities and equity of unrestricted investment accountholders	1,663,939	489,173	73,643	3,466	2,230,221
Contingent liabilities and commitments	705,520	19,881	-	-	725,401

29 FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the banking business, and these risks are an inevitable consequence of participating in financial markets. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Bank's risk management policies, procedures and systems are designed to identify and analyze these risks and to set appropriate risk mitigants and controls. The Bank reviews its risk management policies and systems on an ongoing basis to reflect changes in markets, products and emerging best practices.

Risk management is performed by the Risk Management Department under policies approved by the Board of Directors. The Risk Management Department identifies and evaluates financial risks in close co-operation with the Group's operating units. The most important types of risks identified by the Group are credit risk, liquidity risk, market risk, reputational risk and operational risk. Market risk includes currency risk, profit rate risk, and price risk.

Credit risk

Credit risk is considered to be the most significant and pervasive risk for the Bank. The Bank takes on exposure to credit risk, which is the risk that the counter-party to a financial transaction will fail to discharge an obligation causing the Bank to incur a financial loss. Credit risk arises principally from financing (credit facilities provided to customers) and from cash and deposits held with other banks and financial institutions. Further, there is credit risk in certain off-balance sheet financial instruments, including guarantees, letters of credit, acceptances and commitments to extend credit. Credit risk monitoring and control is performed by the Risk Management Department which sets parameters and thresholds for the Bank's financing and off-balance sheet financial instruments.

Considering this evolving situation, the Group has taken preemptive measures to mitigate credit risk by adopting more cautious approach for credit approvals thereby tightening the criteria for extending credit to impacted sectors.

The management and the Board of Directors (BOD) have been closely monitoring the potential impact of the challenging business environment on the Group's operations and financial position; including possible loss of revenue, impact on asset valuations, impairment, review of onerous contracts and debt covenants, outsourcing arrangements etc. The Group has also put in place contingency measures, which include but are not limited to enhancing and testing of business continuity plans including its liquidity requirements.

In preparing the consolidated financial statements, judgements made by management in applying the Group's accounting policies and sources of estimation are subject to uncertainty regarding the potential impacts of the current economic volatility and these are considered to represent management's best assessment based on available or observable information.

As of 31 December 2023, the Bank is compliant with the required Capital Adequacy Ratio, Net Stable Funding Ratio (NSFR) and Liquidity Coverage Ratios (LCR). As of 31 December 2023, the Group had NSFR ratio of 123%.

29 FINANCIAL RISK MANAGEMENT (continued)

Market risk

Market risk is the risk of potential loss arising from change in the value of any exposure due to adverse changes in the underlying benchmark market rates, i.e. foreign exchange rates, equity prices and profit rates.

Management of market risk is the responsibility of the relevant business units with the group companies with oversight by the Asset-Liability Committee (ALCO).

CURRENCY RISK

The currency exposure of the assets and liabilities, of the Group, including equity of unrestricted investment accountholders, is as follows:

