

Kuwait Finance House (Bahrain) B.S.C.(c) Public Disclosure

31 December 2023



Table of Contents

1	Group Structure	3
2	Capital Adequacy	4
2.1	Quantitative Disclosures	6
3	Risk Management	14
3.1	Bank-wide Risk Management Objectives	14
3.2	Strategies, Processes & Internal Controls	14
3.3	Risk Measurement & Reporting Systems	15
3.4	Credit Risk	15
3.5	Market Risk	28
3.6	Operational Risk	31
3.7	Equity Positions in the Banking Book	35
3.8	Equity of Investment Account Holders (URIA)	37
3.9	Restricted Investment Accounts (“RIA”)	44
3.10	Liquidity Risk	47
3.11	Profit Rate Risk	50
3.12	Financial Performance and Position	53
4	Corporate Governance and Transparency	54



1 Group Structure {PD-1.3.6(a)}

The public disclosures under this section have been prepared in accordance with the Central Bank of Bahrain (“CBB”) requirements outlined in its Public Disclosure Module (“PD”), Section PD–1: Annual Disclosure requirements, CBB Rule Book, Volume II for Islamic Banks. Rules concerning the disclosures under this section are applicable to Kuwait Finance House (Bahrain) B.S.C. (c) (“KFH Bahrain” or “the Bank”) being a locally incorporated Bank with an Islamic retail banking license and its subsidiaries, together known as (“the Group”). All amounts presented in the document are in Bahraini Dinar and rounded off to the nearest thousand. The shareholding structure as at 31 December 2023 is as follows:

Name	Number of shares	Nominal Value	Shareholding Percentage	Nationality
Kuwait Finance House K.S.C.	1,325,169,276	132,516,928	99.999%	Kuwaiti
Khalid Mohammed Al-Maarafi *	17,714	1,771	0.001%	Bahraini
Total	1,325,186,990	132,518,699	100.00%	

The above shareholding structure is consistent with the prior year.

The Board of Directors (the “Board”) at KFH Bahrain seeks to optimise the Group’s performance by enabling the business units to realise the Group’s business strategy and meet agreed business performance targets by operating within the agreed capital and risk parameters and the risk policy framework.

* It was resolved, in the extraordinary general meeting of the shareholders, that the entire shareholding of Khalid Mohammed Al-Maarafi will be transferred to a new shareholder subject to the finalization of the relevant legal formalities.



2 Capital Adequacy {PD-1.3.11, PD-1.3.16}

The Group manages the capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the CBB in supervising the Bank.

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains healthy capital ratios in order to support its business and to maximise shareholders' value.

Regulatory capital consists of Tier 1 capital (core capital) and Additional Tier 1 and Tier 2 capital (supplementary capital). Tier 1 comprises share capital, share premium, statutory reserve, general reserve, retained earnings (including current year's profit), foreign currency translation reserve, unrealised net gains arising from fair valuing equities and minority interest less goodwill. Additional Tier 1 and Tier 2 capital include general financing loss provisions and asset revaluation reserves. Certain adjustments are made to the financial results and reserves, as prescribed by the CBB in order to comply with Capital Adequacy (CA) Module issued by the CBB. From the regulatory perspective, the significant amount of the Group's capital is in Tier 1.

The Group's approach to assessing capital adequacy has been in line with its risk appetite in the light of its current and future activities. To assess its capital adequacy, the Group follows the Standardised Approach for the Credit and Market Risk, and the Basic Indicator Approach for the Operational Risk.

The Bank's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of expectations for each business group, expected growth in off-balance sheet facilities and future sources and uses of funds. In achieving an optimum balance between risk and return, the Bank has established an Internal Capital Adequacy Assessment Program (ICAAP) which quantifies the economic capital requirements for the key risks that the Bank is exposed to including credit risk, investment risk, liquidity risk, strategic risk, profit rate risk, reputation risk, operational risk, and concentration risk. The Bank also conducts comprehensive stress tests for various portfolios and assesses the impact on the capital and profitability. In addition, the Bank's stress testing frameworks and models allow for forward looking scenarios, which is considered for business growth strategies. The ICAAP of the Bank is driven by the Board through the Capital Adequacy Strategy and the ICAAP Policy. In case a plausible stress scenario is identified which may severely affect the capital adequacy of the Bank, the senior management decides an appropriate corrective action to be taken under such a scenario.

For the purpose of computing CAR the Bank does not consolidate any of its subsidiaries.

Investment in unconsolidated subsidiaries are risk weighted as per the requirement of CA Module.

All transfer of funds within the Group is only carried out after proper approval process.

The following is the key subsidiaries that are included within the accounting scope of consolidation but excluded from the regulatory scope of consolidation:

S.No.	Name of the entity	Total assets (BD '000)	Total equity (BD '000)	Principal activities
1	Kuwait Finance House - Jordan	17,665	17,622	The company and its subsidiaries are engaged in investment advisory and investments in private equities and real estate development.



2.1 Quantitative Disclosures

Table – 1. Capital Structure

Amount in BD '000

CAPITAL STRUCTURE	
Capital Structure (PD-1.3.11,1.3.12, 1.3.13,1.3.14, 1.3.15)	
Components of Capital	
Common Equity Tier 1 (CET1)	
Issued and fully paid ordinary shares	132,519
Statutory reserve	31,219
Retained earnings	-
Accumulated other comprehensive income and losses (and other reserves)	13,003
Total CET1 capital prior to regulatory adjustments	176,741
Regulatory adjustments from CET1:	
Regulatory adjustments from CET1	- 844
Total Common Equity Tier 1 capital after the regulatory adjustments above	175,897
Other Capital (AT1 & T 2):	
General financing loss provisions	6,861
Total Available AT1 & T2 Capital	6,861
Total Capital	182,758



Table – 2. Capital Requirement by Type of Islamic Financing Contract.

Amount in BD '000

CAPITAL ADEQUACY	
Regulatory Capital Requirements (PD-1.3.17) by Each Type of Islamic Financing Contracts	
Type of Islamic Financing Contracts	Capital Requirement
Murabaha and Wakala contracts with Banks	569
Investments in sukuk	475
Financing contracts with customers	
-Murabaha	43,194
-Ijarah	8,688
Total	52,926

Table – 3. Capital Requirement for Market and Operational Risk

Amount in BD '000

CAPITAL ADEQUACY		
Capital Requirements for Market Risk (PD-1.3.18) & Operational Risk (PD-1.3.19) & 1.3.30(a)		
Particulars	Risk Weighted Assets	Capital Requirement
Market Risk - Standardised Approach	20,186	2,523
Operational Risk - Basic indicator approach	124,782	15,598

Table – 4. Capital Ratios

Amount in BD '000

CAPITAL ADEQUACY		
Capital Adequacy Ratios (PD-1.3.20)		
Particulars	Total Capital Ratio	Tier 1 Capital Ratio
	%	%
Consolidated Ratios	26.3%	25.4%



Table – 5. Three Step Approach to Reconciliation (Appendix PD - 2)

(PD-A.2.10, A.2.10A,)	Balance Sheet as Published in Financial Statements	Consolidated PIRI Data	Reference - Common Disclosure Template for Capital
	As at Year End	As at Year End	
	(BD '000)	(BD '000)	
Assets			
Cash and balances with banks and Central Bank of Bahrain	80,623	80,623	
Due from banks	41,419	41,769	
Financing contracts	1,009,312	1,020,421	
Investments in equity	3,158	3,158	
Investment Properties	-	21,621	
Investment in sukuk	278,596	278,606	
Receivables and other assets	136,104	114,491	
Premises, equipment and right of use assets	4,009	4,009	
- of which other intangibles		844	9
Total assets	1,553,221	1,564,699	
Liabilities			
Customers' current accounts	122,036	122,036	
Due to banks	31,357	31,357	
Due to non-banks	97,151	97,151	
Other liabilities	24,991	24,975	
Equity of Investment Account Holders	1,106,621	1,106,621	
Total liabilities	1,382,156	1,382,139	
Shareholders' Equity			
Share capital *	132,519	132,519	1
Retained earnings and unrealized gains *	7,327	-	2, 3
Other reserves *	31,219	38,546	2, 3
Expected Credit Losses (ECL) Stages 1 & 2	-	11,494	
- of which cap on inclusion of provision in Tier 2		6,861	50, 77
Total Shareholders' Equity	171,065	182,559	

* These amounts are eligible for CET1



Table – 6. Main Features of Regulatory Capital Instruments (Appendix PD - 3)

S.No.	Description	Tier 1
1	Issuer	Kuwait Finance House (Bahrain) B.S.C. (c)
2	Unique identifier (e.g. CUSP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	1. Central Bank of Bahrain; and 2. Ministry of Industry, Commerce and Tourism
	<i>Regulatory treatment</i>	
4	Transitional CBB rules	Common Equity Tier 1
5	Post-transitional CBB rules	Common Equity Tier 1
6	Eligible at solo/group/group & solo	Solo and Group
7	Instrument type (types to be specified by each jurisdiction)	Paid Up Capital, Reserves and Retained Earning
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	BD 175,897 (thousands)
9	Par value of instrument	BD 0.100
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	January-02
12	Perpetual or date	Perpetual
13	Original maturity date	No Maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	<i>Coupons / dividends</i>	
17	Fixed or floating dividend/coupon	Based on the performance of the Bank and approval of the AGM.
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully Discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Non - Cumulative



Table – 6. Main Features of Regulatory Capital Instruments (Appendix PD - 3) (Continued)

S.No.	Description	Tier 1
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	No
31	If write-down, write-down trigger(s)	No
32	If write-down, full or partial	No
33	If write-down, permanent or temporary	No
34	If temporary write-down, description of write-up mechanism	No
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Residual Claim. All Liabilities (including Tier 2 instrument) and Equity of Investment Account Holders are senior to this instrument. Equity of Investment Account holders are senior to Common Equity Tier 1 in cases where the Bank is proven to be negligent to the Equity of Investment Account holders' rights. In other circumstances, Equity of Investment Account holders are pari-passu with Common Equity Tier 1. this is all subject to the actual application of relevant laws upon residual claim being made.
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

Table – 7. Capital disclosures (Appendix PD - 1)

Common Equity Tier 1 Capital: Instruments and Reserves		
S.No.	Description	(BD '000)
1	Directly issued qualifying common share capital plus related stock surplus	132,519
2	Retained earnings including current period profits	7,327
3	Accumulated other comprehensive income (and other reserves)	36,895
4	<i>Not applicable</i>	
6	Common Equity Tier 1 Capital Before Regulatory Adjustments	176,741
Common Equity Tier 1 Capital: Regulatory Adjustments		
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	844
28	Total Regulatory Adjustments to Common Equity Tier 1	844
29	Common Equity Tier 1 Capital (CET1)	175,896
Additional Tier 1 Capital: Instruments		
36	Additional Tier 1 Capital Before Regulatory Adjustments	-

Table – 7. Capital disclosures (Appendix PD - 1) (Continued)

Common Equity Tier 1 Capital: Instruments and Reserves		
S.No.	Description	(BD '000)
Additional Tier 1 Capital: Regulatory Adjustments		
43	Total Regulatory Adjustments to Additional Tier 1 Capital	-
44	Additional Tier 1 Capital (AT1)	-
45	Tier 1 Capital (T1 = CET1 + AT1)	175,896
Tier 2 Capital: Instruments and Provisions		
47	<i>Directly issued capital instruments subject to phase out from Tier 2</i>	-
50	Provisions	6,861
51	Tier 2 Capital Before Regulatory Adjustments	6,861
Tier 2 Capital: Regulatory Adjustments		
57	Total Regulatory Adjustments to Tier 2 Capital	-
58	Tier 2 Capital (T2)	6,861
59	Total Capital (TC = T1 + T2)	182,757
60	Total Risk Weighted Assets	693,821
Capital Ratios and Buffers		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	25.35%
62	Tier 1 (as a percentage of risk weighted assets)	25.35%
63	Total capital (as a percentage of risk weighted assets)	26.34%
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk weighted assets)	2.50%
65	of which: capital conservation buffer requirement	2.50%
68	(Common Equity Tier 1 available to meet buffers [as a percentage of risk weighted assets] Note 61 less note 65 less 6.5% (minimum CET1 requirement without buffer))	16.35%

Table – 7. Capital disclosures (Appendix PD - 1) (Continued)

Common Equity Tier 1 Capital: Instruments and Reserves		
S.No.	Description	(BD '000)
National Minima Including CCB (Where Different from Basel III)		
69	CBB Common Equity Tier 1 minimum ratio	9%
70	CBB Tier 1 minimum ratio	10.50%
71	CBB total capital minimum ratio	12.50%
Amounts Below the Thresholds for Deduction (Before Risk Weighting)		
72	Non-significant investments in the capital of other financials	1,030
Applicable Caps on the Inclusion of Provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	12,914
77	Cap on inclusion of provisions in Tier 2 under standardised approach	6,861

3 Risk Management

3.1 Bank Wide Risk Management Objectives {PD-1.3.21}

The management of the Bank believes in the proactive management of risk through the full cycle of a financial transaction including its operating circumstances from the origination stage to its final disposal from the books of the Group. The risk management objective for each area of risk is to adopt the best practices informed by Basel III and IFSB guidelines and adhering to CBB requirements. The Group is able to identify, capture, monitor and manage different dimensions of risk with the aim of protecting asset values and income streams, and hence, optimising the Group's shareholder returns, while maintaining its risk exposure within defined parameters.

The Board of Directors (BOD) are responsible for managing risk in the Bank. The BOD sets the risk appetite in the form of a comprehensive limit structure and aligning business and risk strategies to achieve overall risk adjusted returns. The Bank reviews and redefines its risk appetite according to the evolving business plans considering fluctuations in economic and market conditions and future forecasts. The Bank also assesses on a regular basis its tolerance for specific risk categories in term of limits structures for various risks and its strategy to manage these risks. The Risk Management Department compiles, analyses and presents Bank wide data to Senior Management and Board level committees to aid in the monitoring and managing of these limits. To achieve this, the Bank has implemented sophisticated risk management systems, models and various other analytical tools. The Bank ensures that the risk policies and strategies are effective by reviewing it regularly.

