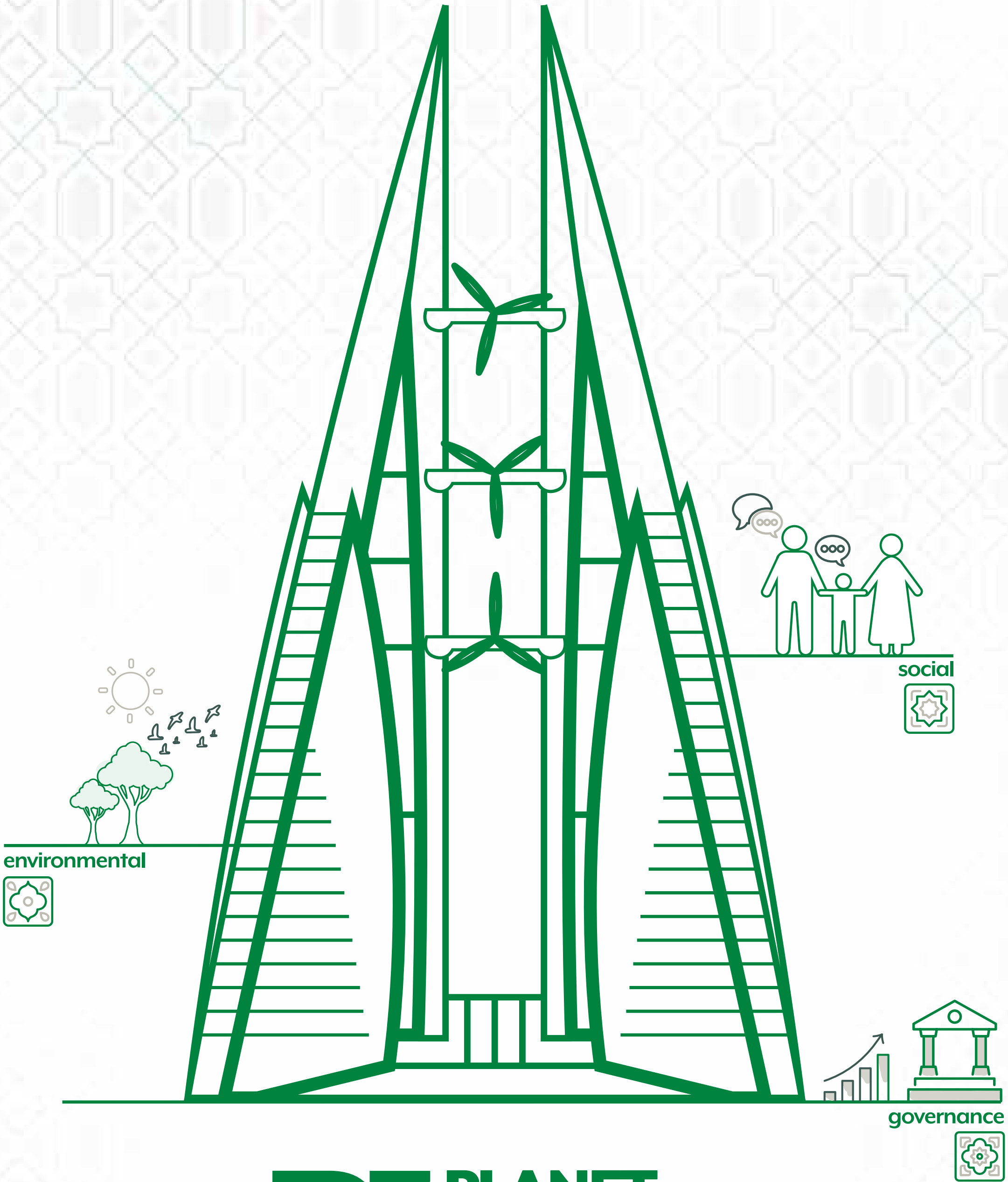
بيت التمويل الكويتي
Kuwait Finance House
Bahrain B.S.C.(c) البحرين ش.م.ب (م)



P3 PLANET PEOPLE PROGRESS

OUR ESG COMMITMENTS: PRESERVING VALUES THROUGH SUSTAINABLE PRACTICES

2023 ANNUAL REPORT

kfh.bh

Simply... Smarter

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

His Highness Shaikh Isa bin Salman Al Khalifa

Late Amir of Bahrain

His Majesty King Hamad bin Isa Al Khalifa

The King of the Kingdom of Bahrain

His Royal Highness Prince Salman bin Hamad Al Khalifa

The Crown Prince, Prime Minister and Deputy Supreme Commander

Recognition

2022

Best Islamic Bank in Bahrain

EMEA Finance Awards

2021

Best Islamic Bank in Bahrain

EMEA Finance Awards

2020

Abdulhakeem Y. Alkhayyat
CEO, Kuwait
Finance House Bahrain
B.S.C. (c) - Banking
CEO of the Year Bahrain

Global Banking & Finance Review

2020

The Next 100 Global Awards
Best Digital Banking App
(KFH Jazeel Banking)

Global Banking & Finance Review

2020

KFH Jazeel Banking
Best Digital Islamic Bank
Bahrain

Global Banking & Finance Review

2020

The Next 100 Global Awards
Best Islamic Retail Bank

Global Banking & Finance Review

2020

KFH Jazeel Banking
Most Innovative Retail Banking
App in Bahrain

Global Banking & Finance Review

Table of Content

Adding Value Through Values

Kuwait Finance House (KFH) is considered a pioneer in the banking phenomenon known as Islamic Finance or Shari'a Compliant Banking. KFH is the first Islamic bank established in 1977 in the State of Kuwait and today it's one of the foremost Islamic financial institutions in the world.

KFH has steadily managed to expand its business and achievements to lead the Islamic banking industry and become a pioneer financial establishment, not only in the Islamic banking industry, but also in the banking sector as a whole, besides being one of the biggest lenders in both the local and regional markets.

KFH is listed company on the Kuwait Stock Exchange (KSE) and Bahrain Bourse.

KFH provides a wide range of banking Shari'a compliant products and services, covering real estate, trade finance, investment portfolios, commercial, retail and corporate banking and is available in Kuwait, Kingdom of Bahrain, Kingdom of Saudi Arabia, United Arab Emirates, Turkey, Malaysia, Germany, United Kingdom, Arab Republic of Egypt, Republic of Iraq and Sultanate of Oman and Libya.

VISION

To lead the development of Islamic financial services by becoming the most trusted, sustainable, socially responsible, and Shari'a compliant bank in the region.

MISSION

To deliver superior innovation and customer service excellence while preserving and enhancing the interests of all our stakeholders.