31 December 2023	**United States Dollar**	**Pakistan Rupee**	**Bahraini Dinar**	**Euro**	**UAE Dirham**	**Other**	**Total**
Cash and balances with banks and central banks	10,745	103,179	18,624	754	84	2,017	135,403
Commodity placements with banks, financial and other institutions	4,908	-	-	-	-	-	4,908
Financing assets	221,060	782,967	78,341	81,374	-	-	1,163,742
Investment securities	36,855	823,650	-	-	-	183	860,688
Investment in associates	-	2,396	-	-	-	-	2,396
Other assets	6,151	28,064	3,106	785	-	-	38,106
Investment in real estate	-	2,269	1,720	-	-	-	3,989
Development properties	-	-	57,280	-	-	-	57,280
Fixed assets	-	57,245	424	-	-	-	57,669
Intangible assets	230	3,316	3,071	-	-	-	6,617
Total assets	**279,949**	**1,803,086**	**162,566**	**82,913**	**84**	**2,200**	**2,330,798**
Customer current accounts	68,611	438,048	58,715	81,459	61	7,264	654,158
Due to banks, financial and other institutions	53,175	224,544	12,044	36,984	123,377	179	450,303
Due to investors	339	2,868	-	23	-	30	3,260
Other liabilities	-	81,324	15,653	3,221	-	-	100,198
Total liabilities	**122,125**	**746,784**	**86,412**	**121,687**	**123,438**	**7,473**	**1,207,919**
Equity of unrestricted investment accountholders	37,954	867,786	119,380	1,840	-	2,981	1,029,941
Total liabilities and equity of unrestricted investment accountholders	**160,079**	**1,614,570**	**205,792**	**123,527**	**123,438**	**10,454**	**2,237,860**
Contingent liabilities and commitments	259,290	370,568	15,277	13,215	2,911	29,270	**690,531**
31 December 2022							
Total assets	274,456	1,751,906	168,815	83,631	600	30,150	2,309,558
Total liabilities and equity of unrestricted investment accountholders	134,546	1,570,391	271,500	118,242	123,686	11,856	2,230,221
Contingent liabilities and commitments	213,004	446,860	19,880	19,382	306	25,969	725,401

29 FINANCIAL RISK MANAGEMENT (continued)

CURRENCY RISK (continued)

Assuming that all other variables held constant, the impact of currency risk on the consolidated income statement/equity based on reasonable shift is summarized below:

	PKR	**EUR**	**USD**
As at 31 December 2023			
Total currency exposure	188,516	40,614	79,794
Reasonable shift	4.71%	1.56%	0.47%
Total effect on income/equity	**8,879**	**634**	**375**

	PKR	EUR	USD
As at 31 December 2022			
Total currency exposure	181,515	34,611	103,791
Reasonable shift	4.02%	2.01%	0.61%
Total effect on income/equity	7,297	696	633

The basis for calculation of the reasonable shift is arrived at by comparing the foreign exchange spot rate as compared to the one year forward rate for the same period.

Credit Risk Mitigation

The Bank uses a variety of tools to mitigate its credit risk, the primary one being that of securing the exposure by suitable collateral. While the existence of collateral is not a precondition for credit, exposures are fully or partially collateralized as a second line of defense. The Bank has in place a Credit Risk Mitigation policy which provides guidelines on the types of assets that may be accepted as collateral and the methodology of valuation of these assets. In general, all collateral valued periodically depending on the collateral type. The legal validity and enforceability of the documents used for collateral have been established by qualified personnel, including lawyers and Sharia scholars.

Bank’s credit portfolio is supported by various types of collateral such as real estate, listed equity, cash and guarantees. Bank prefers liquid and marketable credit collateral; however other types of collateral are accepted provided that such collateral can be reasonably valued.

Collateral Valuation

Collateral when taken are identified as having reasonable value, their value would however change over a period of time due to prevailing economic conditions, plant and machinery becoming obsolete due to technological advancements, due to passage of time and due to increase in availability of similar collateralized securities. Listed securities are valued at quarterly intervals, unlisted securities are valued at annual intervals, real estate properties are valued at least once in two years’ intervals, and special assets of the nature of marine vessels and aircrafts are valued at annual intervals. Value of collateral are accounted post assigning various levels of haircuts depending on the type of collateral, the same are provided in the Credit Risk Mitigation Policy. Real Estate Collaterals associated with exposures classified in stage 2 and stage 3 shall be valued annually.

Collateral Concentration

The Bank has established internal limits to avoid over concentration on certain class of collateral. Prudent maximum limits have been set for the acceptance of collateral as credit risk mitigation.