3.2 Strategies, Processes & Internal Controls {PD-1.3.21}

3.2.1 Bank's Risk Strategy

The Bank's risk strategy, backed by appropriate limit structures, is articulated through a Risk Charter, Capital Adequacy strategy, Credit risk strategy, Investment risk strategy, Market risk strategy, Profit rate risk strategy, Liquidity risk strategy, Operational risk strategy and ICAAP policy. These strategies provide an enterprise-wide integrated risk management framework in the Bank. The Risk Charter identifies risk objectives, policies, strategies and risk governance both at the Board and the management level. The Capital Adequacy strategy and ICAAP policy is aimed at ensuring financial stability by allocating enough capital to cover unexpected losses. Limit structures serve as a key component in articulating risk strategy in quantifiable risk appetite. They are further supported by a comprehensive framework for various risk silos with their own strategies, policies and methodology documents. In addition, the Bank has implemented various risk systems to help monitor and measure liquidity risk, profit rate risk and credit risks exposures.

The Group is exposed to various types of risk, such as market, credit, rate of return, liquidity and operational risks, all of which require comprehensive controls and on-going oversight. The risk management framework encapsulates the spirit behind Basel III, which includes management oversight and control, risk culture and ownership, risk recognition and assessment, control activities, adequate information and communication channels, monitoring risk management activities and correcting deficiencies.

The Bank has a reputation risk management policy in place. The Bank proactively manages its reputation risk using a reputation risk scorecard. Also the bank reports a reputation risk assessment to the regulators. The Bank's main reputational risk relates to step in risk. Step-in risk is the risk that a Bank decides to provide financial support to an unconsolidated entity that is facing stress, in the absence of, or in excess of, any contractual obligations to provide such support. The main reason for step-in risk might be to avoid the reputational risk that a Bank suffers in case support is not provided to an entity facing a stress situation. The Bank's step in risk relates to its investment portfolio held by unconsolidated entities and Wealth Management Products including Restricted Investment Accounts, Securitization and Non-Discretionary Sukuk. The Bank assessed that in order to manage reputational risk in extreme market events, it may not need to step-in. The internal assessment of the Bank after analyzing those risk is that these are not material and the bank may not need to step in.

3.2.2 Equity Risk in the Banking Book

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment portfolio. The Bank manages and monitors market risk arising out of its investment in public equity using Expected Shortfall (Conditional VAR) and its private equity using industrial sector, geographical areas and investment type limits.

3.2 Strategies, Processes & Internal Controls (continued)

3.2.3 Profit Rate Risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Bank manages the mismatch risk and re-pricing characteristics of the assets and liabilities by monitoring, managing and limiting its re-pricing gaps, Delta economic Value of equity and Earnings at Risk, based on the Basel Committee recommended Interest rate risk in Banking Book (IRRBB) approach.

3.2.4 Displaced Commercial Risk (DCR)

DCR refers to the market pressure to pay returns to Unrestricted Investment Account (URIA) holders that exceeds the rate that has been earned on the assets financed by the URIA, when the return on assets is under performing as compared with competitor's rates.

The Bank manages DCR through the Profit Sharing Investment Account (PSIA) policy approved by the Board according to which the Bank can forego its mudarib share to manage DCR for Mudaraba based PSIA. The Bank compares its rates with the rates offered by peer Islamic banks in the market along with performing analysis of its profitability and studies of other market indicators. The Group does not use a fixed market benchmark rate for comparison to the returns paid to URIA holders.

The quantitative disclosures regarding DCR are available in tables 31 and 32.

The Risk Management framework of the Bank is outlined in note 31 of the audited financial statements.

3.3 Risk Measurement & Reporting Systems

The Bank measures the risk using the risk management systems and risk MIS reports. The Bank has put in place various limits based on its risk appetite. These limits have been approved by the Board. Any limit breaches are reported to the respective senior management committees and the Board by the RMD based on the limit breach procedure approved by the Board. The limits are reviewed and revised on at least an annual basis or when deemed necessary. The Bank has implemented sophisticated risk management systems such as Focus Asset and Liability Management (ALM), credit risk rating systems, stress test models, ICAAP model, Expected Shortfall (Conditional VAR) and various other analytical models in order to generate the MIS and monitor the limits.

3.4 Credit Risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from financing and treasury activities. The Bank controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are mostly secured by collateral in the form of mortgage of real estate properties or other tangible securities.

The Board sets the guidelines for managing the credit risk in terms of credit risk strategy, credit risk policy, credit criteria specifications, collateral management policy and credit risk limits including individual and concentration limits. Any change to these guidelines is approved by the Board.

3.4 Credit Risk (continued)

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept in terms of counterparties, product types, geographical areas and industrial sectors. All credit proposals undergo a comprehensive risk assessment which examines the customer's financial condition, trading performance, nature of the business, quality of management, and market position, etc. Counterparty facility limits for corporate customers are established by the use of a credit risk classification system, which assigns each counterparty a risk rating in terms of obligor risk rating and the facility risk rating. The proposals are reviewed by the Credit Review Department which is separate from the risk taking business units. A comprehensive template is used to review the proposals by the credit review team. A credit approval decision is then made and terms and conditions are set.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Corporate contracts/facilities are reviewed on an annual basis by Corporate Finance and the Credit Review Department.

Exposure limits are based on the aggregate exposure to counterparty and any connected entities across the Bank. Risk ratings methodology is subject to regular revision by Risk Management Department (RMD).

The disclosures required under PD-1.3.22(a) relating to definitions of past due and impaired financing contracts and PD-1.3.22(b) relating to approaches to specific and general impairment provisions are outlined in note 4.3 and 31.2 of the audited financial statements of the Bank for the year ended 31 December 2023.

3.4.1 External Credit Assessment Institutions

The Bank relies on external ratings for Sovereigns and Financial Institutions (FIs) for assessing the creditworthiness of the counterparties, as they are generally rated by an external rating agency. The Bank uses Standard & Poor's, Fitch, Capital Intelligence and Moody's to provide ratings for such counterparties. In case of unrated FIs, the Bank assesses the credit risk based on an external FI rating model.

3.4.2 Definition of Geographical Area

The geographic distribution of the credit exposures is monitored on an ongoing basis by the Bank's RMD and reported to the Board on a quarterly basis or as and when they meet for any limit breaches. The Bank's classification of geographical area is according to the distribution of its portfolios across material geographies.

3.4.3 Concentration Risk

Concentration risk is the credit risk stemming from not having a well diversified credit portfolio, i.e. being over exposed to a single customer, industry sector or geographic region.

As per the CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's approval for any planned exposure to a single counterparty, or group of related counterparties, exceeding 15% of the regulatory capital base. In order to avoid excessive concentrations of risk, the Bank's credit concentration policy and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

3.4 Credit Risk (continued)

3.4.4 Credit Risk Mitigation {PD-1.3.25(a)}

3.4.4.1 Introduction

Credit risk mitigation is defined as the utilisation of a number of techniques, such as collaterals and guarantees to mitigate the credit risks that the Group is exposed to.

The Bank's first priority when establishing relationship with the customer for financing is to determine the borrower's capacity to repay and not to rely principally on security or collateral.

Acceptable forms of collateral and their valuation parameters are defined within the collateral management policy. For material transactions, valuations are done conservatively and are regularly reviewed to reflect any changes in market conditions. The general account opening terms and conditions allow the Bank to net financing facilities owed to them against funds from the same counterparty, which it applies on a case by case basis. Security structures and legal covenants are also subject to regular review to ensure that they continue to fulfill their intended purpose and remain in line with local market practice.

The Group accepts only Shari'a compliant collaterals as credit risk mitigants. Further, a representative from the Shari'a Department sits on the credit committee which takes decisions on significant collaterals. Furthermore, any non-standard deals below the requirements of the Credit Committee shall pass to the Sharia department for approval.

3.4.4.2 Policy guidelines for credit risk mitigation

The Bank has policy guidelines for the following credit risk mitigants:

- Collaterals
- Guarantees

1. Policy for collaterals

Collaterals are governed by the collateral management policy of the Bank. These guidelines cover the following:

- Permissible collateral types – based on size, age, value, location and manufacturer.
- Maximum financing to collateral value, for secured facilities based on each type of collateral.
- Collateral verification and appraisal processes including frequency of review.
- Approved panel of solicitors, property and other valuers.
- Collateral documentation requirements, custody (for securities) and Takaful requirements.
- Ongoing processes for margin maintenance, continuation of Takaful, etc.
- Collateral valuation process.
- Applicable haircuts on various types of collaterals.

The majority of the Bank's financing portfolio is secured through mortgage of real estate properties. In order to avoid any adverse impact of concentration of collateral, valuations are performed conservatively and regularly to reflect any changes in market conditions. The Bank may also call for additional collateral in case the collaterals become insufficient during the regular credit review process. In case of default by any customer, the Bank makes all possible efforts for the recovery of amount and only resorts to the disposal of collateral when all other efforts have been exhausted.

3.4 Credit Risk (continued)

3.4.4.2 Policy guidelines for credit risk mitigation (continued)

2. Guarantees

Guarantees supplement collateral in improving the quality of credit. It is the policy of the Bank to obtain legally enforceable, unconditional, continuing and written guarantees. In cases where a letter of guarantee from a parent company or a third party is accepted as a credit risk mitigant, the Bank ensures that all guarantees are irrevocable and a legal opinion is obtained from legal counsel domiciled in the country of the guarantor (to the extent the guarantor is domiciled overseas) regarding the enforceability of the guarantee. All guarantees should be valid until full settlement of the financing contract. Also no maturity (negative) mismatch is permissible between the guarantee and the exposure. The Bank considers the following guarantees as credit risk mitigants for the purpose of Capital adequacy ratio calculations - Sovereigns and central banks, Public Sector Enterprises, Multi-lateral Development Banks, International organisations/officials entities having zero risk weights, Islamic banks or conventional banks and corporate entities (including insurance and securities firms) either by the parent, subsidiary and affiliates, of a minimum ECAI rating of A-. The Bank also follows the CBB CA rulebook for the list and conditions of capital relief eligible guarantees.

3.4.5 Counterparty Credit Risk {PD-1.3.26(a)}

A counterparty is defined as an obligor (individual, company, other legal entity), a guarantor of an obligor, or person receiving funds from the Group. It also includes the issuer of a security in case of a security held by the Group, or a party with whom a contract is made by the Group for financial transactions.

The measurement of exposure reflects the maximum loss that the Group may suffer in case the counterparty fails to fulfil its commitments. The Group exposure is defined as the total exposure to all counterparties closely related or connected to each other. Large exposure is any exposure whether direct, indirect or funded by restricted investment accounts to a counterparty or a group of closely related counterparties which is greater than or equal to 10% of the Group's capital base.

The Group has adopted the Standardised Approach to allocate capital for counterparty credit risk. The Bank has put in place an internal counterparty limit structure which is based on internal/external ratings for different types of counterparties. The Bank has also set concentration limits as a percentage of portfolio exposure based on grades. In case of a counterparty rating degrade, the Bank may require further collateral or advise the counter party to reduce its exposure on a case by case basis.

The Bank has developed a provisions and impairment policy in order to ensure that it maintains adequate provisions for past due and impaired assets.

3.4.6 Related Party Transactions {PD-1.3.23(d)}

Transactions with related parties are carried out at arm's length basis. The Credit Criteria of the Bank provides the approval matrix for transactions with the related parties.

The disclosure relating to related party transactions and balances has been made available in the consolidated financial statements of the Group (note 28) for the year ended 31 December 2023.

3.4 Credit Risk (continued)

3.4.6 Highly Leveraged and Other High Risk Counterparties {PD-1.3.23(e)}

The Bank defines "Highly Leveraged Institutions" in line with the definitions of Basel in its papers detailed "Review of issues relating to Highly Leveraged Institutions (HLIs)", "Sound Practices for Banks' Interactions with Highly Leveraged Institutions", "Banks' Interactions with Highly Leveraged Institutions" as follows:

- Large financial institutions
- Are subject to little or no regulatory oversight.
- Are generally subject to very limited disclosure requirements and are not subject to rating by credit reference agencies.
- Take on significant leverage, where leverage is the ratio between risk, expressed in some common denominator, and capital.

The Bank will not provide financing facilities to HLIs. On a case by case basis, if required, all financing deals to HLIs will be approved by the board of directors.



3.4.7 Quantitative disclosures

Table – 8. Average and Gross Credit Risk Exposure

Amount in BD '000

CREDIT RISK: QUANTITATIVE DISCLOSURES				
Credit Risk Exposure (PD-1.3.23(a))				
Portfolios	Self-Financed		Financed by Unrestricted Investment Accounts	
	* Total Gross Credit Exposure	** Average Gross Credit Exposure Over the Period	* Total Gross Credit Exposure	** Average Gross Credit Exposure Over the Period
Funded				
Balances with central banks	6,684	8,092	54,492	60,483
Due from banks	13,960	13,052	37,654	35,411
Financing contracts***	207,008	208,278	813,413	818,562
Investment in sukuk	85,175	87,580	193,431	193,233
Receivables and other assets	70,524	68,816	-	-
Total	383,351	385,818	1,098,990	1,107,689
Un-funded				
Contingent liabilities and commitments	32,439	36,283	-	-
Grand Total	415,790	422,101	1,098,990	1,107,689

* Gross credit exposure is reflected net of stage 3 expected credit loss (ECL) and gross of stage 1 and 2 expected credit loss (ECL).

** Average credit exposure has been calculated using quarterly consolidated financial statements and PIRI forms submitted to the CBB.

*** Financing contracts include Musharka contracts which are all self financed.



Table – 9. Portfolio Geographic Breakdown.