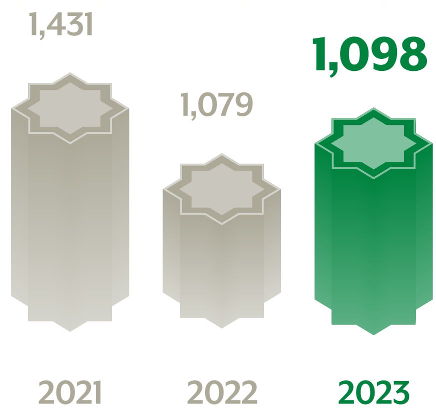
Three Year Highlights

Net Income

BD Million

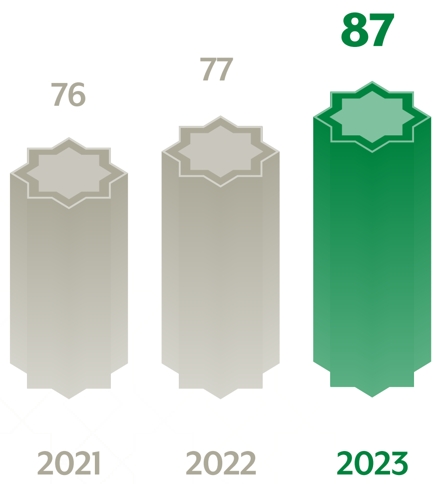
Customer Deposits

BD Million



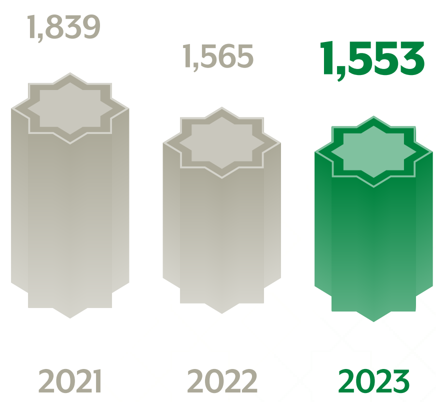
Operating Income

BD Million



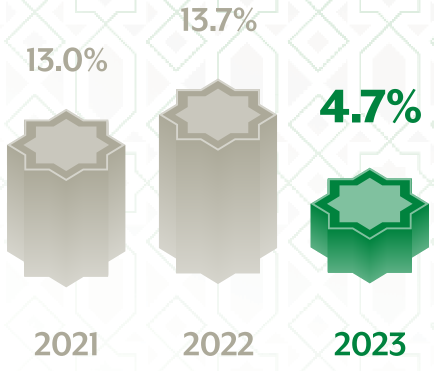
Total Assets

BD Million

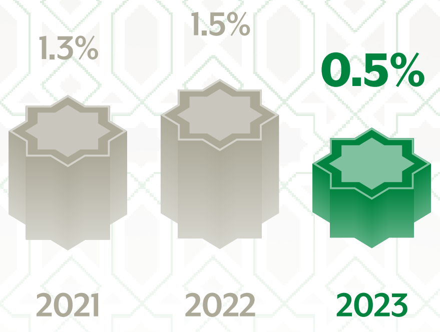


Key Financial Ratios

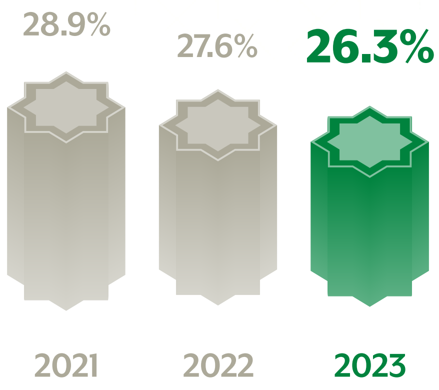
Return on Equity



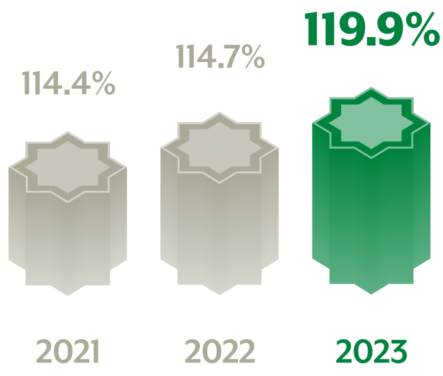
Return on Assets



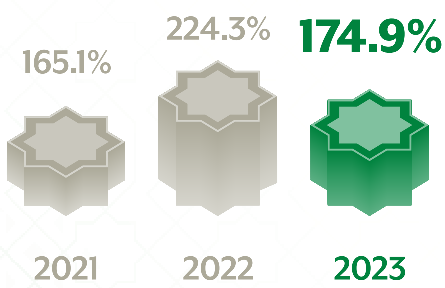
Capital Adequacy



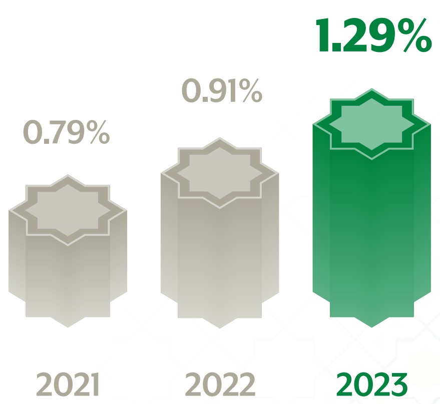
Net Stable Funding



Liquidity Coverage



Non Performing Facilities



Chairman's Message

Praise be to Allah Almighty, and Prayers and Peace be upon our Prophet Muhammad (PBUH), his Family and Companions.

On behalf of the Board of Directors (the "Board"), it gives me great pleasure to present the 2023 Annual Report of Kuwait Finance House – Bahrain (the "Bank").

As we reflect on the milestones and achievements of the past year, it is with great pride that we present the annual report of Kuwait Finance House-Bahrain for the fiscal year 2023. In an ever-evolving landscape marked by dynamic economic shifts and global challenges, we remain resolute in our commitment to excellence, innovation, and unwavering client service. Our extensive Environmental, Social, and Governance (ESG) initiatives reflects our steadfast commitment to improving the lives and economic prosperity of Bahrain's residents in line with Bahrain's Economic Vision 2030.

We are pleased to announce that our financial results for the fiscal year 2023 reflect KFH-Bahrain's ability to sustain adverse market conditions, highlighting the Bank's strong market presence, financial stability, and careful risk management strategy.

The Bank's operating income for the year ended 31 December 2023 stood at BD 87.1 million, which represents a BD 10.4 million or 13.5 percent increase from 2022. The increase primarily stems due to the global rise in profit rates throughout the year. Despite an increase in financing revenue over the same period, the elevation in the cost of funds had a more pronounced impact, consequently affecting the Bank's net income, causing net income drop from 24.6 million to 8.1 million. The cost of funding is the sole reason for the drop of income.

Total assets as of 31 December 2023 amounted to BD 1.6 billion, representing a BD 11.9 million or 0.8 percent decrease from last year, attributable to planned voluntary reduction in high-cost deposits due to rising profit rates. During the year, the Bank optimized its funding plan and preserved its profitability track record and regulatory ratios. Financing contracts are now at BD 1.0 billion while customer deposits total BD 1.1 billion.

The Bank continues to maintain a healthy liquidity and capital profile. The Liquidity Coverage Ratio (LCR) stands at 174.9 percent compared to 224.3 percent in 2022; Net Stable Funding Ratio (NSFR) at 119.9 percent compared to 114.7 percent in 2022; the High-Quality Liquid Assets (HQLA) to Customer Deposit Ratio is 31.4 percent as of December 2023 compared to 34.6 percent in 2022; and the Capital

Mohammed Naser Al Fouzan

Chairman

Adequacy Ratio (CAR) stands at 26.3 percent as of December 2023. All regulatory ratios - Capital Adequacy Ratio (CAR), Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) - are above their respective regulatory limits for the year as per Central Bank of Bahrain (CBB) guidelines.