29 FINANCIAL RISK MANAGEMENT (continued)

Reputational Risk

The Reputational Risk Management is defined as the risk arising from negative perception on the part of customers, counterparties, shareholders, investors, debt-holders, market analysts, other relevant parties or regulators that can adversely affect a Group's ability to maintain existing, or establish new, business relationships and continued access to sources of funding. The Group has developed a framework and has identified various factors that can impact its reputation. Management of reputation risk is an inherent feature of the Group's corporate culture which is embedded as an integral part of the internal control systems.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events which includes but not limited to legal risk and Sharia compliance risk. This definition excludes strategic and reputational risks.

Through a control framework and by monitoring and responding to potential risks, Ithmaar is able to manage the operational risks to an acceptable level.

Liquidity risk

Liquidity risk is the risk that Bank is unable to meet its financial obligations as they fall due, which could arise due to mismatches in cash flows.

Liquidity risk arises either:

• From the inability to manage unplanned decreases or changes in funding sources; or
• from the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

Liquidity risk management ensures that funds are available at all times to meet the funding requirements, Funding and liquidity management is performed centrally by the Asset and Liability Management Committee (ALCO). The liquidity policies are designed to ensure it will meet its obligations as and when they fall due, by ensuring it is able to generate funds from the market, or have sufficient High Quality Liquid Assets (HQLAs) to sell and raise immediate funds without incurring unacceptable costs and losses. Bank regularly monitors the concentration in the funding sources and ensures that the funding sources are adequately diversified.

LCR is computed as a ratio of Stock of HQLA over the net cash outflows. The average consolidated LCR for 90 days calculated as per the requirements of the CBB rulebook and guidelines applicable for the Bank, as of 31 December 2023 and 31 December 2022, is as follows:

	31 December 2023	31 December 2022
Stock of HQLA	517,767	451,358
Net cashflows	510,513	421,885
LCR %	101%	107%
Minimum required by CBB	100%	100%

29 FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

The management of the Group has enhanced its monitoring of the liquidity and funding requirements.

The contractual maturity profile (based on the repayment schedule) of the assets and liabilities of the Group, including equity of unrestricted investment accountholders, is as follows:

31 December 2023	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Cash and balances with banks and central banks	135,403	-	-	-	-	135,403
Commodity placements with banks, financial and other institutions	4,908	-	-	-	-	4,908
Financing assets	439,303	132,958	73,924	465,794	51,763	1,163,742
Investment securities	484	-	71,904	695,956	92,344	860,688
Investment in associates	-	-	2,396	-	-	2,396
Other assets	3,310	3,283	11,227	14,295	5,991	38,106
Investment in real estate	-	-	-	2,269	1,720	3,989
Development properties	-	-	-	57,280	-	57,280
Fixed assets	-	6,095	292	8,483	42,799	57,669
Intangible assets	1,383	2	23	1,620	3,589	6,617
Total assets	**584,791**	**142,338**	**159,766**	**1,245,697**	**198,206**	**2,330,798**
Customer current accounts	654,158	-	-	-	-	654,158
Due to banks, financial and other institutions	291,470	39,620	8,879	49,605	60,729	450,303
Due to investors	2,917	69	246	28	-	3,260
Other liabilities	15,145	3,370	3,510	6,259	71,914	100,198
Total liabilities	**963,690**	**43,059**	**12,635**	**55,892**	**132,643**	**1,207,919**
Equity of unrestricted investment accountholders	676,234	162,718	171,919	19,070	-	1,029,941
Total liabilities and equity of unrestricted investment accountholders	**1,639,924**	**205,777**	**184,554**	**74,962**	**132,643**	**2,237,860**
Net position	**(1,055,133)**	**(63,439)**	**(24,788)**	**1,170,735**	**65,563**	**92,938**
Contingent liabilities and commitments	**430,593**	**139,515**	**72,914**	**46,289**	**1,220**	**690,531**
31 December 2022						
Total assets	469,633	95,084	470,544	1,011,879	262,418	2,309,558
Total liabilities and equity of unrestricted investment accountholders	1,581,046	222,378	264,997	36,358	125,442	2,230,221
Net position	(1,111,413)	(127,294)	205,547	975,521	136,976	79,337
Contingent liabilities and commitments	422,425	126,257	108,899	64,331	3,489	725,401