Amount in BD '000

CREDIT RISK: QUANTITATIVE DISCLOSURES**Geographic Breakdown (PD-1.3.23(b))**

Portfolios	Self-Financed Geographic Area					Financed by Unrestricted Investment Accounts Geographic Area				
	Bahrain	Other GCC	North America	Other countries	Total	Bahrain	Other GCC	North America	Other countries	Total
	Funded									
Balances with central banks	6,684	-	-	-	6,684	54,492	-	-	-	54,492
Due from banks	10,910	1,703	1,136	211	13,960	29,426	4,594	3,065	568	37,653
Financing contracts	203,968	3,040	-	-	207,008	801,468	11,945	-	-	813,413
Investment in sukuk	85,175	-	-	-	85,175	193,431	-	-	-	193,431
Receivables and other assets	4,736	65,788	-	-	70,524	-	-	-	-	-
Total	311,473	70,531	1,136	211	383,351	1,078,817	16,539	3,065	568	1,098,989
Un-funded										
Contingent liabilities and commitments	32,439	-	-	-	32,439	-	-	-	-	-
Grand Total	343,912	70,531	1,136	211	415,790	1,078,817	16,539	3,065	568	1,098,989

Note: The Bank's classification of geographical area is according to the distribution of its portfolios across material geographies.



Table – 10. Industrial Sector Breakdown by Portfolio

Amount in BD '000

CREDIT RISK: QUANTITATIVE DISCLOSURES**Industry Sector Breakdown (PD-1.3.23(c))**

Portfolios	Self-Financed Industry Sector					Financed by Unrestricted Investment Accounts Industry sector				
	Trading and Manufacturing	Banking and Financial	Construction and Real Estate	Others	Total	Trading and Manufacturing	Banking and Financial	Construction and Real Estate	Others	Total
Funded										
Balances with central banks	-	6,684	-	-	6,684	-	54,492	-	-	54,492
Due from banks	-	13,960	-	-	13,960	-	37,652	-	-	37,652
Financing contracts	7,806	6,093	105,656	88,683	208,238	30,462	23,780	412,335	346,093	812,670
Investment in sukuk	-	81,379	3,796	-	85,175	-	193,431	-	-	193,431
Receivables and other assets	451	64,398	494	5,181	70,524	-	-	-	-	-
Total	8,257	172,514	109,946	93,864	384,582	30,462	309,355	412,335	346,093	1,098,245
Un-funded										
Contingent liabilities and commitments	0	-	3,947	28,491	32,439	-	-	-	-	-
Grand Total	8,257	172,514	113,894	122,355	417,020	30,462	309,355	412,335	346,093	1,098,245



Table – 11. Exposures in Excess of 15% Limit

CREDIT RISK: QUANTITATIVE DISCLOSURES		
Concentration of risk (PD-1.3.23(f)) Exposure as a Percentage of Capital Base		
Counterparties	Self-Financed	Financed by Unrestricted Investment Accounts
	Concentration of Risk	Concentration of Risk
Counterparty # 1	7.30%	12.59%

Restructured Islamic Financing Contracts {PD-1.3.23(j)}

The outstanding amount of financing contracts with customers for which financing terms have been restructured during the period and one year has not elapsed amounted to BD 46,966 thousand (2022: BD 38,872 thousand) and these are secured with collateral amounting to BD 131,488 thousand (2022: BD 72,657 thousand). As a condition to restructuring, the Bank has received partial payment from customers and/or obtained additional collateral.

The restructuring does not have any significant impact on impairment provisions and present and future earnings of the Group as most of the exposures are sufficiently collateralised and restructuring is based on the market terms. The concession provided to the restructured relationships mainly relates to the extension of the repayment dates.

Foreclosed Assets

The Group has implemented a policy to deal with foreclosed assets which prescribes the procedure to be followed by business units when foreclosing assets as deemed necessary. The policy provides for the recording of foreclosed assets in the Bank's books and their management, including sale or rental.



Table – 12. Maturity Breakdown of Credit Exposures

Amount in BD '000

CREDIT RISK: QUANTITATIVE DISCLOSURES							
Residual Contractual Maturity Breakdown (PD-1.3.23(g))							
Portfolios	Self Financed						Total
	Maturity Breakdown						
	Up to 3 Months	3-12 Months	1-5 Years	5-10 Years	10-20 Years	Over 20 Years	
Balances with central banks	6,684	-	-	-	-	-	6,684
Due from banks	13,960	-	-	-	-	-	13,960
Financing contracts	36,633	31,388	51,572	49,502	32,592	5,807	207,494
Investment in sukuk	23,459	5,125	45,130	11,462	-	-	85,176
Receivables and other assets	6,897	494	63,133	-	-	-	70,524
Total	87,633	37,007	159,835	60,964	32,592	5,807	383,838
Contingent liabilities and commitments	-	28,492	3,947	-	-	-	32,439
Grand Total	87,633	65,499	163,783	60,964	32,592	5,807	416,277

Amount in BD '000

CREDIT RISK: QUANTITATIVE DISCLOSURES							
Residual Contractual Maturity Breakdown (PD-1.3.23(g))							
Portfolios	Financed by Unrestricted Investment Accounts						Total
	Maturity breakdown						
	Up to 3 Months	3-12 Month	1-5 Years	5-10 Years	10-20 Years	Over 20 Years	
Balances with central banks	54,492	-	-	-	-	-	54,492
Due from banks	37,653	-	-	-	-	-	37,653
Financing contracts	143,611	123,050	202,179	194,062	127,769	22,742	813,413
Investment in sukuk	43,558	2,468	126,125	21,279	-	-	193,430
Grand Total	279,313	125,518	328,304	215,341	127,769	22,742	1,098,987



Table – 13. Break-up of Impaired Finances, Past Due Finances and Allowances by Industry Sector

Amount in BD '000

CREDIT RISK: QUANTITATIVE DISCLOSURES														
Impaired Finances, Past Due Finances and Allowances (PD-1.3.23(h))														
Industry Sector	Total Portfolio	Stage 1	Stage 2	Self-Financed				Stage 3 expected credit losses					Stage 1 & 2 expected credit losses	
				Stage 3				Balance at the beginning of the year	Transferred to other stages	Transferred from other stages	Net remeasurement	Recoveries & write offs during the year		Balance at the End of the year
				Total	Over 3 Months	1 to 3 Years	Over 3 years							
Trading and manufacturing	7,805	7,805	-	-	-	-	-	15	-	-	(16)	-	0	-
Banking and financial institutions	6,093	6,093	-	-	-	-	-	(0)	-	-	-	-	(0)	-
Construction & real estate	105,171	90,696	11,657	2,818	779	764	1,275	242	(7)	38	668	(168)	773	1,356
Others	88,683	73,225	15,458	-	-	-	-	66	(3)	20	410	(88)	405	1,009
Total	207,752	177,819	27,115	2,818	779	764	1,275	324	(10)	58	1,062	(256)	1,178	2,365

Past due finances are stated net of stage 3 expected credit losses.

Amount in BD '000

Impaired Finances, Past Due Finances and Allowances (PD-1.3.23(h))														
Financed by Unrestricted Investment Accounts														
Industry Sector	Total Portfolio	Stage 1	Stage 2	Stage 3				Stage 3 expected credit losses					Stage 1 & 2 expected credit losses	
				Stage 3				Balance at the beginning of the year	Transferred to other stages	Transferred from other stages	Net remeasurement	Recoveries & write offs during the year		Balance at the End of the year
				Total	Over 3 Months	1 to 3 Years	Over 3 years							
Trading and manufacturing	30,462	30,462	-	-	-	-	-	61	-	-	(61)	-	1	-
Banking and financial institutions	23,780	23,780	-	-	-	-	-	0	-	-	-	-	0	1
Construction & real estate	412,334	355,834	45,492	11,008	3,047	2,983	4,978	935	(24)	149	2,624	(661)	3,022	5,292
Others	346,093	285,771	60,326	(4)	(1)	(1)	(2)	261	(13)	78	1,610	(348)	1,590	3,938
Total	812,669	695,847	105,818	11,004	3,046	2,982	4,976	1,257	(38)	227	4,173	(1,008)	4,613	9,231

Past due finances are stated net of stage 3 expected credit losses.

Table – 14. Break-up of Provision by Geographic Area Amount in BD '000

CREDIT RISK: QUANTITATIVE DISCLOSURES				
Impaired Finances, Past Due Finances And Allowances (PD-1.3.23(i))				
Geographic Area		Credit impaired or past due or impaired Islamic financing contracts	Stage 3 expected credit losses	Stage 1 & 2 expected credit losses
Bahrain		94,888	3,000	2,577
Total		94,888	3,000	2,577

Table – 15. Break-up of Eligible Collateral by Portfolio Amount in BD '000

CREDIT RISK MITIGATION (CRM): DISCLOSURES FOR STANDARDISED APPROACH				
Credit Risk Exposure Covered By CRM (PD-1.3.25 (b) and (c))				
Portfolios	Total Exposure Covered by			
	Eligible Collateral(after appropriate haircuts)*			Guarantees
Ijarah			361,679	-
Total			361,679	-

* Over and above the collateral, considered as eligible under the CA Module, the Bank maintains additional collateral in the form of mortgage of residential properties, corporate guarantees and other tangible assets, which could be invoked to claim the amount owed in the event of default.



Table –16. Counter Party Credit Risk

Amount in BD '000

DISCLOSURES FOR EXPOSURES RELATED TO COUNTERPARTY CREDIT RISK (CCR)								
General Disclosures (PD-1.3.26 (b))								
Current Credit Exposure by Type of Islamic Financing Contracts	Gross Positive Fair Value (Net of specific provision)	Netting Benefits	Netted Current Credit Exposures	Eligible Collaterals Held (after appropriate haircuts) *				
				Cash	Govt. Securities	Guarantees	Real Estate	Total
Murabaha	368,566	-	368,566	-	54,825	-	-	54,825
Ijarah	652,341	-	652,341	270,138	-	-	91,541	361,679
Total	1,020,907	-	1,020,907	270,138	54,825	-	91,541	416,504

* Over and above the collateral, considered as eligible under the CA Module, the Bank maintains additional collateral in the form of mortgage of residential properties, corporate guarantees and other tangible assets, which could be invoked to claim the amount owed in the event of default.



3.5 Market Risk

3.5.1 Introduction

Market risk is the risk that movements in market risk factors, including foreign exchange rates, profit rates, commodity prices, equity prices and credit spreads will reduce the Group's income or the value of its portfolios. The Group is also exposed to profit rate and potential foreign exchange risks arising from financial assets and liabilities.

The Board has approved the overall market risk appetite in terms of market risk strategy and market risk limits. RMD is responsible for the market risk control framework and sets a limit framework within the context of the approved market risk appetite. The Bank separates market risk exposures into either trading or non-trading portfolios. Trading portfolios include those positions arising from market-making, proprietary position-taking and other marked-to-market positions. Non-trading portfolios include all other positions that are not included in the trading book.

Daily market risk reports are produced for the Bank's senior management covering the different risk categories. These reports are discussed with the senior management committees such as ALCO/Risk Management Committee which take appropriate action to mitigate the risk.

Further details relating to Market risk are provided in note 31.4 of the audited financial statements of the Bank for the year ended 31 December 2023.

3.5.2 Market Risk Strategy

The Board is responsible for approving and reviewing the market risk strategy and policy. The Bank's senior management is responsible for implementing the market risk strategy approved by the Board, and continually enhancing the market risk policies and procedures for identifying, measuring, monitoring and controlling market risks.

In line with the Bank's risk management objectives and risk tolerance levels, the specific strategies for market risk management include:

- The Bank strives to reduce the market risk through diversification of its risk exposures across currencies, markets and sectors.
- The Bank proactively measures and monitors the market risk in all its risk exposures on a regular basis using appropriate measurement techniques.
- The Bank has established a limit structure to monitor and control the market risk in its portfolio on daily basis. These limits are monitored on a regular basis and any exceptions to the limits are immediately dealt with.
- The Bank carries out stress testing periodically to assess the effect of extreme movements in market variables.
- The Bank, at all times, holds sufficient capital in order to meet the capital requirement of the CBB as well as maintaining a cushion to cover any adverse movements in the market risk factors.
- At all times, the Bank will ensure that it follows the overall market risk strategy while taking any new market risk exposures.

3.5 Market Risk (continued)

3.5.3 Market Risk Measurement Methodology

The bank adopts various techniques which are used by the Bank for the measurement, monitoring and control of market risk and include Conditional Value at Risk (CVAR) for FX risk.

3.5.4 Market Risk Monitoring and Limits Structure

The Board and ALCO set the tolerance for market risk. Based on these tolerances, RMD has established appropriate risk limits that maintain the Bank's exposure within the strategic risk tolerances over a range of possible changes in market prices and rates. The Bank has developed the following combination of limits to control its market risk:

- a) Stop loss limits;
- b) Conditional Value at risk (CVaR) limits;
- c) FX Net Open Position (NOP) Limit
- d) Concentration limits for country, geography and sector for equity and Sukuk portfolios; and

The Treasury Department monitors the risk limits for each transaction and ensures that they are not exceeded. A regular limit monitoring is carried out by the RMD to ensure adherence to approved limits. ALCO also monitors the limit adherence on a regular basis.

In case a limit is breached, the Board approved limit breach procedure is followed and the reports are provided to the ALCO, the Board Risk Committee (BRC) and the Board depending upon materiality of the breach. The limits are reviewed at least annually or as deemed necessary.

3.5.5 Portfolio Review Process

As part of the review, RMD also monitors the Bank's overall market exposure against the risk tolerance limits set by the Board.

3.5.6 Reporting

The Bank generates a number of market risk management reports. These reports aim to provide the Bank's senior management with an up-to-date view of its market risk exposure. These include a summary of the Bank's aggregate market risk sensitive exposures, VaR and limits monitoring reports.

3.5.7 Stress Testing

Stress testing produces information summarising the Bank's exposure to extreme, but plausible, circumstances and offers a way of measuring and monitoring the portfolio against extreme price movements of this type. The Bank's RMD simulates stress scenarios to calculate the maximum loss due to extreme movements in rates.

3.5.8 Quantitative disclosures

Table – 17. Minimum and Maximum Capital Requirement for Market Risk

Amount in BD '000

MARKET RISK: DISCLOSURES FOR BANK'S USAGE OF THE STANDARDISED APPROACH					
Level Of Market Risks In Terms Of Capital Requirements (PD-1.3.27 (b))					
Particulars	Price Risk	Foreign Exchange Risk (net open position)	Equity Position Risk	Market Risk on Trading Positions in Sukuks	Commodity Risk
Capital requirements	-	2,523	-	-	-
Maximum value	-	2,942	-	-	-
Minimum value	-	2,523	-	-	-

This disclosure is based on the figures from the PIRI for the year ended 31 December 2023.