The return on average equity stood at 4.7 percent, while the return on average assets reached 0.5 percent for the fiscal year 2023 compared to 13.7 percent and 1.5 percent respectively for the year 2022.

Over the years, KFH-Bahrain has been a key partner in the Government of Bahrain's efforts to strengthen the economy through infrastructure and development projects, particularly social housing initiatives. KFH-Bahrain has continued to make progress in managing and realizing the major real estate developments, owned by the Group in the Kingdom, in a socially and environmentally responsible manner. The Bank also ensured that all development projects enhance our communities with safety, security, energy saving, leisure, health, communication, education, and a sense of community as vital aspects of these developments.

KFH-Bahrain continues to play a leading role in the Islamic finance industry, offering innovative products and services that will serve to achieve the nation's economic vision and support growth and sustainability.

In 2023, our Retail Banking spearheaded transformative enhancements to the Bank's financing products, targeting previously untapped markets and striving to offer greater flexibility to our existing clientele. Notably, Real Estate Financing now includes waived credit life insurance, positioning KFH-Bahrain as one of the region's leading banks providing this added value to clients across Tamweely, Auto Financing, and Real Estate Financing portfolios.

Moreover, to empower our customers with increased financial flexibility, we raised the maximum allowable personal financing amount while maintaining stringent risk controls. Our collaboration with the Social Insurance Organization facilitated the introduction of Early Pension Financing, extending long-term Shari'a compliant personal financing options of up to 15 years to clients opting for early pension withdrawal.

In alignment with our commitment to innovation and customer-centricity, we proudly introduced the Ma'ashi Salary Account—a cutting-edge investment savings account tailored specifically for Bahraini nationals who pay their salaries into the Bank. This account offers bespoke features such as partial early salary withdrawal, and financing discounts, in addition to monthly cash prize draws, catering to the distinct needs of this customer segment.

Additionally, Retail Banking continues to enrich our product portfolio by offering Mazaya and Tas'heel Social Housing Programs in collaboration with the Ministry of Housing and Eskan Bank. They also enhanced the Bank's existing personal financing criteria by broadening eligibility requirements and raising the maximum product limit amount, further solidifying our commitment to serving our clients with excellence and foresight.

Furthermore, more features have been added to our KFH Jazeel platform to enrich our customer experience by providing all retail financing through the platform.

Our Corporate & SME Banking worked closely with our valued clients offering them comprehensive support and guidance regarding their financing needs and requirements. Through meticulous assessment of clients' financial positions, we successfully repriced existing facilities, ensuring optimal outcomes for all parties involved.

Chairman’s Message (CONTINUED)

Despite operating within a challenging high-profit rate environment, our strategic efforts yielded operating income of BD 32.8 million in 2023, which is 8.9% higher than last year’s revenues achieved on our Corporate & SME Portfolio. New disbursements reached BD 50.4 million significantly funded; Despite the fact that the approved financing deals have been significantly higher and clients remained cautious in expanding their operations given the prevailing market conditions.

We continued our support to the SME sector, providing guidance and financing facilities to SMEs seeking assistance, which underscores our dedication to fostering growth and development within the local business community. We also upheld our commitment to sustainability by offering ESG compliant financing facilities and engaging in relevant training sessions. Notably, we participated in facilitating the Bahrain Steel Financing Transaction, which incorporated clauses that incentivizes the client to curb carbon emissions demonstrating our dedication to responsible banking practices.

In 2023, our Treasury & Capital Markets made significant contributions to the Bank's operating income. We efficiently managed our sukuk portfolio, which constituted approximately 18% of our total assets as of December 2023. Additionally, we achieved a remarkable year-on-year increase of over 39% in syndicated financing participation portfolio.

Focused primarily on Bahrain sovereign or quasi-sovereign sukuk, the Bank continues to pursue an incremental strategy for holding this asset class, recognizing its positive impact on profitability and liquidity ratios, as evidenced by the solid Liquidity Coverage Ratio (LCR) achieved in 2023.

Our strategic approach extends to actively participating in large syndication financing for local Government-Related Entities (GREs), showcasing our commitment to supporting the Kingdom's sovereign and institutional fundraising efforts.

Furthermore, from a regulatory standpoint, it is noteworthy that our Treasury & Capital Markets actively contributed to maintaining the Bank's LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio) ratios through prudent management of High-Quality Liquid Assets (HQLA) and liabilities.

Our Wealth Management & Private Banking actively served its high-net-worth investors base in 2023, enriching our suite of products and services tailored to clients’ return expectations, liquidity requirements, and risk profiles. As we continue to build an international standard Shari’a-compliant wealth management platform, our assets under management witnessed significant growth throughout the year, reflecting the trust our clients have in our expertise.

The KFHB Wealth App and Web portal remained pivotal in providing a personalized journey for our esteemed clients, empowering them to manage both their investments and banking needs seamlessly on a unified platform. Our unwavering dedication to fostering enduring relationships and delivering exceptional value ensures that KFH-Bahrain Wealth Management & Private Banking remains a trusted partner in our clients' financial journeys.

Moreover, the Bank upheld its asset quality and optimized the cost of risk through proactive remedial measures, engaging with clients to devise sustainable solutions and closely monitoring the overall portfolio through the financing monitoring task force. With our Stage 3 Ratio preserved at 1.29% as of December 31, 2023, the lowest among peer banks in Bahrain, we affirm our commitment to maintaining robust asset quality standards.

The Bank also improved the risk management culture, which is reflected in terms of the Bank's risk-based ratios. All regulatory ratios (Capital Adequacy Ratio (CAR), Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are above their respective regulatory limits for the year as per Central Bank of Bahrain (CBB) guidelines.

KFH-Bahrain preserved its historical net profit and positive return on equity position despite rising interest rates, which had an immediate impact on our profit paid expenses through our asset liability profile management. Apart from monitoring the Interest Rate Risk in the Banking Book (IRRBB) based on profit rate risk models, the Bank developed models which continuously run scenario analysis to manage the repricing gaps and the impact on the Net Financing Margin (NFM).

Maintaining the Bank's asset quality amidst the persistently high-rate environment remained our paramount focus throughout the year. We took proactive measures to mitigate any potential impact. Our team engaged with clients and conducted continuous portfolio-level monitoring to address potential client-level issues promptly. These efforts were bolstered by the establishment of the Financing Monitoring Task Force and the implementation of the Early Warning Signal predictive model.

To further support clients facing challenges due to the prevailing high-rate environment, we devised and implemented a Funds Transfer Pricing (FTP) Rate Discount mechanism. This initiative aimed to provide rate adjustments to businesses with strong fundamentals, ensuring their sustainability while undergoing thorough credit assessments to ascertain the necessity of support.

Furthermore, our proactive remedial actions and client-focused solutions not only preserved asset quality but also optimized cost of risk. As part of these strategic measures, the Bank engaged with clients to formulate 'win-win' sustainable solutions, demonstrating our commitment to prudent risk management and sustainable growth.