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

29 FINANCIAL RISK MANAGEMENT (continued)

Credit risk

Non performing financing exposures are conservatively considered as financing exposures which have been past due beyond 90 days and the profit on these assets is not recognized in the consolidated income statement. Following are the details of non performing financing exposures relating to the Group and its unrestricted investment accountholders:

	31 December 2023	31 December 2022
Gross exposure		
Past due but performing financing exposures	360,919	295,405
Non performing financing exposures	74,419	113,804
	435,338	409,209
Fair value of collateral		
Past due but performing financing exposures	300,569	249,531
Non performing financing exposures	43,582	38,159
	344,151	287,690

Included in the performing financing exposures of the Group are facilities which have been restructured during the year which are as follows:

	31 December 2023	31 December 2022
Restructured financings	**7,698**	15,854

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

29 FINANCIAL RISK MANAGEMENT (continued)

Profit rate risk

The table below summarises the Group's exposure to profit rate risk. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

31 December 2023	**Up to one month**	**One-three months**	**Three-twelve months**	**One-five years**	**Over five years**	**Non rate sensitive**	**Total**
Cash and balances with banks and central banks	-	-	-	-	-	135,403	135,403
Commodity placements with banks, financial and other institutions	4,908	-	-	-	-	-	4,908
Financing assets	316,561	102,221	166,030	499,467	73,945	5,518	1,163,742
Investment securities	60,444	89,013	567,260	118,158	16,027	9,786	860,688
Other assets						38,106	38,106
Total financial assets	**381,913**	**191,234**	**733,290**	**617,625**	**89,972**	**188,813**	**2,202,847**
Customer current accounts	-	-	-	-	-	654,158	654,158
Due to banks, financial and other institutions	327,953	40,970	11,437	11,662	58,281	-	450,303
Due to investors	-	-	-	-	3,260	-	3,260
Other liabilities	-	-	-	-	-	100,198	100,198
Total financial liabilities	**327,953**	**40,970**	**11,437**	**11,662**	**61,541**	**754,356**	**1,207,919**
Equity of unrestricted investment accountholders	253,907	146,951	208,965	284,848	135,270	-	1,029,941
Total financial liabilities and equity of unrestricted investment accountholders	**581,860**	**187,921**	**220,402**	**296,510**	**196,811**	**754,356**	**2,237,860**
Total repricing gap	**(199,947)**	**3,313**	**512,888**	**321,115**	**(106,839)**	**(565,543)**	**(35,013)**
31 December 2022							
Total financial assets	280,425	295,679	154,185	755,237	477,228	213,215	2,175,969
Total financial liabilities and equity of unrestricted investment accountholders	343,522	232,744	244,853	228,037	377,670	803,395	2,230,221
Total repricing gap	(63,097)	62,935	(90,668)	527,200	99,558	(590,180)	(54,252)

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

29 FINANCIAL RISK MANAGEMENT (continued)

Profit rate risk (continued)

	USD	**PKR**	**AED**
As at 31 December 2023			
Total profit rate exposure	119,640	125,686	123,522
Reasonable shift	0.19%	6.70%	0.00%
Total effect on income	**227**	**8,421**	**-**

	USD	PKR	AED
As at 31 December 2022			
Total profit rate exposure	138,495	116,882	123,086
Reasonable shift	4.98%	5.55%	3.40%
Total effect on income	6,897	6,487	4,185

The basis for calculation of the reasonable shift is arrived at by comparing the interbank lending rate at the beginning and the end of the year.

A fundamental review and reform of major profit rate benchmarks is being undertaken globally. The majority of LIBOR and other Interbank Offer Rates are discontinued after 31 December 2021 and replaced with certain Alternative Reference Rates (“ARRs”), with the exception of certain USD LIBOR rates where cessation is delayed until 30 June 2023.