3.6 Operational Risk

3.6.1 Introduction

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, whether intentional, unintentional or natural. It is an inherent risk faced by all business and covers a large number of operational risk events including business interruption and systems failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets.

The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks to an acceptable level. Controls include but are not limited to effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, and the internal audit process.

The Board acknowledges that it has the ultimate responsibility for operational risk. Oversight rests with the BRC Committee. The Board has approved the operational risk framework in terms of strategy, policy and limits. The Bank has implemented Risk Controls and Self-Assessment (RCSA) and departments report the incidents and Key Risk Indicators (KRIs) values to the operational risk unit for monitoring and reporting the key operational risks in the Bank.

3.6.2 Operational Risk Management Strategy

The Bank's Board is responsible for approving and reviewing (at least annually) the operational risk strategy and significant amendments to the operational risk policies. The Bank's senior management is responsible for implementing the operational risk strategy approved by the Board to identify measure, monitor and control the risks faced by the Bank. The Bank continuously monitors the process and controls framework surrounding all business units to assess their effectiveness and efficiency.

As a strategy the Bank will identify the sources of operational risks in coordination with each business unit. On an ongoing basis, the operational risk tolerance is determined by the RMD based on a bottom-up approach following a discussion with the business units. Operational risk tolerance will need to be approved by the BRC, ratified by the Board and documented and communicated via the Board-approved policy.

The RCSA methodology enables the Bank to identify risk events within each activity, process and support unit of the Bank, document existing controls, establish quantitative measurement metrics - impact and likelihood - for each event as well as early warning indicators for key risks as defined in the risk tolerance in the form of Key Risk Indicators (KRIs) and capture operational loss data. The operational risk identification, assessment and measurement process involves the following steps:

Identification of KRI's

The Bank's RCSA process identifies the KRIs.

Incident reporting

An incident is the occurrence of an operational or compliance risk event that has caused, or has the potential to cause a financial, reputation or regulatory impact on the Bank. It includes credit or market risk events, which have been caused by an operational risk event, and non-compliance with any legal or regulatory requirement, license, internal policy or procedure or code. The incidents are reported by the business and control units as a part of the RCSA framework.



3.6 Operational Risk (continued)

Operational Loss Database (OLD)

The OLD is a key component to enable the Bank to quantify its past operational risk exposures. The OLD contains a subset of the information captured by the incident reporting process since all incidents involving an actual or potential financial impact (including near misses) is captured.

Scenario analysis

The Bank uses scenario analysis to help it to evaluate its exposure to high-severity events. The Bank identifies the stress events and scenarios to which it is exposed and assesses its potential impact, and the probability of aggregated losses from a single event leading to other risks. Scenario analysis is conducted in a workshop format, using a combination of expert judgment; including business management representatives and external risk management experts, as well as external data relevant to the risks being evaluated.

3.6.3 Operational Risk Monitoring and Reporting

The internal monitoring and reporting process ensures a consistent approach for providing pertinent information to senior management and the BRC Committee for the quick detection and correction of deficiencies in the policies, processes and procedures for managing operational risk through ongoing, periodic reviews.

The objective of the reporting process is to ensure relevant information is provided to senior management and the Board to enable the proactive management of operational risk. The process ensures a consistent approach for providing information that enables appropriate decision making and action taking. The KRIs and incidents are reported by the operational risk unit.

3.6.4 Operational Risk Mitigation and Control

Control activities are necessary to address the specific operational risks that the Bank has identified through the RSCA process. For the material risks identified by the Bank, the Bank decides whether to use procedures to control, mitigate, transfer, or bear the risks.

The Group has several options for controlling and/or mitigating these risks:

- Decline to accept the risk (i.e. by avoiding certain business strategies/customers)
- Accept and retain the risk but introduce mitigating internal/external controls
- Accept the risk and transfer it in part/in whole.

Key controls

The Group aims to control the operational risks it is exposed to by strengthening its internal controls, continuing its efforts to identify, assess, measure and monitor its risks, evolving in its risk management sophistication and promoting a strong control culture within the Group.

Each business unit head is responsible for ensuring that the internal controls relevant to its operations are complied with on a day to day basis in spirit as well as in letter. The Group will furthermore establish control processes and procedures and implement a system for ensuring compliance with these internal risk control processes and procedures.



3.6 Operational Risk (continued)

3.6.5 Business Continuity Plan and Disaster Recovery Plan

An Information Technology Disaster Recovery site has been completed and is fully operational; periodic mandatory testing is undertaken for the facility. A business continuity site has also been completed with the option to utilise two further sites should the need arise. The Bank tests its BCP at least annually to ensure that it is current and effective.



3.6.6 Quantitative disclosures

Table –18. Indicators of Operational Risk

Amount in BD '000

OPERATIONAL RISK : QUANTITATIVE DISCLOSURES FOR BASIC INDICATOR APPROACH	
Indicators of Operational Risk (PD-1.3.30 (b))	
Particulars	Total
Gross Income (average)	66,550

Legal cases resulting from normal course of business are handled by the Bank's in-house legal team and external legal consultants are also consulted on such matters, as and when required.

Any non-Shari'a compliant earnings are given away as charity.



3.7 Equity Positions in the Banking Book (PD-1.3.31(a))

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment portfolio.

The accounting policies, including valuation methodologies and their related key assumptions, are disclosed in the consolidated financial statements. All of the Group's investments are in the process of being sold.

3.7.1 Quantitative disclosures

Table – 19. Total and Average Gross Exposures

Amount in BD '000

EQUITY POSITION IN BANKING BOOK - DISCLOSURE REQUIREMENTS				
Total and Average Gross Exposure - (PD-1.3.31 (b) & (c))				
Type and Nature of Investment	Total Gross Exposure	* Average Gross Exposure	** Publically Traded	Privately held
Equity investments	22,654	27,068	-	22,654
Musharaka	14	15	-	14
Total	22,668	27,083	-	22,668

* Average exposure has been calculated using quarterly consolidated financial statements or PIRI forms submitted to CBB.

** This includes publically listed equities classified as available for sale in the financial statements.

Table – 20. Break-up of Capital Requirement for Equity Groupings Amount in BD '000

EQUITY POSITION IN BANKING BOOK - DISCLOSURE REQUIREMENTS	
Capital Requirement - (PD-1.3.31 (g))	
Equity Grouping	Capital Requirement
Listed	-
Unlisted	6,006
Total	6,006

Table – 21. Gain and Loss Reported Amount in BD '000

EQUITIES: DISCLOSURES FOR BANKING BOOK POSITIONS	
Gains / Losses Etc. (PD-1.3.31(d),(e)&(f))	
Particulars	Total
Total realised gains arising from sales or liquidations in the reporting period	-
Total unrealised changes to fair value in statement of other comprehensive income	-
Unrealised gains included in Tier 1 Capital	-



3.8 Equity of Investment Account Holders (URIA) {PD-1.3.32}

The Investment Account Holder (“IAH”) authorizes the Bank to invest the account holder’s funds (URIA) on the basis of Mudaraba and Wakala contracts in a manner which the Bank deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. Under this arrangement the Bank can commingle the IAH funds with its own funds (owner’s equity) and with other funds the Bank has the right to use (e.g. current accounts or any other funds which the Bank does not receive on the basis of URIA Mudaraba/Wakala contract). The IAH and the Bank participate in the returns on the invested funds. The funds received under the wakala arrangement are also classified as URIA in pursuant of the new FAS 31 issued by the AAOIFI by following a multi-level arrangement approach.

The Bank has developed a Profit Sharing Investment Accounts (PSIA) policy which details the manner in which the URIA funds are deployed and the way the profits are calculated for the URIA holders. The strategic objectives of the investments of the IAH funds are:

- Investment in Shari’a compliant opportunities;
- Targeted returns;
- Compliance with investment policy and overall business plan;
- Diversified portfolio; and
- Preparation and reporting of periodic management information.

URIA holders’ funds are invested in due from banks, Sukuks and the financing portfolio. The Bank invests these funds through various departments including Treasury, corporate, consumer, and capital markets. The experience of relevant department heads is mentioned in Section 4. No priority is granted to any party for the purpose of distribution of profits. According to the terms of acceptance of the URIA, 100% of the funds are invested after setting aside amount for mandatory reserve and sufficient operational cash requirements. URIA funds are invested and managed in accordance with Shari’a requirements. Income generated and losses arising (including provisions) from the invested funds is allocated proportionately between URIA holders and shareholders on the basis of the average balances outstanding and share of the funds invested. Administrative expenses incurred by the Bank are allocated to the URIA holders in the proportion of average URIA funded assets to average total pool assets of the Bank. The process has not changed significantly from the past years. The amount of administrative expenses charged to URIA are provided in table 34.

IAH’s can request the Bank to withdraw funds before the maturity of the URIA contract however, such arrangement are subject to the approval of the Bank.

The mudarib share on investment accounts ranges from 30% to 85% depending on the investment period and in case of saving accounts, where there is no restriction of cash withdrawal, the mudarib share ranges from 85% to 95%. However, during the year, in addition to investors’ share of profit, the Bank has distributed profit to investors from its own share of mudarib share. The ranges of Mudarib share are provided in table 31. The Bank also did not charge any Wakala agency fees to URIA-Wakala.

The Bank has a Corporate Communications Department which is responsible for communicating new and/or extended product information through various channels of communication which may include publications, website, direct mailers, electronic mail and local media. The URIA products available to the customers can be classified broadly under two categories, 1) Term URIA and 2) Saving URIA. Term URIA are fixed term URIA having maturity of 1, 3, 6, 9, 12, 24, 36 and 60 months whereas Saving URIA can be withdrawn on demand. Detailed information about the features of various products offered by the Bank can be obtained from the website of the Bank, brochures at the branches, call centre and customer service representatives at the branches of the Bank. Branches of the Bank are the primary channel through which products are made available to the customers in addition to availability of “personal Banking” and investment advisory and financial planning services through various departments including having relevant experience mentioned in Section 4.



3.8 Equity of Investment Account Holders (URIA) (continued)

Fiduciary risk is the risk that arises from Bank's failure to perform in accordance with explicit and implicit standards applicable to their fiduciary responsibilities. Although KFHB will discourage subsidizing its URIA holders, the Bank may forgo a portion of its mudarib share from assets funded by PSIA and apportion its share to the IAH as part of smoothing returns and to mitigate potential withdrawal of funds by investment account holders.

Complete mudarib share or part thereof, based on the approval of ALCO of the Bank, can be waived to pay a competitive rate to URIA holders. There are no instances where the Bank, as Mudarib, has taken any share greater than the agreed/disclosed profit sharing ratio. There were instances where the Bank has forgone part of its profit to distribute that to the Bank's customers or investors. The bank may also forgo part of its shareholder's returns as a "hiba" to URIA holders in order to mitigate DCR.

The rate of return payable to URIA holders is decided by ALCO, keeping in view the rate of return earned on the pool of assets. Based on the results of URIA, allocation will take place to the URIA holders affected by the following factors including rates offered by peer banks, cost of funds from various sources, liquidity position of the Bank and market benchmarks (LIBOR etc). The Bank compares its rates with the rates offered by peer Islamic banks in the market along with performing analysis of its profitability and studies of other market indicators. The Bank does not use a fixed market benchmark rate for comparison to the returns paid to URIA holders. In order to ensure smooth returns and to mitigate the potential withdrawal of funds by URIA Investors; the Bank can use Profit Equalisation Reserve (PER). Similarly, the Bank can use an Investment Risk Reserve (IRR) to cater against future losses for URIA holders. The amount of PER and IRR as at 31 December 2023 is Nil but the Bank may transfer an amount into PER and IRR in future after prior notice to its customers.



3.8.1 Quantitative Disclosures

Table – 22. Break-up of URIA

Amount in BD '000

UNRESTRICTED INVESTMENT ACCOUNTS:			
Unrestricted Investment Account (PD-1.3.33 (a),(e) &(g))			
	Amount	Financing to Total URIA %	Ratio of Profit Distributed
Savings URIA	248,919	22%	5%
Term URIA	857,702	78%	95%
Total	1,106,621	100%	100%

Table – 23. Percentage of Return on Average URIA Assets

UNRESTRICTED INVESTMENT ACCOUNTS:	
Unrestricted Investment Account (PD-1.3.33 (d))	
	Percentage
Average profit paid on average URIA assets	4.14%
Average profit earned on average URIA assets	5.41%

Table – 24. Percentage of Mudarib share to Total URIA Profits

Amount in BD '000

UNRESTRICTED INVESTMENT ACCOUNTS:			
Unrestricted Investment Account (PD-1.3.33 (f))			
	URIA Return Before Mudarib share	Share of Profit Paid to Bank as Mudarib	Percentage
Mudarib share to total URIA Mudaraba profits	8,964	7,992	89.15%

Table – 25. Percentage of Islamic Financing Contracts Financed by URIA to Total URIA

Amount in BD '000

UNRESTRICTED INVESTMENT ACCOUNTS:		
Unrestricted Investment Account (PD-1.3.33 (h))		
Shari'a-Compliant Contract	Financing	Financing to Total URIA %
Cash and balances with banks	62,123	5.61%
Murabaha and due from banks	37,654	3.40%
Investments at amortised cost – Sukuk	193,431	17.48%
Customer Murabaha	294,131	26.58%
Customer Ijarah Muntahia Bittamleek	519,281	46.92%
Total	1,106,621	99.99%



Table – 26. Percentage of Counterparty Type Contracts Financed by URIA to Total URIA

Amount in BD '000

UNRESTRICTED INVESTMENT ACCOUNTS:		
Unrestricted Investment Account (PD-1.3.33 (i))		
Counterparty Type	Financing	Financing to Total URIA %
Cash items	7,631	0.69%
Claims on sovereigns & MDBs	193,431	17.48%
Claims on banks	104,726	9.46%
Claims on corporate	288,103	26.03%
Regulatory retail portfolio	80,003	7.23%
Real Estate financing	420,961	38.04%
Past due facilities	11,764	1.06%
Others	2	0.00%
Total	1,106,621	100.00%