The Bank has continued to ensure that its corporate governance environment adheres to regulatory requirements and industry best practices. Key control functions such as Audit, Risk, and Compliance saw implementation and further enhancement of digital solutions.

Our human capital management strategies remain amongst our top priorities, as we believe that our human capital is our greatest asset. At the heart of our operational success lies a highly engaged, empowered, and motivated workforce. Over the past years, we have experienced sustainable growth, driven by the resilience and dynamism of our team. The unwavering dedication of our workforce and their valuable involvement in the effective development and meticulous execution of the bank's strategic plans over the years has yielded and continues to yield substantial accomplishments across diverse domains.

Chairman's Message (CONTINUED)

We are committed to nurturing an organizational culture that fosters continuous learning, personal and professional development, whilst promoting innovation, leadership and excellence and prioritizing equity and inclusivity, fairness, transparency, and ethical practice in all aspects of our operations.

Central to our sustainable development agenda is the cultivation of local capability and the nurturing of future leaders, in line with Bahrain's Economic Vision 2030. To this end, we have implemented a comprehensive range of programs designed to empower local graduates and students. These initiatives include diverse internship opportunities, mentorship programs, graduate development initiatives, and educational support programs. Through these avenues, we aim to provide young talents with the necessary skills, knowledge, and resources to thrive in their respective fields and contribute meaningfully to the Kingdom's long-term growth.

Aligned with the Islamic principles of collective responsibility and generosity, KFH-Bahrain remains steadfast in its commitment to supporting numerous initiatives aimed at fostering the Kingdom's prosperity and improving the quality of life for its citizens and residents. Our Corporate Social Responsibility Program and sustainable development endeavors encompass a wide range of activities spanning education, healthcare, sports, cultural endeavors, social events, and various sponsorships.

Furthermore, we actively sponsor and participate in significant banking-related events that not only contribute to the advancement of the financial sector but also play a vital role in driving economic growth and progress within the Kingdom. Through these endeavors, we strive to make meaningful contributions to the well-being and advancement of our community, reflecting our dedication to serving the community guided by Islamic values.

In coordination with KFH Group, we remained steadfast in our dedication to the Al Garemeen Program, an initiative facilitated by the Ministry of Justice, Islamic Affairs, and Waqf in Bahrain. This program aims to alleviate the financial burden of indebted families through KFH's annual Zakat appropriations, underscoring our commitment to social responsibility and community welfare.

Furthermore, in line with our vision to invest in the development of future generations, KFH-Bahrain continued its annual contributions to key educational initiatives. These include ongoing support for the Crown Prince's International Scholarship Program (CPISP), which provides opportunities for exceptionally talented students to pursue higher education. Additionally,

our commitment extends to the Central Bank of Bahrain's Waqf Fund, which focuses on nurturing the educational endeavors of gifted individuals. Together these initiatives reinforce our dedication to fostering academic excellence and empowering deserving students.

In conjunction with our ongoing commitment to nurturing talented youths, KFH-Bahrain partnered with the Ministry of Education to recognize the outstanding educational performance of 134 exceptional high school students who have graduated with exceptional academic results during the academic year 2022 -2023.

Furthermore, KFH-Bahrain formed a strategic partnership with the national project Lamea, which, under the patronage of His Highness Shaikh Nasser bin Hamad Al Khalifa, His Majesty the King's Representative for Humanitarian Work and Youth Affairs, focuses on harnessing Bahrain's youth capabilities, providing training opportunities, and instilling motivation to drive national progress.

KFH-Bahrain collaborated with the Prime Minister's office to actively support the Kingdom of Bahrain's National Day celebrations. This partnership highlights our dedication to promoting national pride and solidarity, further reinforcing our commitment to Bahrain's social and cultural fabric.

We express our appreciation for the exceptional efforts of our Fatwa and Shari'a Supervisory Board, composed of esteemed scholars: Shaikh Dr. Sayed Mohammed Al-Tabatabee (Chairman), Shaikh Dr. Mubarak Jazaa Al-Harbi (Vice Chairman), and Shaikh Dr. Anwar Shuaib Abdulsalam (Member). We also extend our gratitude to their hardworking team whose commitment and diligence in upholding Islamic principles within our products and services are invaluable.

We are also deeply thankful to our respected stakeholders for their continued support, trust, and loyalty, and to our board members, management and staff for their continued dedication and professionalism throughout the year.

On behalf of the board and management, and with deep gratitude, I thank His Majesty King Hamad bin Isa Al Khalifa and His Royal Highness Prince Salman bin Hamad Al Khalifa, the Crown Prince, and Prime Minister. I would also like to extend my appreciation to the Central Bank of Bahrain and His Excellency the outgoing Governor, Mr. Rasheed Al Maraj, while welcoming His Excellency the Governor Mr. Khalid Ibrahim Humaidan.

Finally, in line with the Commercial Companies Law No. (21) of 2001 and its amendments, and pursuant to the provisions of Article No. (188) of the Commercial Companies Law and Article No. (125) of the Executive Regulations of Resolution No. (3) for the year 2022, we are pleased to attach the table below that shows the remuneration of members of the Board and the Executive Management for the year ending 31 December 2023.

May Allah grant everyone the best in this Life and the Hereafter. May the peace, mercy and blessings of Allah be upon you.

Chairman's Message (CONTINUED)

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

First: Board of directors' remuneration details:

Name	Fixed remunerations				Variable remunerations				End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
	Remunerations of the chairman and BOD	Total allowance for attending Board and committee meetings	Others*	Total	Remunerations of the chairman and BOD	Incentive plans	Others**	Total			
First: Independent Directors:											
1- Hamad Abdul Mohsen Al Marzouq	11,000	-	-	-	-	-	-	11,000		-	-
2- Mohammed Naser Al Fouzan	59,400	20,625	-	-	-	-	-	80,025	-	-	-
3- Khalid Mohamed Alsaad	25,484	33,000	-	-	-	-	-	58,484	-	-	-
4- Abdulhameed Ghuloom AlMeamari	17,416	26,125	-	-	-	-	-	43,541	-	-	-
5- Mohammed Fahad AlQahtani	17,416	19,938	-	-	-	-	-	37,354	-	-	-
Second: Non-Executive Directors:											
1-	-	-	-	-	-	-	-	-	-	-	-
Third: Executive Directors:											
1- Shadi Ahmad Zahran	20,900	8,250	-	-	-	-	-	29,150	-	-	-
2- Abdulwahab Isa Alrushood	20,900	8,250	-	-	-	-	-	29,150	-	-	-
3- Abdullah A.Hameed Al-Marzouq	20,900	16,500	-	-	-	-	-	37,400	-	-	-
4- Abdulhakeem Yaqoob Alkhayyat***	-	-	-	-	-	-	-	-	-	-	-
Total	**193,416**	**132,688**	-	-	-	-	-	**326,105**	-	-	-

All amounts must be stated in Bahraini Dinars.