As of 31 December 2023, the Group did not have any significant exposure to contracts linked to benchmark rates, except a long term borrowing, and it continues to enhance its systems and processes to cope with the change in benchmark rates.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

30 RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence or joint control over the other party in making financial and operating decisions.

(a) Directors and companies in which they have an ownership interest.
(b) Major shareholders of the Bank, Ultimate Parent and companies in which Ultimate Parent has ownership interest and subsidiaries of such companies (affiliates).
(c) Associated companies of the Bank.
(d) Senior management.

A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged. Related party transactions are annually approved by the Board of Directors and are conducted at agreed terms approved by the Board of Directors of respective Group entities.

Significant balances with related parties comprise:

					31 December 2023
	Shareholders & Affiliates	**Associates and other investments**	**Directors and related entities**	**Senior management**	**Total**
Assets					
Financing assets	322,550	-	-	-	322,550
Other assets	5,176	-	-	55	5,231
Liabilities					
Customers' current accounts	9,092	314	-	-	9,406
Due to banks, financial and other institutions	15,484	4,904	-	-	20,388
Other liabilities	9	-	-	-	9
Equity of unrestricted investment accounts	3,351	-	-	-	3,351

					31 December 2023
	Shareholders & Affiliates	Associates and other investments	Directors and related entities	Senior management	Total
Income					
Return to unrestricted investment accounts	(250)	-	-	-	(250)
Income from financing assets	5,360	-	-	-	5,360
Profit paid to banks, financial and other institutions	(605)	(310)	-	-	(915)
Other income - Management fees expenses	(336)	-	-	-	(336)
Expenses					
Administrative and general expenses	(170)	-	(85)	-	(255)

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

30 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

					31 December 2022
	Shareholders & Affiliates	**Associates and other investments**	**Directors and related entities**	**Senior management**	**Total**
Assets					
Financing assets	324,056	-	-	-	324,056
Other assets	5,347	-	-	54	5,401
Liabilities					
Customers’ current accounts	4,603	1,178	-	-	5,781
Due to banks, financial and other institutions	19,959	-	-	-	19,959
Other liabilities	16	-	-	-	16
Equity of unrestricted investment accounts	5,527	-	-	-	5,527

					31 December 2022
	Shareholders & Affiliates	Associates and other investments	Directors and related entities	Senior management	Total
Income					
Return to unrestricted investment accounts	(167)	-	-	-	(167)
Income from financing assets	7,627	-	-	-	7,627
Profit paid to banks, financial and other institutions	(672)	-	-	-	(672)
Other income - Management fees expenses	(326)	-	-	-	(326)
Expenses					
Administrative and general expenses	(206)	-	(115)	-	(321)

Certain collaterals against financing facilities amounting to BD27.8 million (31 December 2022: BD32.4 million) with respect to certain financing facilities are legally held by related parties for the beneficial interest of the Group.

19% of the Bank's ownership in Faysal Bank Limited is held by DMIT, for the beneficial interest of the Group.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

31 CAPITAL MANAGEMENT

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of financial position, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;

- To safeguard the Group's ability to continue as a going concern so that it can continue to operate for the benefits for shareholders and other stakeholders; and

- To maintain a robust capital base to support the development of its business.

Refer note 1 for capital structuring process.

The table below summarises the composition of regulatory capital and the ratios of the Group for the year ended. The capital adequacy ratio has been calculated in accordance with CBB guidelines & CBB directives applicable for the Bank, incorporating credit risk, operational risk and market risk. The banking subsidiaries comply with the directives of the respective local regulators for their capital management and their capital and risk-weighted assets are aggregated for the purpose of reporting the Group's CAR.