Table – 27. Percentage of Profit Paid to URIA Holders to Total URIA Investment

UNRESTRICTED INVESTMENT ACCOUNTS:							
Unrestricted Investment Account (PD-1.3.33 (l) (m) & (n))							
					Share of Profit Paid to IAH Before Transfer To/From Reserves %	Share of Profit Paid to IAH After Transfer To/From Reserves %	Share of Profit Paid, as a % of Funds Invested, to Bank as Mudarib %
URIA					10.85%	10.85%	89.15%

Table – 28. Range of Declared Rate of Return

UNRESTRICTED INVESTMENT ACCOUNTS:								
Unrestricted Investment Account (PD-1.3.33 (q))								
Declared rate of return for Investments accounts	1-Month	3-Month	6-Month	9 - Months	12-Month	2-Years	3-Years	5-Years
BHD denominated	1.26% - 4%	1.58% - 5.2%	1.89% - 5.6%	5% - 5.6%	2.21% - 5.7%	4.9% - 5.7%	4.8% - 5.7%	4.6% - 5.7%
USD denominated	0.95% - 4.05%	1.26% - 4.27%	1.58% - 4.64%	3.7% - 4.64%	1.89% - 4.98%	NA	NA	NA
GBP denominated	0.4% - 0.6%	0.55% - 1.19%	0.7% - 1.59%	0.8%	0.9% - 1.99%	NA	NA	NA
EUR denominated	0.2% - 0.6%	0.3% - 1.19%	0.4% - 1.59%	0.45%	0.5% - 1.99%	NA	NA	NA



Table – 29. Movement of URIA by Type of Assets

Amount in BD '000

UNRESTRICTED INVESTMENT ACCOUNTS:			
Unrestricted Investment Account (PD-1.3.33 (r) & (s))			
Type of Assets	Closing Actual Allocation as at 30 Jun 2023	Net Movement During the Period	Closing Actual Allocation as at 31 Dec 2023
Cash and Balance with banks and CBB	75,107	(12,984)	62,123
Due from banks	23,864	13,790	37,654
Investment in sukuk	192,319	1,112	193,431
Murabaha due from customers	304,510	(10,379)	294,131
Ijarah Muntahia Bittamleek due from customers	507,847	11,435	519,281
Total	1,103,647	2,973	1,106,621

Note: There are no limits imposed on the amount that can be invested by URIA funds in any one asset. However, the Bank monitors its URIA deployment classifications so that to ensure that URIA funds are not invested in the Bank's long term Investment Portfolio (including Private Equity and Real Estate).

Table – 30. Capital Charge on URIA by Type of Claims

Amount in BD '000

UNRESTRICTED INVESTMENT ACCOUNTS:			
Unrestricted Investment Account (PD-1.3.33 (v))			
Type of Claims	Exposures	Risk Weighted Assets	Capital Charge
Cash items	7,631	-	-
Claims on sovereign	193,431	-	-
Claims on banks	104,726	7,072	265
Claims on corporate	288,104	183,170	6,869
Regulatory retail portfolio	80,003	60,002	2,250
Mortgages	420,962	141,850	5,319
Past due facilities	11,764	10,575	397
Other assets	2	2	-
Total	1,106,621	402,672	15,100

* The RWA for Capital Adequacy Ratio Purposes is presented above prior to the application of the CBB approved 30% alpha factor which is the proportion of assets funded by URIA for RWA purposes in accordance to the CA module. Capital charge is after alpha factor.



Table – 31. Percentage of Profit Earned and Profit Paid to Total Mudaraba

Amount in BD '000

DISPLACED COMMERCIAL RISK - URIA:			
Displaced Commercial Risk Unrestricted Investment Account (PD-1.3.41 (b))			
	Total Mudaraba profits available for sharing between URIA and shareholders	Contractual Range of Mudharib Share	Mudharib Share % of URIA Profit Earned
2023	3.61%	30%-95%	89.15%
2022	3.11%	30%-95%	35.76%
2021	3.34%	30%-95%	53.29%
2020	3.78%	30%-95%	42.82%
2019	6.02%	30%-95%	38.30%

Table –32. Percentage rate of return to URIA and shareholders from Mudaraba Profit

Amount in BD '000

DISPLACED COMMERCIAL RISK - URIA:			
Displaced Commercial Risk Unrestricted Investment Account (PD-1.3.41 (d))			
Type of Claims			Shareholder Mudaraba Profit Earned as % of shareholder funds (before mudharib share)
2023			7.23%
2022			5.92%
2021			3.53%
2020			3.67%
2019			4.94%



Table – 33. Percentage of Profit Earned and Profit Paid to Total URIA Funds

Amount in BD '000

UNRESTRICTED INVESTMENT ACCOUNTS:					
Unrestricted Investment Account (PD-1.3.33 (w))					
	* URIA Funds (Average)	Profit Earned	Profit Earned as a percentage of funds invested	Profit paid	Profit paid as a percentage of funds invested (after smoothing)
2023	1,100,885	40,830	3.71%	45,624	4.14%
2022	1,146,595	36,329	3.17%	23,298	2.03%
2021	1,048,535	34,982	3.34%	17,575	1.68%
2020	957,170	41,226	4.31%	19,221	2.01%
2019	597,206	23,205	3.89%	13,457	2.25%

* Average assets funded by URIA have been calculated using consolidated management accounts.

Table – 34. Operating Expenses Allocated to URIA

Amount in BD '000

UNRESTRICTED INVESTMENT ACCOUNTS:	
Unrestricted Investment Account (PD-1.3.33 (x))	
Unrestricted IAH	Amount
Amount of administrative expenses charged to URIA	18,751



3.9 Restricted Investment Accounts (“RIA”)

Under RIA, the IAH has authorized the Bank to invest the funds on the basis of Mudaraba contract for investments, but imposes certain restrictions as to where, how and for what purpose these funds are to be invested. Further, the Bank may be restricted from commingling its own funds with the RIA funds for this purposes of investment. In addition, there may be other restrictions which IAHS may impose. RIA funds are invested and managed in accordance with Shari’a requirements. The funds are managed by the Bank under a fiduciary capacity as per the instructions of the RIA holders and accordingly the Bank is not liable to make good any losses occurred due to normal commercial reasons.

The Bank has developed the PSIA policy, approved by the Board, which details the manner in which the RIA funds are deployed and the way the profits are calculated for the RIA.

The Bank as fund manager (mudarib) carries out its fiduciary duties and administers the scheme in a proper, diligent and efficient manner, in accordance with the Shari’a principles and applicable laws and relevant rules and guidelines issued by the CBB.

The Bank has appropriate procedures and controls in place which commensurate with the size of its portfolio which includes:

- a) Organising its internal affairs in a responsible manner, ensuring it has appropriate internal controls and management systems and procedures and controls designed to mitigate and manage such risk;
- b) Observing high standards of integrity and fair dealing in managing the scheme to the best interest of its investors; and
- c) Ensuring that the Bank has the requisite level of knowledge and experience for the tasks that are undertaken and is competent for the work undertaken.

RIA products are made available to the customers through Private Banking department. Detailed product information about various RIA products is available in the respective RIA information pack. The detailed risks are disclosed in the respective RIA information pack for the investors to make informed decision. Such disclosure includes the disclosure on participation risks, default risks, investment risks and exchange rate risks.



3.9.1 Quantitative Disclosures

Table – 35. History of Profit Paid to RIA Holders

Amount in BD '000

RESTRICTED INVESTMENT ACCOUNTS:					
Restricted Investment Account (PD-1.3.35 (a) & (b))					
	2023	2022	2021	2020	2019
Return to RIA holders	7,078	6,205	7,272	8,076	7,619

Table – 36. RIA Exposure

Amount in BD '000

RESTRICTED INVESTMENT ACCOUNTS:	
Restricted Investment Account (PD-1.3.33 (a))	
	Amount
Average RIA funds during the year	124,587

Table – 37. Percentage of Profit Paid to RIA Holders on RIA Assets

RESTRICTED INVESTMENT ACCOUNTS:	
Restricted Investment Account (PD-1.3.33 (d))	
	Percentage
Return on average* RIA assets	5.68%

* Average RIA funds have been calculated using consolidated management accounts.

Table – 38. Mudarib share as a Percentage of Total RIA Profits

RESTRICTED INVESTMENT ACCOUNTS:	
Restricted Investment Account (PD-1.3.33 (f))	
	Percentage
Mudarib share to total (gross) RIA profits	17.96%

Table – 39. Share of Islamic Financing Contracts in Total RIA Financing

Amount in BD '000

RESTRICTED INVESTMENT ACCOUNTS:			
Restricted Investment Account (PD-1.3.33 (h))			
Shari'a-Compliant Contract	Financing	Financing to Total Financing %	
Murabaha	127,110		100.00%
Total	127,110		100.00%



Table – 40. Percentage of Counterparty Type Contracts Financed by RIA to Total RIA Amount in BD '000

RESTRICTED INVESTMENT ACCOUNTS:					
Restricted Investment Account (PD-1.3.33 (i)), (PD-1.3.38)					
Counterparty Type	Financing		Financing to Total Financing %		
Claims on corporate		127,110			100.00%
<u>Maturity buckets:</u>					
Next Day		-			
2-8days		3,910			
8-1m		-			
1-3m		43,520			
3-6m		36,815			
6-1y		32,665			
1-3Y		10,200			

Table – 41. Share of Profit Paid to RIA Holders as a Percentage of Total RIA Amount in BD '000

RESTRICTED INVESTMENT ACCOUNTS:					
Restricted Investment Account (PD-1.3.33 (l) (m) (n) & (o))					
Type of RIA	Total RIA	RIA Return Before Mudarib shares	RIA Return after Mudarib shares	Share of Profit Paid to Bank as Mudarib	
	A	B	C	D	
Murabaha	127,110	8,627	7,078		1,549
Total	127,110	8,627	7,078		1,549

Table – 42. Declared Rate of Return of RIA

RESTRICTED INVESTMENT ACCOUNTS:		
Restricted Investment Account (PD-1.3.33 (q))		
	12-Month	24-Month
Average declared rate of return	6.75%	7.00%

Table – 43. Treatment of Assets Financed by RIA in the Calculation of RWA for Capital Adequacy Purposes

RESTRICTED INVESTMENT ACCOUNTS:		
Restricted Investment Account (PD-1.3.33 (v))		
Type of RIA	Exposure	Risk Weighted
Murabaha	127,110	-

Table – 44. Profit Earned and Profit Paid as a Percentage of Total RIA Funds

Amount in BD '000

RESTRICTED INVESTMENT ACCOUNTS:						
Restricted Investment Account (PD-1.3.33 (w),1.3.35(a),(b))						
	Profit Earned	*Profit Earned as a Percentage of RIA Funds		Profit Paid	*Profit Paid as a Percentage of RIA Funds	
2023	8,627		6.92%	7,078		5.68%
2022	7,684		6.08%	6,205		4.91%
2021	9,105		6.66%	7,272		5.32%
2020	9,963		7.32%	8,076		5.93%
2019	9,654		7.16%	7,619		5.65%

* Profit earned and profit paid are based on average RIA funds and may not tally with the declared profit rates



3.10 Liquidity Risk {PD-1.3.36}

3.10.1 Introduction

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows.

Funding risk arises when the necessary liquidity to fund illiquid asset positions cannot be obtained at the expected terms and when required.

To control this risk, management has taken various measures including but not limited to arrangement of diversified funding sources in addition to its core deposit base, management of assets with liquidity in mind, and monitoring of future cash flows and liquidity gaps and needs on a daily basis.

This incorporates an assessment of expected cash flows and gaps and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has lines of credit that provide it with access to funds to meet liquidity needs. In addition, the Bank maintains a statutory deposit with the CBB equal to 5% of customer deposit denominated in Bahraini Dinar.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

As at 31 December 2023 the Group maintains liquid assets to counter liquidity issues. The liquid assets of the Group,

- Current account and reserves with the CBB
- Cash-in-hand and held with other financial institutions in nostro accounts
- Short-term Murabaha & wakala placements with financial institutions
- Investments in marketable sukuks and equities

3.10.2 Sources of liquidity risk

Liquidity risk may arise and materialise in the following ways:

- Contractual mismatch between the cash flows of assets and liabilities
- Insufficient diversification of funding sources or concentration of funding sources
- Operating in different currencies, which creates cross currency funding and liquidity risk
- Unexpected withdrawal of funds by investment account holders
- Non-performance or late payment by customers
- Name issue, credit down grade or adverse publicity may result in mass movements of deposits to other banks
- Default of entities who are large borrowers and whose shares are held as collateral
- Unexpected funding required for off-balance sheet items, such as payments to beneficiaries under letters of credit that have been defaulted by customers
- Fall in income when the profit earned from assets are lower than the profit paid on liabilities and the profit rates revise downwards
- Loss of confidence in the banking system



3.10.3 Liquidity Risk Strategy

The Board is responsible for approving and reviewing (at least annually) the liquidity risk strategy and significant amendments to the liquidity risk policies. The Bank's senior management is responsible for implementing the liquidity risk strategy approved by the Board to identify, measure, monitor and control the risks faced by the Bank.

The Bank also monitors the Liquidity Coverage Ratio (LCR) and Net stable Funding Ratio (NSFR). The bank also monitors the liquidity gap for all types of funding (self financed, URIA financed and RIA financed) and has limits for them. Further, the bank manages the liquidity requirements for the entire balance sheet and might fund the funding gap from its own sources for any sources of funding.

The Bank monitors the liquidity positions and gaps by comparing maturing assets and liabilities in different time buckets of up to 1 month, 1–3 months, 3–6 months, 6 months to 1 year and 1 year and above. As a strategy the Bank maintains a large customer base and good customer relationships.

The Bank has a liquidity contingency plan to meet urgent liquidity requirements in stressed conditions that addresses how funding liquidity would be managed if either their specific financial conditions were to decline or broader conditions created a liquidity problem. The plan is reviewed and updated regularly. The plan is also tested periodically.

The Bank also conducts liquidity risk stress tests in order to assess the requirements under stress scenarios.