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

Second: Executive management remuneration details:

Executive management	**Total paid salaries and allowances** (includes Total Fixed pay)	**Total paid remuneration (Bonus) (includes Variable** Annual Incentive for the year)	**Any other cash/ in kind remuneration for 2022** (includes other Staff Benefits)	**Aggregate Amount**
Top 6 remunerations for executives, including CEO* and Senior Financial Officer**	**1,101,558.276**	**222,928.684**	**120,540.336**	**1,445,027.296**

All amounts must be stated in Bahraini Dinars..

* The highest authority in the executive management of the company, the name may vary: (CEO, President, General Manager (GM), Managing Director...etc(.
** The company's highest financial officer (CFO, Finance Director, ...etc)
*** This is an accrued amount which is not yet paid and is subject to approval by the Board Nomination and Remuneration Committee.

Mohammed Naser Fouzan
Chairman

Managing Director & CEO's Message

Praise be to Allah Almighty, and Prayers and Peace be upon our Prophet Muhammad (PBUH), his Family, and Companions.

On behalf of the Kuwait Finance House-Bahrain's (the "Bank") Executive Management, it gives me great pleasure to present the 2023 Annual Report.

KFH-Bahrain's financial results for the year ended 31 December 2023 reflect our resilience, adaptability, and unwavering commitment to excellence. Through strategic initiatives, prudent management, and the dedication of our talented team, we remain poised for continued success and growth in the years ahead.

Throughout the year, we faced challenges stemming from key policy rate hikes in major markets, exerting a notable impact on our balance sheet dynamics. The repercussions of these rate hikes were acutely felt on the liability side of our balance sheet, particularly concerning the cost of funding, evidenced by increased profit paid on banking lines and customer deposits. This challenge was compounded by the lack of timely repricing on the asset side of our balance sheet, as financing contracts with varying profit rate revision dates posed logistical hurdles to swift adjustments.

It is noteworthy that amidst these challenges, both local Islamic banks and several non-Islamic banks opted not to revise retail financing rates for existing portfolios. This stance, although reflective of market conditions, underscores the complexities inherent in navigating the evolving financial landscape.

Looking ahead to 2024, there are indications that the burden of funding costs may gradually diminish, albeit more swiftly than the reduction in profit rates for the financing portfolio. This anticipated shift holds promise for enhanced profitability in the coming periods, as inflation stabilizes, and market dynamics recalibrate.

As we embark on this journey of adaptation and growth, we remain confident in our ability to leverage our strengths, adapt to changing market conditions, and deliver sustainable value to our stakeholders. Our commitment to excellence, innovation, and client-centricity will continue to drive our strategic endeavours and position us for long-term success.

Abdulhakeem Yaqoob Alkhayyat

Managing Director and CEO

A Year of Progressive Initiatives

Retail Banking

Our Retail Banking division undertook various initiatives and campaigns in 2023 that demonstrate our commitment to empowering individuals, serving a wider audience, and catering to the diverse needs of our clients.

The retail banking portfolio stood at BHD 341.9 million as of 31 December 2023, representing an increase of 3.6% over the previous year. Operating income reached BHD 18.1 million, up 7.8% from 2022, while total retail liabilities grew to BHD 476.2 million, representing an increase of 16.3%.

Our valued clients acknowledged our commitment to exceptional service, as evidenced by our customer service channels receiving an 89% satisfaction rating. Additionally, our contact centre agent service achieved a remarkable 95% satisfaction rating, highlighting our dedication to catering to customers' needs. Our flagship digital banking platform, KFH Jazeel Banking App, continued to thrive and gained over 20,000 new accounts in 2023, solidifying the platform's position as a preferred choice among customers.

Over the past year, our retail banking division has been proactive in launching various initiatives and introducing new products to underscore our dedication to innovation and customer satisfaction. As part of our ongoing efforts to refine our financing offerings, we waived credit life insurance costs for retail residential real estate financing, aligning this move with our existing practice for Tamweely and Auto Finance products, both of which already include free credit life insurance.

Additionally, we implemented a 6-month grace period campaign across our retail financing products, providing clients with a window of zero-installment profit-accruing grace period on assets such as Tamweely Financing, Real Estate Financing, Social Housing Additional Financing, and Auto Financing. This initiative reflects our commitment to providing flexible solutions that empower clients to manage their finances more effectively.

To further enhance our Tamweely product, we raised the maximum allowable finance amount from BHD 100,000 to BHD 150,000, offering customers increased flexibility and access to higher financing amounts. Furthermore, through a collaboration with the Social Insurance Organization (SIO), we introduced Early Pension Financing, providing personal financing facilities with tenors of up to 15 years to clients opting for early pension availing. This strategic partnership not only allowed us to tap into an untapped market but also provided valuable financial resources tailored to the specific needs of this demographic.

In 2023, we launched the Ma'ashi salary account tailored specifically for Bahraini nationals with salary transfers. This investment savings account comes with unique perks such as monthly cash prize draws, partial early salary facilities, and financing discounts. The Ma'ashi account aims to increase low-cost deposits, promote cross-selling of our products, and reward our salaried customers for their loyalty.

We also introduced an annual rewards campaign exclusively for Ma'ashi account holders, featuring monthly cash prizes and grand prizes totalling USD 100k each, alongside monthly cash prizes worth USD 2.5k each. Rewards are based on factors such as salary amounts and the duration of continuous salary transfers, ensuring recognition for customer loyalty and engagement.

Corporate & SME Banking

Throughout the year, we continued working closely with our clients to understand their needs and challenges, providing tailored solutions to support their growth and success. Moreover, we proactively realigned repayment schedules with our clients' cash inflows, ensuring greater flexibility and sustainability in their financial arrangements.

Despite challenges in overall corporate and SME exposure, we achieved higher revenues by adapting to the changing market dynamics. Clients looking to reduce their debt exposure turned to us for innovative solutions, and our ability to deliver enhanced products and services promptly proved instrumental in meeting their evolving needs. Through our customer-centric strategies, we prioritized the client experience, ensuring the delivery of the best possible services and solutions.

Managing Director & CEO's Message (CONTINUED)

Wealth Management and Private Banking

Despite the challenges of 2023, our Wealth Management division experienced significant growth in assets-under-management, reflecting our commitment to adapt and thrive in dynamic markets. Our portfolio encompasses a diverse range of products, including sukuk, mutual funds, restricted investment accounts, asset-backed securities, Islamic margin finance, crowdfunding, Lombard finance facilities, and deposits. The expansion in assets-under-management was primarily fuelled by the success of clients' non-discretionary Sukuk portfolio, the introduction of mutual funds, and a total investment volume exceeding BHD 134 million throughout the year.

Recognizing the growing significance of digitalization, we intensified our efforts to enhance the KFHB Wealth App and web portal, offering clients a suite of unique and convenient services such as seamless account opening, KYC updates, and access to crowdfunding opportunities. Our platform provides clients with a personalized journey, allowing them to efficiently manage all their financial needs in one place. Key features include portfolio viewing, investor reports, buy/sell orders, Zakat calculation, personal banking services, and more. As we continue to evolve, our commitment to customer-centricity remains paramount.

Looking ahead, we are committed to further enhancing the client experience through ongoing innovation, digital advancements, and a deepened understanding of our diverse clientele's evolving needs.