	31 December 2023	31 December 2022
Tier 1	108,330	99,288
Tier 2	7,205	6,588
Total Capital Base	**115,535**	105,876
Total Risk-Weighted Exposures	827,935	801,711
Capital Adequacy Ratio	**13.95%**	13.21%

32 PROPOSED DIVIDEND

The Board of Directors has not proposed any dividend for the year ended 31 December 2023 (31 December 2022: Nil).

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

33 NON-SHARIA COMPLIANT INCOME AND EXPENSES

The Group has earned certain income and incurred certain expenses from conventional assets and liabilities. These conventional assets and liabilities are in accordance with the Sharia Compliance Plan. The details of the total income and total expenses are as follows:

	Year ended	
	31 December 2023	31 December 2022
INCOME		
Income from other financings	2,109	11,474
Income from investments	3,683	22,921
Other income	395	6,685
Gross income	**6,187**	41,080
Less: profit paid to banks, financial and other institutions - note (ii)	(1,205)	(29,674)
Total income	**4,982**	11,406
EXPENSES		
Administrative and general expenses - note (i)	(104)	(10,829)
Depreciation and amortisation	(2,844)	(4,801)
Total expenses	**(2,948)**	(15,630)
Net (loss)/income before provision for impairment and overseas taxation	**2,034**	(4,224)
Reversal of impairment - net	-	1,095
Net (loss)/income before overseas taxation	**2,034**	(3,129)
Overseas taxation	(1,332)	599
NET (LOSS)/INCOME FOR THE YEAR	**702**	(2,530)
Attributable to:		
Equity holders of the Bank	1,446	(1,789)
Non-controlling interests	(744)	(741)
	702	(2,530)
Basic and diluted (losses)/earnings per share	**Fils 1.45**	Fils (1.79)

Note (i) – Expenses relate to entities which are consolidated line by line and exclude associates.

Note (ii) – One of the subsidiaries which was previously operating as a conventional bank till 2022 completed its Islamic conversion by surrendering its conventional banking license on 31 December 2022 and starting operations as an Islamic Retail bank effective 1 January 2023 and has increased the number of its Islamic branches during the year to 722 branches (2022: 698 branches). Accordingly only the residual non-Sharia compliant income is included in the above.

34 SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through donations to charitable causes and organizations.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

35 NET STABLE FUNDING RATIO (NSFR)

The consolidated NSFR is calculated in accordance with Liquidity Risk Management Module guidelines issued by the CBB and guideline set for the Bank. The minimum NSFR ratio as per CBB is 100% . The NSFR as at 31 December 2023 is calculated as follows:

		Unweighted Values (i.e. before applying relevant factors)				
No.	**Item**	**No specified maturity**	**Less than 6 months**	**More than 6 months and less than one year**	**Over one year**	**Total weighted value**
Available Stable Funding (ASF):						
1	**Capital:**	**108,330**	**-**	**-**	**7,205**	**115,535**
2	Regulatory Capital	108,330	-	-	-	108,330
3	Other Capital Instruments	-	-	-	7,205	7,205
4	**Retail deposits and deposits from small business customers:**	**-**	**598,126**	**54,289**	**2,456**	**591,311**
5	Stable deposits	-	32,919	718	18	31,973
6	Less stable deposits	-	565,207	53,571	2,438	559,338
7	**Wholesale funding:**	**-**	**632,948**	**335,690**	**318,671**	**656,738**
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	-	632,948	335,690	318,671	656,738
10	**Other liabilities::**	**-**	**280,702**	**-**	**7,654**	**7,654**
11	NSFR Shari'a-compliant hedging contract liabilities	-	7,876	-	-	-
12	All other liabilities not included in the above categories	-	272,826	-	7,654	7,654
13	**Total ASF**					**1,371,238**
Available Stable Funding (ASF):						
14	Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	42,791
15	Deposits held at other financial institutions for operational purposes	-	-	-	-	-
16	**Performing loans and securities:**	**-**	**439,782**	**72,584**	**620,110**	**788,751**
17	Performing loans to financial institutions secured by Level 1 HQLA	-	9,120	4,848	259,844	263,636
18	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	430,662	67,736	206,774	424,957
19	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	-	-	129,397	84,108
20	- With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	22,985	14,940
21	Performing residential mortgages, of which:					
22	- With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	-	-
23	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	1,110	1,110
24	**Other assets:**	**-**	**252,640**	**-**	**-**	**252,640**
25	Physical traded commodities, including gold	-	-	-	-	-
26	Assets posted as initial margin for Shari'a-compliant hedging contracts contracts and contributions to default funds of CCPs	-	-	-	-	-
27	NSFR Shari'a-compliant hedging assets	-		-	-	-
28	NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	1,575	-	-	1,575
29	All other assets not included in the above categories	-	251,065	-		251,065
30	OBS items	-	527,703	-	-	26,385
31	**Total RSF**	-	-	-	-	**1,110,567**
32	**NSFR (%)**	-	-	-	-	**123%**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