The Bank has also created a policy for its subsidiaries to report the liquidity needs arising from their activities via the investment team.

The Treasury Department, in conjunction with RMD periodically reviews/updates the liquidity risk strategy which is approved by ALCO and the Board.

Further details relating to Liquidity risk are provided in note 31.3 of the audited financial statements of the Bank for the year ended 31 December 2023.



3.10 Liquidity Risk (continued)

3.10.4 Liquidity Risk Measurement Tools (continued)

Limits

The limits are in line with the overall liquidity risk management strategy approved by the Board. The breach of the limits is reported to the Board. The Bank monitors the limits on the liquidity gaps in various tenor buckets and on the ratios.

Stress Tests

On a monthly basis, the Bank conducts stress tests on its liquidity profile. The institution specific and market wide stress tests are conducted. The gaps are created under stress conditions to understand the liquidity needs in case of stress situations.

Table – 45. Liquidity Risk Exposure Indicators

LIQUIDITY RISK: QUANTITATIVE DISCLOSURE	
High Quality Liquid Assets (HQLA) to Customer Deposits (PD-1.3.37)	
As at 31 December 2023	31.38%
During the period:	
Average	32.66%
Highest	35.85%
Lowest	31.35%

Liquidity Coverage Ratio	
LCR (Liquidity Coverage Ratio) *	232.02%
Minimum LCR as required by CBB	100.00%

* Daily average figures (Year to Date)

3.11 Profit Rate Risk {PD-1.3.39}

3.11.1 Introduction

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of funding due to the sources of finance. Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments.

The Bank has established a Profit Rate Risk Management strategy and policy and manages the profit rate risk accordingly.

The profit rate risk in the Bank may arise due to the following transactions:

- a) Murabaha transactions;
- b) Mudaraba transactions;
- c) Ijarah Muntahia Bittamleek;
- d) Sukuks; and
- e) All other rate sensitive products

3.11.2 Sources of Profit Rate Risk

The different profit rate risks faced by the Group can be classified broadly into the following categories:

Maturity mismatch

The non-alignment of maturities/re-pricing dates of assets and liabilities give rise to profit rate risk. In the case of fixed profit rates, maturities are considered whereas for floating or variable profit rates the re-pricing/rollover dates are considered.

Basis value risk

Assets and liabilities with similar maturities / re-pricing dates and highly, though imperfectly, correlated profit rate benchmarks (USD-LIBOR and BIBOR) are exposed to basis risk.

Profit rate curve risk

Changes to the values, slope and shape of the profit rate curve that impact the assets and liabilities of the Group in a dissimilar manner give rise to profit rate risk.

Risk of counterparty's options underlying assets

The availability of options, with the Group's counterparties, to make prepayments or early withdrawals can leave the Group with excess or deficit funds that need to be invested or funded again at unknown profit rates. This imposes a profit rate risk on the Group.



3.11.3 Profit Rate Risk Strategy

The Bank's Board is responsible for approving and reviewing (at least annually) the profit rate risk strategy and significant amendments to the profit rate risk policies. The Bank's senior management is responsible for implementing the profit rate risk strategy approved by the Board to identify, measure, monitor and control the risks faced by the Bank.

The Bank's strategy includes taking the following steps:

- Identify and document the profit rate risk sensitive products and exposures it wishes to engage in;
- Strive to reduce the maturity / re-pricing mismatch between assets and liabilities on its statement of financial position;
- Abstain from entering into fixed price assets / liabilities with unusually long tenure / maturity;
 - Price the deals using the Risk Adjusted Returns on Capital (RAROC) framework
 - Wherever possible, the contracts will be done using floating rates/option to reprice
- Reduce the reliance on short term inter-bank borrowings to avoid short term earnings pressure. The Bank will strive to reduce the proportion of inter-bank liabilities as a percentage of total liabilities;
- Periodically review the profit rates offered on savings, VIP savings, Investment accounts and VIP Murabaha keeping in view the profit rates offered by competitors, cost of funds, market conditions etc;
- Establish a limit structure to quantify its overall profit rate risk tolerance. These limits will be monitored on a periodic basis and any exceptions to the limits will be immediately dealt with;
- Strive to maintain a minimum spread between cost of funding and profit generated from assets while simultaneously ensuring the liquidity mismatch does not exceed a certain threshold for a maturity bucket;
- Periodically review the changes in major market rates (Fed rates, LIBOR, BIBOR) and anticipated trends and their potential impact on expected rate of return on their liabilities;
- If needed, the Bank may take a natural hedge on its rate sensitive assets by raising liabilities having similar re-pricing profile;
- Conduct periodic stress tests to assess the effect of extreme movements in profit rates for all major currencies which may expose the Bank to high risks; and
- At all times, the Bank will ensure that it follows the overall profit rate risk strategy while taking any new profit rate risk exposures.



3.11.4 Profit Rate Risk Measurement Tools

The following methods are adopted by the bank to quantify profit rate risk in the banking book:

Re-pricing gap analysis

As part of the re-pricing gap analysis, the Bank defines certain assumptions based on the re-pricing date and profit rate sensitivity for allocating each instrument/position to a given time bucket. The periodic gap compares Rate Sensitive Assets (RSAs) with Rate Sensitive Liabilities (RSLs) across each single time bucket while the cumulative gap compares RSAs with RSLs over all time buckets from the present day through the last day in each successive time bucket. This is done for each major currency the Bank operates in. A positive gap indicates that if reference rates fall, net income will be adversely affected.

Economic value of equity (EVE)

The EVE measures the change in the Bank's market value of equity resulting from upward and/or downward movements in the yield curve. The Bank has implemented the methodology suggested by the Basel Committee for managing the profit rate risk (Interest Rate Risk In Banking Book - IRRBB methodology).

Earnings-at-Risk (EaR)

Earnings-at-risk will measure the loss in earnings resulting from upward and/or downward movements in the yield curve. The Bank uses the analysis to evaluate the profit rate risk exposure of the banking book over a particular time horizon and calculate the potential impact on earnings over the specified horizon. Bank has implemented the IRBBB methodology to estimate the EAR.

Limits

The Board specified the limits on the re-pricing gaps. The reports are regularly monitored.

Stress Testing

The Bank conducts the stress tests on the re-pricing gaps and economic value of the equity by shocking the yield curves by various amounts as detailed in the Basel Committee IRRBB.

3.11.5 Profit Rate Risk Monitoring and Reporting

The Bank is monitoring the profit rate through the Focus ALM system implemented by the Bank. The report is then presented to ALCO and the Board to review the results of gap limits and exceptions, if any, and recommend corrective actions to be taken.



3.11.6 Quantitative Disclosures

Table – 46. Profit Rate Shock

Amount in BD '000

PROFIT RATE RISK IN THE BANKING BOOK					
200bp Profit Rate Shocks (PD-1.3.40 (a)+(b))					
Assets	Amount	Change in Basis Points		Effect on Net Income for the Year	
Due from banks	41,419		200		828
Financing contracts	655,050		200		13,101
Investment in sukuk	-		200		-
Liabilities					
Due to banks	31,357		200		(627)
Due to non-banks	97,151		200		(1,943)
Equity of investment account holders	1,106,621		200		(22,132)

3.12 Financial Performance and Position

Table – 47. Ratios

Financial Performance and Position					
(PD-1.3.39(b))					
Quantitative Indicator	2023	2022	2021	2020	2019
Return on average equity	4.69%	13.66%	13.00%	8.85%	13.82%
Return on average assets	0.52%	1.46%	1.31%	0.89%	1.59%
Staff cost to net operating income ratio	35.98%	25.93%	25.95%	29.20%	27.12%

Formula is as follows:

ROAE = Net Income/average equity

ROAA= Net profit/ average Assets



4 Corporate Governance and Transparency

The Bank has established a strong corporate governance framework that is designed to protect the interests of all stakeholders, ensure compliance with regulatory requirements, and enhance organisational efficiency. The Bank has also established a robust organisational structure that clearly segregates functions and responsibilities, and reflects a division of roles and responsibilities of the Board of Directors and Management. Clear mandates exist for the Board, Chairman of the Board, Board Committees, Managing Director and Chief Executive Officer, the Management, and Senior Management Committees.

Board of Directors & Board Committees

The Bank's Board of Director (Board) comprises of eight directors, including the Chairman of the Board and the Managing Director and the Chief Executive Officer ("MD & CEO"). The Board periodically assesses its composition and size, and where appropriate re-constitutes itself and its committees. Appointment and termination of board members are in accordance with the Articles of Association of the Bank. While deciding upon the composition of the Board, the Bank will ensure compliance with the requirements of the High Level Controls Module, Volume 2 issued by the CBB.

The Board is accountable to the shareholders for the creation and delivery of strong and sustainable financial performance and long-term sustainable shareholder value by providing effective governance over the Bank's affairs. It determines the strategic objectives and policies of the Bank to deliver such long term value, providing overall strategic direction to the Bank within a framework of rewards, incentives and controls. Detailed responsibilities of the Board are provided in their respective terms of references.

With regard to the procedures relating to conflict of Interest, the Board charter states that all transactions of the Bank shall be carried out on an arm's length basis. Any decision to enter into a transaction, under which Board members or any member of the management have conflicts of interest that are material, shall be formally and unanimously approved by the entire Board.

The Chairman is responsible for leading the Board, ensuring its effectiveness, monitoring the performance of the Executive Management, and maintaining a dialogue with the Bank's shareholders.

The Board has the following committees:

- 1- Audit & Compliance Committee
- 2- Governance Committee
- 3- Nomination & Remuneration Committee
- 4- Risk Committee
- 5- Credit & Investment Committee

Each committee has specific terms of references that define its responsibilities, scope and powers. Detailed responsibilities of the Board and its committees are provided in the Bank's Corporate Governance Charters.

The Nomination and Remuneration Committee of the Bank is charged to recommend performance based incentives for the senior management including the MD & CEO. Such recommendations are also subject to the Board approval.

The remuneration of Fatwa & Sharia Supervisory Board and the Board is subject to the AGM Approval.



Corporate Governance Charters

The Bank has developed Corporate Governance Charters that provide the basis for promoting high standards of corporate governance in the Bank. It sets out high level guidelines and lays the foundation for the overall corporate governance system in the Bank. It outlines the key elements of an effective corporate governance framework and describes the roles and responsibilities of the Board of Directors which outlines the role of the Board in its review, approval and monitoring of the Bank's strategy and financial performance within a framework of sound corporate governance. It also contains the terms of references for all the Board and Senior Management Committees.



Remuneration Policy

The HR Department of the Bank engaged an external consultant to assist them in appropriately adopting a variable remuneration policy applicable to KFHB Bahrain and its banking subsidiaries (if any) which was also discussed with the NRC. The NRC reviews the remuneration policy on an annual basis and, when needed, appropriate changes are made.

KFHB's objectives are to maintain a Remuneration Policy that:

- Enables KFHB to attract and retain employees, and motivate them to achieve results with integrity and fairness;
- Encourages a performance culture that is based on merit, and rewards excellent performance, both in the short and long term aligned to the core values of KFHB;
- Balances the mix of Fixed Compensation and Variable Compensation in such a way that reflects KFHB's values and risk appetite;
- Is consistent with, and promotes effective risk management practices, compliance and control culture of KFHB;
- Fosters teamwork and collaboration across KFHB;
- Control and Support functions that report independently of the lines of business are compensated independently of the lines of business by:
 - a) Setting total remuneration to ensure that variable pay is not significant enough to encourage inappropriate behaviours while remaining competitive with the market;
 - b) The remuneration decisions are based on their respective functions and not the business units they support;
 - c) Performance measures and targets are aligned to the unit and individual objectives that are specific to the function;
- Considers long term growth and shareholder value alignment; and
- Is approved by the shareholders and the Board of Directors and regularly monitored in terms of implementation by the Nomination and Remuneration Committee (NRC).

Regulatory Alignment

The remuneration policy which includes the variable pay has been re-designed to promote sound risk management. The linkage between risk and remuneration has been taken care of through the governance process, target setting process for the bank and business units, the performance evaluation measures, introduction of both deferral over a 3 year period, share linked component and with introduction of clawback and malus provisions.

The mix of salary allowances, benefits and variable pay is aligned to the nature of job and the position. Accordingly for the MD & CEO, executive management in Business units and the business unit positions, the pay mix is structured as lesser fixed pay and more of variable pay subject to achieving the targets. For staff in Control and Support functions, the pay mix is structured as more fixed and lesser variable pay. Further, the variable pay, for staff in Control and Support Functions, is based on their units target and individual performance and not linked to Bank's performance.



Deferral and share linked instruments

The Bonus for the MD & CEO, his deputies, Material Risk Takers and Approved persons whose total remuneration exceeds the regulatory threshold has a deferral element and share linked payment. The deferral arrangements are as follows:

MD & CEO, his deputies and top 5 Executive Management members (in terms of total remuneration) in Business units:

- 40% of the variable pay will be paid in cash at the end of the performance period; and
- The balance 60% will be deferred over a period of 3 years with 10% being cash deferral and 50% being shares and the entire deferred variable pay will vest equally over a 3 year period. (Year 1, Year 2 and Year 3)

For all other employees in Business and Approved persons in Control and Support Functions and whose total remuneration exceeds the regulatory threshold:

- 50% of the variable pay will be paid in cash at the end of the performance period; and
- 10% will be paid in the form of shares at the end of the performance period which has to be retained by the employee for 6 months from the date of award.
- The balance 40% will be deferred over a period of 3 years and paid in the form of shares and vests equally over the 3 year period.

Claw back and Malus

The Bank has introduced claw back and malus clauses whereby the NRC has the right to invoke these clauses under certain pre-defined circumstances wherein the Bank can clawback the vested as well as the unvested bonus paid or payable to a staff.

Key Remuneration Components

The Bank will try, at all times, to maintain pay scale and benefits appropriate to the local job market and allow for changes in the cost of living. The compensation package shall comprise of basic salary, allowances and benefits and discretionary variable pay. The following table summarises the total remuneration:

The Bonus pool is determined based on the bottom up approach i.e. by setting base multiples of monthly salary per level and aggregating the multiples per unit and then on to the bank level.