Treasury-Capital Markets

Through its funding management as well as its portfolio of High-Quality Liquid Sukuk, our Treasury & Capital Markets Department kept on supporting the Bank's performance in terms of Liquidity Coverage Ratio and Net Stable Funding Ratio (as these two ratios stood well above the minimum regulatory requirements at the end of 2023).

Such a holding of HQLA Sukuk by the Department, along with its continued asset financing exposure related to Bahrain Government-related entities, testify to KFH-Bahrain's active role in the country's sovereign & institutional funding and status as key investor nationally. Constituting solid elements of the Bank's balance sheet, Bahrain sovereign sukuk represented close to [18%] of total assets at the end of 2023, while our syndicated financing asset size posted a year-on-year rise of over [39%].

Managing a diversified relationship network, the Department assisted KFH-Bahrain not only in the funding of its operation, but also in areas including foreign exchange monitoring and correspondent banking, while being supportive in terms of regulatory compliance matters.

The Department's achievement particularly translated in an increase of [26.6%] year-on-year of its operating income for 2023. Beyond financial results, Treasury-Capital Markets Department maintains its involvement in the Bank's social responsibility as materialized by its role in "TradeQuest" Program (as a school/university competitive financial simulation organized by Bahrain Bourse).

IT Innovations for Enhanced Process Automation

The Information Technology department actively worked on leveraging the RPA (Robotic Process Automation) platform to deliver and improve productivity and process efficiency. In coordination with the Ministry of Justice (MOJ), the bank launched a new Block/Un-Block system, using Robo Technology, the bank has automated the Block/Un-Block requests that are placed upon the bank. The system enabled the bank to automate major time-consuming processes and has led to significant time savings, enabling compliance with CBB requirements.

The Bank completed key regulatory projects including Credit Bureau Automation. Using the new Benefit Automated Credit Bureau component, the bank was able to automate data integration with Credit Bureau. Several key reports and data integrations have been fully automated using the new Credit Bureau Automation system.

Cultivating Excellence in Human Capital

Our human capital management strategies have played a crucial role in developing a resilient and skilled workforce, with 92% of our employees being Bahraini nationals and women comprising 32% of our total workforce. Over the years, the dedication and dynamism of our team have driven sustainable growth and yielded substantial accomplishments across various domains.

The long-term commitment and engagement of our workforce are pivotal to our success. Our continuous efforts to enhance employee engagement and enablement have yielded positive results over the years, evidenced through an employee retention rate of 94% and an average tenure of 12 years as of 2023 year-end.

Our talent management strategies remain focused on acquiring and retaining top talent. In 2023, we successfully filled all key positions, achieving a headcount growth rate of 4% by year-end. We prioritize talent development through effective succession planning, with 100% of leadership positions filled from our internal talent pool.

As of 2023, over 50% of our workforce hold professional certifications or higher education qualifications, reflecting our commitment to nurturing talent from within. Our Human Resources strategies continue to empower our workforce through talent development and lifelong learning programs, ensuring they are equipped to meet evolving customer needs and drive strategic growth.

Equity and inclusivity are core values that guide our operations, reflected in our commitment to fostering an inclusive workplace where everyone feels valued and respected. Our Human Resources metrics and analytics ensure fair and equitable opportunities for all staff members, with gender analytics demonstrating equitable opportunities across all areas of Human Resources management. Our compensation framework, aligned with regulatory standards, focuses on rewarding employee contributions and performance to attract and retain top talent.

We remain committed to creating a fulfilling and rewarding experience for all members of the workforce, through enhancements to Human Resources policies and procedures, the adoption of state-of-the-art Human Capital Management Systems, and the adoption of a holistic wellbeing approach encompassing all aspects of employee wellbeing including physical, mental, community, social, financial, and career wellbeing.

As part of our commitment to sustainable development and social responsibility, we continue prioritizing youth enablement and community outreach initiatives. In 2023, we trained 50 university interns and additionally launched the KFH Youth Summer Program which has provided real-life experiences and educational opportunities to high school students. Our collaborations with the Ministry of Education during the year, aimed to further support educational excellence and career success for Bahraini students. Moreover, through the various community wellbeing programs and health awareness endeavors, we reinforce our dedication to cultivate a community-wide wellbeing, recognizing the significant impact of the health and wellbeing on the prosperity of individuals, families, and the broader community we serve.

Capital Management

In line with the Bank's strategic goals to optimize capital utilization, there has been a slight reduction in the capital adequacy ratio (CAR), from 27.6% to 26.3%. Additionally, efforts to mitigate risk within the credit portfolio have been successful, evidenced by achieving a Stage 3 Ratio of 1.3% in 2023. These outcomes underscore the Bank's proactive approach to capital management, ensuring continued stability and alignment with its strategic objectives.

Managing Director & CEO's Message (CONTINUED)

Risk Management

Sustaining the Bank's asset quality remained a top priority during the year, especially in a persistent high-rate environment. Proactive measures were implemented to safeguard asset quality, including regular client engagement and continuous portfolio-level monitoring through the Financing Monitoring Task Force as well as the newly implemented Early Warning Signal predictive model. Additionally, to support clients facing challenges due to high rates, the Risk Management department introduced an FTP Rate Discount mechanism, meticulously assessing each case from a credit perspective to ensure targeted assistance. These proactive efforts helped the Bank maintain a commendably low Non-Performing Financing to Total Credit Portfolio Ratio (Stage 3 Ratio) of 1.3 % in Q4-2023.

The Department has aligned several initiatives with KFH Group's objectives, including deploying an industry-leading Early Warning System (EWS) to manage asset quality across retail and wholesale credit portfolios. Integration of EWS results into the Bank's Stress Testing framework and the development of an EWS Wholesale Financing Policy further enhance risk management capabilities.

The Department also developed and implemented the Consumer Protection and Conduct Risk Framework to align with the Bank's customer-centric approach. Furthermore, compliance with the Personal Data Protection Law (PDPL) requirements, particularly concerning data leakage and classification, was integrated across all relevant documents.

Additionally, we successfully automated Key Risk Indicators and Operational Risk Incidents reporting by implementing a Governance, Risk, and Compliance system, in accordance with the Group's standards. In line with ongoing efforts to enhance performance evaluation, the Department launched two significant projects. The first aims to augment the Bank's existing Project Finance Scorecard, while the second project involves the development of a new Environment, Social, and Governance (ESG) Scorecard. Both initiatives are designed to seamlessly integrate with the existing wholesale rating system, aligning with the Group's overarching objectives.

In the realm of cybersecurity, the Bank reaffirmed its commitment to information security by upholding compliance with international standards such as the National Institute of Standards and Technology, the Payment Card Industry Data Security Standard, and ISO 27001. Additionally, adherence to CBB regulations was ensured through two rounds of external Vulnerability Assessment and Penetration Testing. Rigorous cybersecurity awareness training campaigns further strengthened the Bank's defenses against emerging threats.

Preserving business continuity remained a top priority, demonstrated through the maintenance of ISO 22301 certification and the execution of various table-top simulations to simulate recovery processes from disaster scenarios. A comprehensive Business Continuity Management (BCM) simulation ensured the readiness of all Bank systems at the disaster recovery site.