35 NET STABLE FUNDING RATIO (NSFR) (continued)

The consolidated NSFR is calculated in accordance with Liquidity Risk Management Module guidelines issued by the CBB and guideline set for the Bank. The minimum NSFR ratio as per CBB is 100% . The NSFR as at 31 December 2022 is calculated as follows:

		Unweighted Values (i.e. before applying relevant factors)				
No.	Item	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Available Stable Funding (ASF):						
1	**Capital:**	99,288	-	-	6,588	105,876
2	Regulatory Capital	99,288	-	-	-	99,288
3	Other Capital Instruments	-	-	-	6,588	6,588
4	**Retail deposits and deposits from small business customers:**	-	672,469	55,730	3,213	660,470
5	Stable deposits	-	37,018	537	43	35,720
6	Less stable deposits	-	635,451	55,193	3,170	624,750
7	**Wholesale funding:**	-	603,020	261,369	330,670	631,712
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	-	603,020	261,369	330,670	631,712
10	**Other liabilities::**	-	281,799	-	3,022	3,022
11	NSFR Shari'a-compliant hedging contract liabilities	-	10,731	-	-	-
12	All other liabilities not included in the above categories	-	271,068	-	3,022	3,022
13	**Total ASF**					1,401,080
Available Stable Funding (ASF):						
14	Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	31,640
15	Deposits held at other financial institutions for operational purposes	-	-	-	-	-
16	**Performing loans and securities:**	-	320,754	44,411	654,137	713,385
17	Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
18	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	14,211	5,536	168,722	173,622
19	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	306,543	38,875	255,227	389,652
20	- With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	203,789	132,463
21	Performing residential mortgages, of which:					
22	- With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	25,003	16,252
23	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	1,396	1,396
24	**Other assets:**	-	258,549	-	-	258,549
25	Physical traded commodities, including gold	-	-	-	-	-
26	Assets posted as initial margin for Shari'a-compliant hedging contracts contracts and contributions to default funds of CCPs	-	-	-	-	-
27	NSFR Shari'a-compliant hedging assets	-	-	-	-	-
28	NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	2,146	-	-	2,146
29	All other assets not included in the above categories	-	256,403	-		256,403
30	OBS items	-	654,709	-	-	32,735
31	**Total RSF**	-	-	-	-	1,036,309
32	**NSFR (%)**	-	-	-	-	135%

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

36 DISCONTINUED OPERATIONS

During January 2022, Ithmaar Holding agreed in-principle with Al Salam Bank B.S.C. (Al Salam) of the acquisition of the consumer banking business of Ithmaar Bank, and Ithmaar Holdings' ownership stake in both Bank of Bahrain and Kuwait B.S.C, and Solidarity Group Holding (the "transaction"). This announcement followed the execution of a non-legally binding Memorandum of Understanding (MoU) between the two entities in October 2021. The transaction was approved by Ithmaar Holding's shareholders during its Extraordinary General Meeting on 17 March 2022. The transaction was completed on 7 July 2022 after obtaining requisite regulatory and corporate approvals and signing of definitive agreements.