The basis of payment of bonus would be as follows:

- CEO and Executive management: not aligned to a specific Business Unit Base multiple*Bank score*Individual score
- Business units: base multiple * Bank score*Unit score*Individual score
- Control & Support units: Base multiple*Unit score*Individual score



Computation of Variable Pay – Business Units

Beginning of the performance period (financial year):

Targets are set for the Business units and is aggregated to the Bank level target. In setting targets, all Bank wide risk parameters and unit specific KPIs shall be considered.

For achieving the target, total Bonus pool is set based on multiples of base salary across the Bank. The key feature is that bonus is part of the target set (i.e. the overall target includes the bonus element as well). The different levels of targets are not just % increase in profits but profits adjusted for additional bonus.

The Summary of the Variable pay process is:

- Links reward to Bank, business unit and individual performance.
- Target setting process considers risk parameters which are both quantitative and qualitative such as reputation.
- Bonus can be lesser or nil if the Bank or business units do not achieve the risk adjusted targets or make losses.
- Post risk assessment is carried out to ensure that in case of material losses or realisation of less than expected income which can be attributed to employees actions the claw back or malus as appropriate is invoked.

Bonus Pool Evaluation

The actual results are evaluated against targets, considering the risk parameters matrix and adjustments if any to the unit score or the Bank's score as appropriate are made and the bonus pool is revised accordingly. The actual bonus pool is approved by the NRC and the individual Bonus payments are as per the scoring matrix.



Remuneration Details

Table – 48 Amount in BD '000

Members of the Board of Directors			
Total remuneration	Unrestricted		
	2023	2022	
Fixed remuneration			
· Sitting Fees	120.6	103.1	
· Annual Remuneration	205.5	169.5	

Table – 49 Amount in BD '000

Members of the Fatwa and Shari'a Supervisory Board			
Total remuneration	Unrestricted		
	2023	2022	
Aggregate remuneration	28	28	

Table – 50 Amount in BD '000

Approved Persons in Business Lines				
Total remuneration	Unrestricted		Deferred	
	2023	2022	2023	2022
Fixed remuneration				
· Cash-based	1,262	1,288		
· Shares and shares-linked instruments				
· Others	69	124		
Variable remuneration				
· Cash-based	95	183	19	37
· Shares and shares-linked instruments			101	204
· Others				

* The approved persons in business lines are 9 as of 31 December 2023.

Table – 51 Amount in BD '000

Approved persons in Support Units and Controlled Functions				
Total remuneration	Unrestricted		Deferred	
	2023	2022	2023	2022
Fixed remuneration				
· Cash-based	1,489	1,450		
· Shares and shares-linked instruments				
· Others	19	33		
Variable remuneration				
· Cash-based	122	239	-	-
· Shares and shares-linked instruments		-	63	128
· Others				

* The approved persons in support units and controlled functions are 18 as of 31 December 2023.

Table – 52 Amount in BD '000

PD-1.3.10B (n) Number of meetings held by the NRC and aggregate remuneration paid to its		
	2023	2022
Number of meetings	3	2
Aggregate remuneration paid to its members (amount in BD '000)	25	22.5

Table –53. Corporate Governance

Corporate Governance and Transparency							
(PD-1.3.10(b))							
Name of Board Member	Independence Status	Profession	Business Title	Experience in Years	Qualification	Director Since	Appointment / Reappointment Date
Mohammed Al Fouzan	Independent Non-Executive Director & Vice Chairman	Banker	Consultant Group Chief Executive Officer	More than 35 years	Bachelor of Commerce and Business Administration	July-12	March-23
Khalid Al Saad	Independent Non-Executive Director	Professor	Associate Professor	More than 37 years	Ph.D FINANCE	Feb-16	March-23
Abdulwahab Issa Al-Rushood	Executive Director	Banker (Chief Treasurer)	General Manager – Kuwait Treasury	More than 33 years	Bachelors in Science, Mathematics	May-14	March-23
Shadi Ahmed Zahran	Executive Director	Banker	Group Chief Financial Officer	More than 26 years	Master in Business Administration, CPA, CIPA, CBA, Jordain CPA	Sept-14	March-23
Abdulla A.Hammed Al Marzooq	Executive Director	Banker	Deputy General Manager - Group Financial Institution	More than 26 years	Master in Business Administration	April-14	March-23
Abdulhakeem Yaqoob Alkhayyat	Managing Director and CEO	Banker	MD & CEO - KFHBahrain	More than 26 years	CPA , BBA and Bachelors in Accounting	March-08	March-23
Abdulhameed Ghuloom Almemari	Independent Director	Lawyer	Owner - Almemari Legal Consultations and Services	More than 46 years	Master in Law	March-23	March-23
Mohammad Fahad Alqahtani	Independent Director	Banker	CEO - Mubader International	More than 25 years	Master in Business Administration & Strategy	March-08	March-23

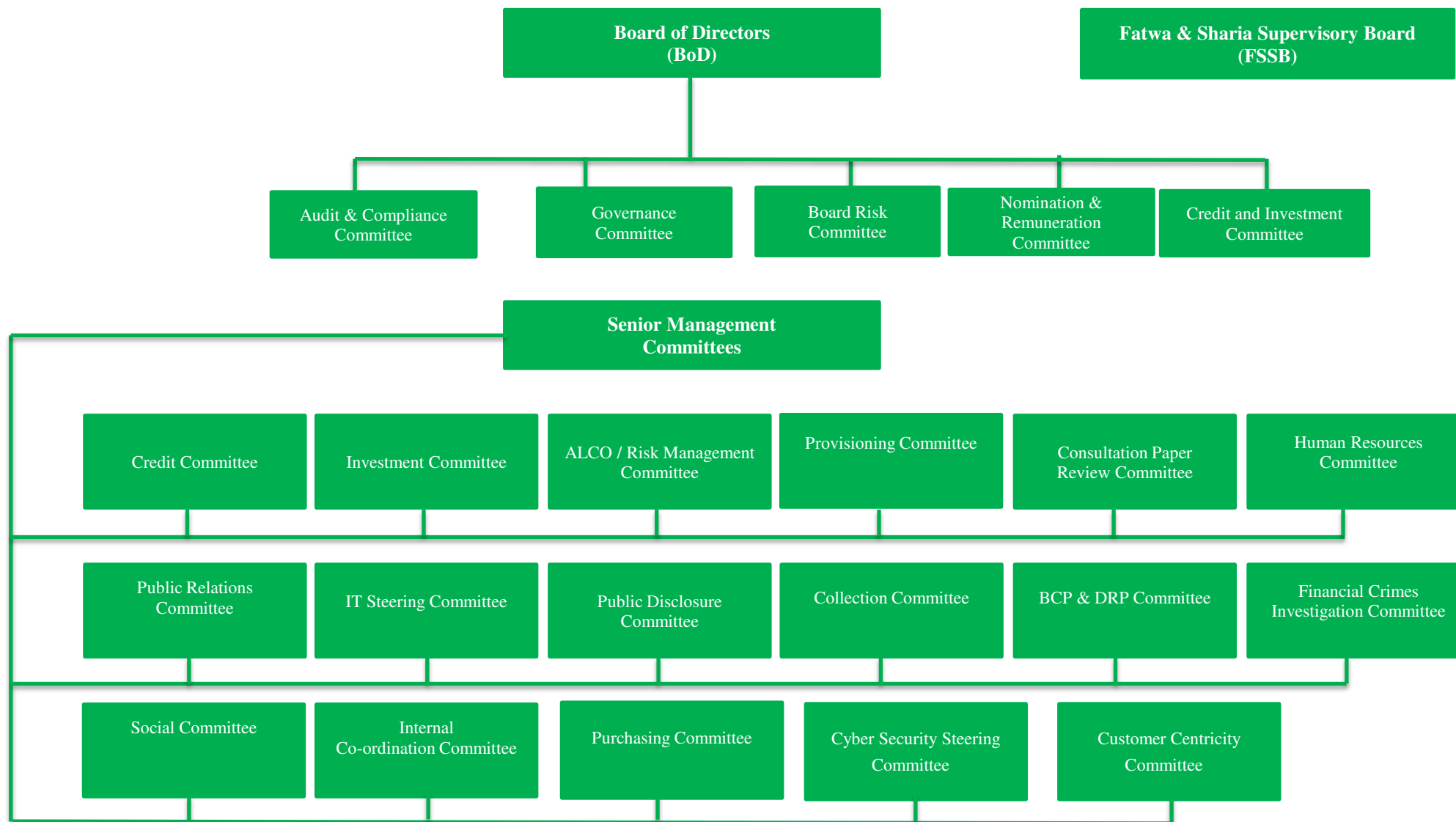
The Board term is for a period of three years.



Table – 54. Corporate Governance

Information on the key directorships held by the directors on other boards is as follows:	
Name of Board Member	Directorships on other companies
Mohammed Al Fouzan	Director - Sharjah Islamic Bank Director - Kuwait Finance House (Malaysia) Director - Kuwait Finance House (Kuwait)
Khalid Al Saad	Director - Institute of Banking Studies
Abdulwahab Issa Al-Rushood	Chairman - KFH Capital Council for Islamic Banks and Financial Institutions (CIBAFI - Bahrain) - Consultative Group Member
Shadi Ahmed Zahran	Vice Chairman - KFH Capital Vice Chairman - Kuwait Finance House (Kuveyt Turk) Member in Board of Trustees of AAOIFI (non-profit organization) Member in Board of Trustees of CIBAFI (non-profit organization)
Abdulla A.Hammed Al Marzooq	Director - Hayat Investment Company (Kuwait)
Abdulhakeem Yaqoob Alkhayyat	Chairman - Diyar Al Muharraq W.L.L. Chairman - Durrat Al Bahrain Chairman - P.K. Vice Chairman - Eagle Hills Board Member - Bahrain Institute for Banking and Finance (BIBF) Board Member - Supreme Council for Youth and Sport
Abdulhameed Ghuloom Almemari	Owner - Almeamari Legal Consultations and Services
Mohammad Fahad Alqahtani	CEO - Mubader International

Note: The new board term has started in March 2023



Board committees with their respective objectives and members are as follows:

Table – 55. Board Committee's objectives

Board Committee	Membership	Objective
Credit and Investment Committee (CIC)	1. Shadi Ahmed Zahran 2. Abdulwahab Al-Rushood	The CIC is a Board appointed committee which is comprised of three executive director. The general objective of the CIC is to provide an independent and objective view (approve or disapprove) of credit, treasury and investment proposals, approved by the management level Credit or Investment Committees.
Audit and Compliance Committee (ACC)	1. Mr. Abdulhameed AIMemari (Chairman) 2. Mr. Khalid AISaad 3. Mr. Abdulla Al Marzouq	The ACC is a Board appointed committee which is comprised of two independent directors and an executive director. The Chairman of the Committee is also an independent director. For audit related matters, the committee assists the Board of Directors in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting, the audit thereof and the soundness of the internal controls of the Bank. For compliance related matters, the committee assists the Board of Directors in the assessment of compliance with law, regulations and other requirements imposed on the Bank from time to time. The committee also oversees and manages the compliance and anti financial crime requirements of the Bank and legal related matters.
Risk Committee (RC)	1. Mr. Khalid AISaad (Chairman) 2. Mr. Mohammed AlQahtani 3. Mr. Abdulhameed AIMemari 4. Mr. Abdulla Al Marzouq	The RC is a Board appointed committee which is comprised of three independent directors and an executive director. The Chairman of the Committee is also an independent director. The committee is a reviewing and recommending body appointed by the Board of Directors to assist the Board in discharging its oversight duties relating to: <ul style="list-style-type: none"> - Recommendation of the risk charter of the bank to the Board, highlighting the key risks from identified business strategies, the risk appetite, the risk governance models including strategies, policies, processes, roles and responsibilities relating to various departments and various levels of risk management within the Bank; and - Establishing appropriate policies and procedures to mitigate the applicable risks on the overall operations of the Bank.
Governance Committee (GC)	1. Mr. Mohammed AlQahtani (Chairman) 2. Mr. Khalid AISaad 3. Mr. Abdulhameed AIMemari 4. Mr. Mohammed AlFouzan	The GC is a Board appointed committee which is comprised of three independent directors including the Chairman. The committee is a reviewing and recommending body appointed by the Board of Directors to assist the Board in discharging its oversight duties relating to: <ul style="list-style-type: none"> - Establishing appropriate Corporate Governance structures, delegation of authority and reporting protocols; - Ensure potential measure and improvements in corporate governance are implemented.
Nomination and Remuneration Committee (NRC)	1. Mr. Mohammed AlQahtani (Chairman) 2. Mr. Khalid AISaad 3. Mr. Abdulhameed AIMemari 4. Mr. Mohammed AlFouzan	The NRC is a Board appointed committee which is comprised of three independent director. The primary objective of the NRC is to assist the Board in identifying and nominating individuals qualified to serve as Board member, MD & CEO, senior management and sub-committee members as well as the assessment of such appointees. The NRC is also responsible to make specific recommendations to both remuneration policy and remuneration packages of individual approved persons and material risk takers.

Note: The new board term has started in March 2023



Table – 56. Board Meetings and Attendance

	Mohammed Al Fouzan	Khalid Al Saad	Shadi Zahran	Abdulhamed Al	Abdulla Al Marzoug	Abdulwahab	Mohamad Al Qahtani	Abdulhakeem Alkhayyat
Board of Directors								
26th January 2023	✓	✓	✓		✓	✓		✓
16th April 2023	✓	✓	✓	✓	✓	✓	✓	✓
14th May 2023	✓	✓	✓	✓	✓	✓	✓	✓
25th July 2023	✓	✓	✓	✓	✓	✓	✓	✓
7th November 2023	✓	✓	✓	✓	✓	✓	✓	✓
7th December 2023	✓	✓	✓	✓	✓	✓	✓	✓
Credit & Investment Committee								
21st February 2023			✓			✓		
26th December 2023			✓			✓		
Audit & Compliance Committee								
18th January 2023	✓	✓			✓			
8th May 2023		✓		✓	✓			
17th July 2023		✓		✓	✓			
24th October 2023		✓		✓	✓			
Board Risk Committee								
18th January 2023	✓	✓			✓			
8th May 2023		✓		✓	✓		✓	
17th July 2023		✓		✓	✓		✓	
24th October 2023		✓		✓	✓		✓	
Nomination & Remuneration Committee								
18th January 2023	✓	✓						
21st March 2023	✓	✓		✓			✓	
28th November 2023	✓	✓		✓			✓	
Governance Committee								
25th July 2023	✓	✓		✓			✓	
07th December 2023	✓	✓		✓			✓	



Fatwa and Shari'a Supervisory Board

The Fatwa and Shari'a Supervisory Board (FSSB) is an independent body, entrusted with the duty of directing, reviewing and supervising the activities of the Bank in order to ensure the compliance with Islamic Shari'a rules and principles. The fatawa and rulings of the FSSB are binding. Before launching any new products or services, the related policies and agreements shall be verified by the FSSB in coordination with the senior management. The Fatwa and Shari'a Supervisory Board provides guidelines, assists in formulating policies and conducts annual Shari'a audit in order to assure the Bank's compliance with all Shari'a principles. The responsibilities of the Fatwa and Shari'a Supervisory Board are outlined in the respective terms of references.