In partnership with authorities and regulators, the Bank's independent Anti-Financial Crime (AFC) Department oversees the management of financial crime risks. Implementing a risk-based management approach, the department focuses on compliance with laws, rules, and regulations, supported by the implementation of RegTech solutions and fintech initiatives as part of the Bank's digital transformation journey.

KFH-Bahrain's Commitment to Societal Advancement

KFH-Bahrain remains committed to uplifting various facets of society, ranging from education and healthcare to sports, culture, and social welfare. Throughout 2023, the Bank, in collaboration with KFH Group, actively participated in the Al-Garemeen Program, facilitated by the Ministry of Justice, Islamic Affairs, and Waqf in Bahrain. This initiative aimed to alleviate the financial burdens of individuals overwhelmed by debt, with a total contribution of BD 250,000.

Additionally, we proudly supported the Royal Fund for Fallen Servicemen's Zakat Contributions and backed the Ministry of Interior's Open Prisons initiative. We maintained our dedication to cultural enrichment by continuing our annual support for the Shaikh Ebrahim Cultural Centre. Notably, we sponsored the production of the second season of a Ramadan television series featuring Dr. Rashid Bin Mohammed Al Hajri, aired on Bahrain TV.

As a pioneer in Islamic banking, KFH-Bahrain remains dedicated to advancing industry standards by sponsoring the Annual AAOIFI conferences, which define Sharia-compliant banking and audit services. Moreover, we maintained a strong focus on youth development, investing in high-quality educational initiatives. This included our continued support of the Crown Prince's International Scholarship Program (CPISP) and the Central Bank of Bahrain's Waqf Fund, providing opportunities for advanced Islamic finance studies at the Bahrain Institute of Banking and Finance (BIBF).

Furthermore, we championed education through our support of the Isa bin Salman Education Charitable Trust's scholarships for Bahraini youth, aligning with His Majesty King Hamad bin Isa Al Khalifa's vision for empowering the nation's youth. Additionally, in partnership with the Ministry of Education, the Bank held a ceremony to recognise 134 high-achieving students for their remarkable accomplishments and dedication to their studies. Strategic partnerships, such as our collaboration with the Ministry of Youth Affairs for the national project Lamea, underscored our commitment to harnessing Bahrain's youth potential and driving national progress.

Believing in the transformative power of innovation and entrepreneurship, we continued our partnership with INJAZ Bahrain and sponsored initiatives like the Bahrain Bourse's TradeQuest Program and the Manama Entrepreneurship Week. We also supported the Hope Fund's entrepreneurial reality show, Beban, fostering local talent and business opportunities.

In sports, we proudly supported Bahraini athletes on the global stage, backing organizations like the Bahrain Handball Federation, Bahrain Basketball Association, and Bahrain Paralympic Committee (Special Olympics World Games). Promoting an active lifestyle, we sponsored various athletic associations and events, including the Nasser bin Hamad Football Championship for Schools and the Shaikh Nasser Premier League. Additionally, the Bank sponsored Al Najma Club in the 25th Asian Men's Club League Handball Championship, Manama Club in the FIBA West Asia Super League, and the 2023 King's Cup Tournament. Finally, the Bank extended its support to the Bahrain Deaf Futsal League and the Bahrain Royal Equestrian and Endurance Federation.

In healthcare, our support extended to initiatives like the London Breast Cancer Centre and conducting awareness campaigns, such as the breast cancer awareness drive at Seef Mall. Recognizing the vital role of Bahraini women, we continued our support for the Supreme Council for Women.

Moreover, our Environmental, Social, and Governance (ESG) commitments included ongoing support for initiatives like the National Initiative for Agricultural Development's Forever Green campaign. Finally, we proudly sponsored the Bahrain National Day Festival at the Heritage Village, in partnership with the Prime Minister's Office, and the Kuwait National Day Event, demonstrating our solidarity with the State of Kuwait.

Our achievements are a testament to the steadfast support of the Kingdom's senior leadership, the invaluable guidance of our esteemed Board of Directors, the active engagement of our stakeholders, and the exceptional dedication of our team. I extend my heartfelt gratitude to each, and every individual involved, and eagerly anticipate the celebration of further milestones in 2024.

May Allah grant us success

Abdulhakeem Alkhayyat
Managing Director and CEO

Board Of Directors

Mohammed Nasser Al Fouzan

Chairman

Khalid Mohamed Alsaad

Vice chairman

Abdulwahab Issa Al-Rushood

Board Member

Shadi Ahmed Zahran

Board Member

Abdullah A. Al-Marzouq

Board Member

Mohammad Fahad AlQahtani

Board Member

Abdulhameed Ghuloom AlMemari

Board Member

Abdulhakeem Yaqoob Alkhayyat

Managing Director & CEO

Fatwa And Shari'a Supervisory Board

Sheikh Dr. Sayyid Mohammad Al-Sayyid Abdul Razzaq Al-Tabtaba'e

Chairman

Sheikh Dr. Mubarak Jazaa Al-Harbi

Vice Chairman

Sheikh Dr. Anwar Shuaib Abdulsalam

Member

Executive Management

Abdulhakeem Yaqoob Alkhayyat

Managing Director & CEO

Yousif Al-Hammadi

Head of Financial Control & Administration

Mohammed F. Hamad

Head of Operations, IT & Corporate Communications

Lilian Le Falher

Head of Treasury and Capital Markets

Ahmad Saeed

Head of Investments & Real Estate Projects Management

Isa Al Duwaishan

Head of Internal Shari'a Audit

Amit Yashpal

Head of Risk Management

Raed Ajawi

Head of Internal Audit

Mahmood G. Al Mahmood

Head of Corporate & SME Banking

Hamed Mashal

Head of Retail Banking

Rashid Alkhan

Head of Wealth Management & Private Banking

Abdulrahman Abdulla

Head of Shari'a Advisory

Alya Al Shakhoori

Head of Anti-Financial Crimes

Sara Zainalabedin

Head of Human Resources

Ali Nawar Al Mahmood

Head of Compliance

Iris Rose Edwards

Head of Legal

Retail Banking

Diverse Retail Banking Solutions Focused on Customer Satisfaction and Market Adaptability

> **"At KFH-Bahrain, we are dedicated to delivering a diverse range of retail banking services that blend innovation and exceptional customer service. Our products and financing options are designed to adapt to the evolving long-term requirements of our customers, considering the unique characteristics of the local market. Our commitment to growth is fueled by our unwavering determination to continually enhance service quality and provide superior Islamic Shari'a compliant products."**

In 2023, we made several improvements to our KFH Jazeel Banking platform, aligning it with the fast-paced digital era. These updates included the integration of Apple Pay for convenient payments, streamlined onboarding processes and enhanced KYC procedures for GCC customers. These additions, alongside existing features, have enhanced the overall functionality and convenience of the KFH Jazeel Banking application, offering customers a seamless and efficient digital banking experience.

We strive to continuously improve our technology and services, aiming to achieve a higher level of digitalization across our banking services. Our primary goal is to enhance customer convenience and elevate the overall quality of the services we offer.