The BBK shares and the Solidarity shares were beneficially owned by IB Capital. Pursuant to the Assets Pledge Agreement between Ithmaar Bank and IB Capital dated 21 January 2019, IB Capital had pledged their entire direct and/or indirect shareholding in Bank of Bahrain and Kuwait B.S.C. and Solidarity Group Holding B.S.C. against the Murabaha Facility from the Bank. As per the agreement signed on 7 July 2022, IB Capital transferred these pledged Shares to the Bank for the partial in-kind settlement of their Murabaha Facility, for a total value of BD243 million .

Subsequent to the completion of the above transfer, the beneficial ownership of the shares in BBK and Solidary were then transferred by the Bank to Al Salam as part of the Transaction.

The consideration for sale of the group of assets was settled through transfer of certain liabilities and equity of investment account holders of the consumer banking business of Ithmaar Bank BSC (c), resulting in a gain of BD29 million based on the agreed values of assets and liabilities (the "operations") as of 7 July 2022:

Assets transferred	**As of 7 July 2022**
Consumer business	
Cash and balances with banks and central banks	63,240
Financing assets	295,312
Investment securities	31,578
Assets acquired for leasing	142,785
Other assets	31,244
Fixed assets	5,449
Total	**569,608**
Investment in subsidiary (Takaful business)	38,865
Investment in associate (investment assets)	188,516
Total assets transferred - A	**796,989**
Consumer business	
Customers' current accounts	35,272
Due to banks, financial and other institutions	14,368
Other liabilities	19,339
Total liabilities	**68,979**
Equity of unrestricted investment accountholders	754,655
Net movement in consolidated income statement relating to the above assets & liabilities from 1 to 7 July 2022	156
Total liabilities transferred - B	**823,790**
Estimated balancing payment - C	2,211
Gain recongised on transfer (B+C-A)	**29,012**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

36 DISCONTINUED OPERATIONS (continued)

The gain on the transaction of BD29 million was assessed initially on fair values as of 30 September 2021. Accordingly, the movement in carrying values of the transferred assets and liabilities associated with the transaction from 1 October 2021 till 30 June 2022 have been reflected as part of discontinued operations for the period. The net results of the above operations included in the consolidated financial statements are as follows:

Description	Year ended 31 December 2022
Total income	4,944
Total expenses	(5,132)
	(188)
Provision for impairment - net	(111)
	(299)
Write off of intangible assets directly associated with consumer business	(9,426)
Movement in carrying values from 1 October 2021 to 7 July 2022 for investment & Takaful business	(15,898)
Transfer of fair value and foreign exchange translation reserves to consolidated income statement for investment assets	2,226
	(23,397)
Gain recongised on transfer	29,012
Net results from discontinued operations	**5,615**

The comparative period balances in the consolidated income statement have been reclassified to include those operations that have been classified as discontinued in the current period presentation.

The net cash flows of the above operations included in the consolidated statement of cash flows, are as follows:

Cash flow lines	Year ended 31 December 2022
Net cash from operating activities	12,897
Net cash used by investing activities	(24,726)
Net cash movement	**(11,829)**

37 COMPARATIVES

The Group has amended the presentation of the income statement in 2023 to align with industry presentation practices to improve consistency and comparability, and accordingly the 2022 comparative information were also regrouped within the captions without any change to the total income, total expense and profit for the previous year. In 2022, the income statement was presented to show income earned from assets financed by unrestricted investment account holders and from other self-financed sources of funds rather than by the type of asset. In 2023, the income statement has been re-presented to reflect income from different asset classes as aggregated in the statement of financial position, which was more aligned with industry practices of other Islamic banks. The current presentation now clearly discloses on the face of the income statement the total income earned by the assets financed by equity of unrestricted investment account holders and the share of Group as a mudarib.