Deposit Protection Scheme

Subject to the provisions thereof, deposits held with the Bahrain office of Kuwait Finance House are covered by the Deposit Protection Scheme established by the Central Bank of Bahrain regulation concerning the establishment of a Deposit Protection Scheme and a Deposit Protection Board.

Training and Evaluation of Board Members

The Compliance Department of the Bank prepares an annual orientation program for the members of Board of Directors.

The Board of Directors and Board committees are subject to an annual evaluation which is initiated by the Nomination & Remuneration Committee and presented to the entire Board for their review and appropriate action, where required.

Compliance with High Level Controls (HC) Rulebook of CBB

The following are the exceptions to guidance provided in the High Level Controls Rulebook of the CBB:

Governance Committee (GC)

The GC shall include a Shari'a scholar who is a member of the Fatwa & Shari'a Supervisory Board (FSSB) for the purpose of leading the GC on Shari'a related governance issues (if any), and also to coordinate and link the complementary roles and functions of the GC and FSSB. The current composition of the GC does not include a Shari'a scholar as the Audit & Compliance Committee of the Bank reviews Shari'a reports issued by the Shari'a Advisor of the Bank at least twice a year or more frequently, as appropriate. Moreover, the GC invites a representative from the Shari'a department to discuss any Shari'a related matter.

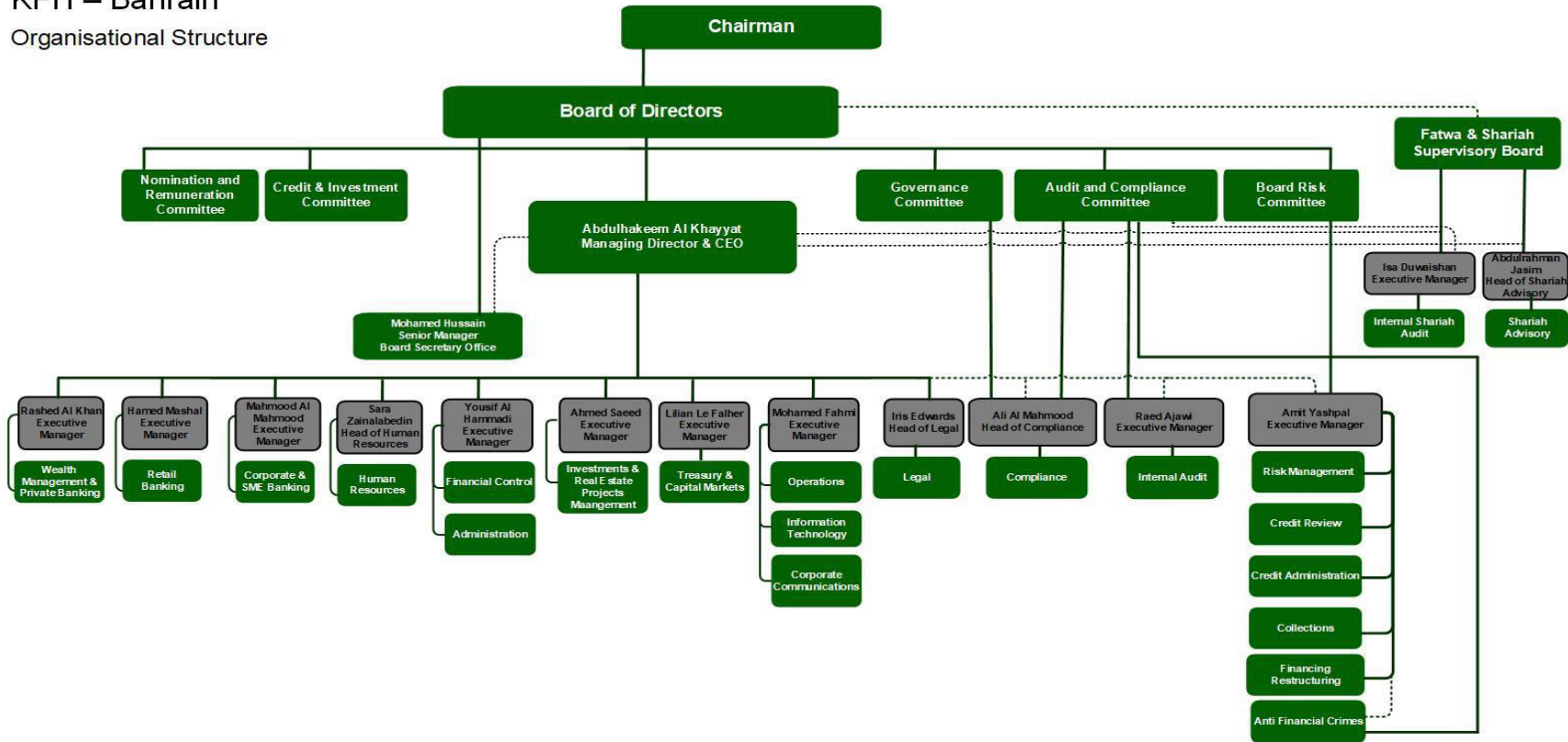
Annual General Meeting (AGM)

With regards to HC-7.2.2, the Bank is effectively a fully owned subsidiary of KFH Kuwait. The Board and Board Committees have considerable representation from KFH Kuwait and therefore, the shareholder is fully apprised on matters relating to audit, compliance, risk, governance, nomination and remuneration.



Organisational Structure

KFH – Bahrain
Organisational Structure



Senior Management

Table – 57

(PD-1.3.10(b))			
Name	Business Title	Experience in Years	Qualification
Ahmad Saeed	Executive Manager - Investments and Real Estate Projects Management	More than 25 years	Chartered Accountant Associate Chartered Accountant (ISAEW)
Lilian Le Falher	Executive Manager - Treasury & Capital Markets	More than 25 years	Chartered Financial Analyst (CFA) Master's in Management - Banking and Finance.
Amit Yashpal	Executive Manager - Risk Management, AFC , Credit Review, Credit Administration , Collections , Financing Restructuring	More than 25 years	Master of Information Management and Systems Master of Arts in Economics Bachelor of Arts in Economics Chartered Financial Analyst (CFA) Financial Risk Manager (FRM) Chartered Alternative Investment Analyst (CAIA) Project Management Professional (PMP)
Yousif Al Hammadi	Executive Manager - Financial Control and Administration	More than 30 years	Master of Business Administration (MBA) BSc. Degree in Accounting Certified Anti-Money Laundering Specialist (CAMS)
Mohammed Fahmi Hamad	Executive Manager - Operations, Information Technology and Corporate	More than 25 years	Chartered Financial Analyst (CFA) BSc. in Accounting
Mahmood Ghaleb Al Mahmood	Executive Manager - Corporate & SME Banking	More than 15 years	Masters in Business Administration (MBA) BSc. in Management Certified Credit Risk Professional
Isa Duwaishan	Executive Manager - Internal Sharia Audit	More than 30 years	Masters of Islamic Banking BSc. in Accounting Certified Shari'a Adviser and Auditor (CSAA) Legal Accountant certificate Advance Diploma in Islamic Commercial Jurisprudence (ADICJ)
Raed Ajawi	Executive Manager - Head of Internal Audit	More than 20 years	Certified Public Accountant (CPA) BSc. Accounting Certified Sharia Advisor and Auditor (CSAA)
Hamed Mashal	Executive Manager, Head of Retail Banking	More than 15 years	Master in Business Administration (MBA) BSc. in Computer and Business Studies Project Management Professional (PMP) Chartered Financial Analyst (CFA) Member of the Royal Institution of Chartered Surveyors (MRICS)
Rashid Al Khan	Executive Manager, Head of Wealth Management and Private Banking	More than 15 years	Master in Islamic Economics , Banking and Finance Bachelor of Commerce in Finance Chartered Alternative Investment Analyst (CAIA) Executive MBA

Table – 57 (Continued)

(PD-1.3.10(b))			
Name	Business Title	Experience in Years	Qualification
Mohammed Hussain	Senior Manager, Board Secretary	More than 15 years	BSc. in Banking and Finance
Alya AlShakhoory	Senior Manager, Head of Anti-Financial Crimes / MLRO	More than 20 years	Master Compliance Professional BSc. in Chemical Engineering Certified Anti Money Laundering Specialist (CAMS) International Diploma in Governance, Risk and Compliance (ICA) Certified Fraud Examiners
Sara Zainalabedin	Senior Manager, Head of Human Resources	More than 15 years	BSc. in Accounting; CIPD Level 7 Certificate in Human Resources
Abdulrahman Abdulla Jassim	Senior Manager, Head of Sharia Advisory	More than 20 years	Master Certificate in Fiqh Certified Shariah Advisor and Auditor (CSAA) Shariah Reviewer Development Programme Advance Diploma in Islamic Commercial Jurisprudence (ADICJ)
Iris Rose Edwards	Senior Manager, Head of Legal	More than 15 years	Bachelor of law from London School of Economics and Political Science (LLB) Member at Law Society of England and Wales
Ali Nawar Al Mahmood	Head of Compliance	More than 15 years	BSc. in Business Administration - Accounting and Finance ICA International Diploma in Governance, Risk and Compliance Association of Chartered Certified Accountants (ACCA) CIMA Diploma in Islamic Finance

Code of Ethical Business Conduct

The Bank has developed a Code of ethical business conduct that covers the principles, policies and laws that govern the Bank's activities. The Code includes (but not limited to) the following:

i) Integrity, honest and ethical Conduct

The Board and management of the Bank shall act with honesty, integrity and in good faith with a view of best interest of the Bank, its shareholders and other stakeholders. They shall ensure that proper judgment is exercised when making business decisions.

ii) Commitment to the law and best practice standards

The Board and management shall always ensure their commitment to comply with the applicable laws and regulations. This commitment should also include adopting and adhering to the leading industry practice standards.

iii) Confidentiality

The Board and management must preserve strict confidentiality of the Bank's information even after the termination of their membership except, when disclosure is required by law.

iii) Conflict of interest

The Board and management of the Bank shall act independently and avoid any conflict of interest in their decision making process. The approved persons must declare in writing all of their interests in enterprises or activities (whether as a shareholder of above 5% of the voting capital of a Company, a manager, or other form of significant participation) to Board on an annual basis.

iv) Acceptance of gifts

The Board and management of the Bank should not accept gifts or any kind of favors and services from the Bank's major customers, suppliers or other stakeholders.

v) Cooperation with regulatory bodies

The Board and the management shall ensure co-operation with the CBB and any other relevant regulatory authorities.

vi) Employment practices

The Board and management shall encourage the establishment of and adherence to policies concerning health and safety of employees, training, prohibition on the offering and acceptance of bribes and potential misuse of the Bank's assets.

Corporate Communications Strategies

The Bank maintains an effective communications strategy by means of deploying a board approved Corporate Communication Manual that enables both the Board and Management to communicate effectively with its shareholders, stakeholders and the general public. Main communications channels include the annual report, corporate website and corporate brochure, and regular announcements in local presses.

The Communications Policy has been approved by the Board. This Policy is set to ensure the disclosure of all relevant information to stakeholders on a timely basis in a timely manner and the provision of at least the five years of financial data on the Bank's website.

The Bank has a Corporate Communications Department which is responsible for communicating new products information through various channels of communication which may include publications, website, direct mailers, electronic mail and local media.

Customers / Investor Awareness Program

The Bank employs a range of communication channels to reach the customers and investors, to create awareness of the Bank products, services and investments.

Communication channels for customers normally adopt an integrated approach, depending on the level of exposure and awareness required. This includes mass media, publishing advertisements in the press and magazine publications, billboards, lamp posts, display Boards, direct mail, SMS messaging and emails.

The external communication program is supported by in-branch communication including; roll-ups, banners, posters, leaflets, flyers, brochures and danglers and online media via the Bank's website, Call Centre and eBanking site.

Communication to investors is predominantly via Private Placement Memorandums and Investor Reports.

Complaints and Feedback

The Bank has appointed a Complaints Officer to manage customer complaints and ensure that all complaints are properly addressed and issues are resolved in a timely manner. Upon receiving a complaint, the Complaints Officer internally addresses the complaint to the concerned department for their response. After analysing the responses of the concerned department the Complaints Officer finds suitable solution and this will be communicated to the complainant. There are various channels in place to assist in receiving feedback/complaints from customers including the Bank's website and suggestion boxes that have been placed at each of the Bank's branches.

Other Disclosures

The information on the nature and extent of transactions with related parties is reported in consolidated financial statement of the Group.

The Bank is effectively a wholly owned subsidiary of Kuwait Finance House K.S.C and information pertaining to the appointment of the external auditors and the related fees is available for the perusal of the shareholders.

The Bank has put in place a general policy on the employment of relatives of employees, board members and FSSB members. Generally, the Bank avoids employing relatives of employees to avoid conflict of interest however, in exceptional cases, an employment of a relative can be considered provided that the relative does not work within the same department or section or in a position where a conflict of interest may arise.

The Central Bank of Bahrain has levied a penalty of BD 5,000 on the Bank, during the year based on their review of ATM physical security measures.