In regards to our new products, this year we introduced the Ma'ashi salary account, specifically tailored to Bahraini nationals who transfer their salaries to the Bank. This investment savings account offers a range of unique incentives, including monthly cash prize draws, a partial early salary facility, and financing discounts. The primary objectives behind introducing this account were to encourage low-cost deposits, promote cross-selling of our other products, and recognize the loyalty of our salaried customers through rewards. Additionally, we introduced an exclusive annual rewards campaign for Ma'ashi account holders, featuring monthly cash prizes. The campaign included two grand prizes worth $100k each and ten monthly cash prizes worth $2.5k each, with points awarded based on the client's salary amount and loyalty.

As part of our ongoing efforts to improve our financing products, we launched various campaigns and product enhancements during the year. One of them was to waive the insurance charge for Real Estate financing, aligning it with our approach for Tamweely and Auto Finance, where credit life insurance is now provided free of charge. Furthermore, we launched a 6-month grace period campaign for various retail financing assets, including Tamweely Financing, Real Estate Financing, Social Housing Additional Financing, and Auto Financing. This initiative exemplified our commitment to offering flexible solutions our clients.

Retail Banking also increased the maximum allowable Tamweely finance amount from BHD 100,000 to BHD 150,000, providing customers with greater flexibility and access to higher financing amounts. Moreover, we formed a partnership with the Social Insurance Organization (SIO) to introduce Early Pension Financing, offering personal financing facilities with tenors of up to 15 years to clients who prefer to access their pension funds early. This collaboration allowed us to tap into an untapped market segment and provide valuable financial resources to cater to their specific needs.

In addition to our new products and campaigns, we remain committed to building on our more established offerings. Our Libshara Investment Savings account continues to enhance its selection of valuable prizes. For the 2023 Libshara program, account holders stood the chance to win two mega prizes of $500,000 each, ten grand prizes of $100,000, four quarterly prizes of $15,000 each and monthly cash prizes totaling $40,000 per month in addition to our special "Eid" segments.

Our Wakala Investment Account is an innovative offering, designed according to Islamic Shari'a principles where the Bank invests client funds in its general portfolio on behalf of the client, at no charge, for a pre-promised anticipated profit rate, which is shared on a monthly basis. The Wakala Investment Account opening and post-opening management processes is available in the KFH Jazeel Banking App.

As part of the Wakala Profit Sharing Investment Accounts family, the bank continues to witness success in the long-term Flexible Wakala Account named "Wakala Flexi", which provides all the benefits of the standard Wakala account with the additional flexibility allowing customers to withdraw up to 20% of their investment amount without canceling the investment account.

The Bank's loyalty rewards program, "Walaa Baytik" rewards prepaid and credit card holders with loyalty points when utilizing their cards, which can be redeemed for attractive and highly-demanded products and services, such as air-miles and cash-back. Moreover, clients can also travel the world with a host of benefits offered by our Signature, Gold and Classic Credit Cards, including access to over 1,000 airport VIP lounges worldwide exclusive to signature cardholders. Additionally, cardholders can avail of attractive discounts from our retail partners and service providers.

Our Visa Platinum "SmartPay" credit card provides cardholders with a flexible credit solution by offering them a reliable way to manage their credit card payments in an easy payment plan ranging from 1 to 36 months. On the other hand, our Platinum "WorldPay" card offers our clients a global prepaid solution for international currencies without worrying about the extra mark-up fees and withdrawal charges, making it a free and secure payment companion with a host of rewards and benefits that make this card the preferred option for any international trip.

Introducing the Visa Infinite card, a Shariah compliant product, in 2023 brought forth a range of advantageous features for our customers. These include a credit limit of up to BHD 100,000, exemption from annual fees, airport pickup and guidance services, comprehensive travel insurance, and unlimited complimentary access to over 1000 airport lounges worldwide for two individuals. Additionally, cardholders will enjoy the convenience of a 24-hour call center, extended warranty benefits, the highest accumulation of Walaa Baytik points compared to other cards, and secure online transactions with protection against fraudulent card misuse.

Our array of financial products caters to all customer needs and aspirations, whether it is owning a dream home through our flexible real estate finance solutions or purchasing a new car with our auto murabaha product. Our award winning "Tamweely" personal finance, a first of its kind carefully studied Shari'a compliant Tawarruq facility, enables our clients to address all their other needs at their convenience by applying through the Jazeel Banking application or visiting any one of our branches. Structured as an international commodity murabaha (the commodity in this case being palm oil purchased from the Malaysia Bourse through an international brokerage partner), Tamweely allows our clients to experience every step of the Tawarruq process in real time.

The Mazaya Programme is one of the Bank's core real estate financing products structured as a social housing finance scheme in partnership with the Ministry of Housing. Similar to Tas'heel, it provides eligible beneficiaries with the opportunity to own their dream homes through a real estate finance facility partly subsidized by the Government of Bahrain. Along with Tas'heel, these programs are in line with the Bank's commitment to social responsibility, and enable us to assist the Government in meeting the growing housing demands of the kingdom and continues to witness significant success.

KFH-Bahrain's retail branches are strategically located for customer convenience and enable us to serve our clients throughout the Kingdom. In addition, every branch includes state of-the-art instant cash and cheque deposit ATMs to further enhance the customer experience. Our ATM network is continuously upgraded with new customized features and locations, such as the ability for our customers to activate their debit cards directly on ATM machines without the need to visit our branches as well as the feature allowing customers to withdraw cash without using their cards through a simple verification process on the ATM machine directly.


WEALTH MANAGEMENT

Wealth Management and Private Banking

Amidst the challenges and opportunities of 2023, KFH Bahrain's Wealth Management & Private Banking experienced notable success in the expansion of our assets under management (AUM) and the broadening of our client base. This growth can be attributed to our unwavering commitment to a customer-centric approach, where each client is at the heart of our tailored financial solutions.

Our AUM saw substantial growth, a testament to the confidence our clients place in our expertise. This expansion reflects our ability to deliver consistent value and optimize investment performance while mitigating risks. Through meticulous portfolio management and a focus on aligning strategies with client objectives, we have cultivated a strong foundation for sustained financial growth.

Central to our success has been an unyielding commitment to customer satisfaction. By prioritizing open communication, understanding individual financial goals, and providing transparent guidance, we've fostered enduring relationships. Our dedication to tailoring solutions to meet the unique needs of each client has resulted in a significant increase in our client base, as existing clients refer their peers and colleagues to experience the benefits of our personalized Islamic wealth management services.

As we continue to grow, our customer-centricity remains paramount. We are poised to further enhance the client experience through ongoing innovation, digital enhancements, and a deepened focus on understanding and anticipating the evolving needs of our diverse clientele. Our commitment to building lasting relationships and delivering exceptional value ensures that KFH Wealth Management & Private Banking remains a trusted partner in our clients' financial journeys.

Wealth Management & Private Banking provides a one-stop shop for clients enabling them to benefit from investment diversification. The products include Sukuk, Equity Funds, Asset-back Securities (securitization program), Islamic Margin Finance, Restricted Investment Accounts (RIA), Lombard & Private Finance, and other private banking services.

Corporate & SME Banking

The year 2023 was a challenging year for Corporate & SME clients across all business sectors. Prevailing inflationary challenges worldwide and aggressive interest rate hikes impacted consumer behavior, government & private sector spending and expansion projects which were put on hold or postponed. Businesses with financing facilities and high debt exposures faced higher finance charges which impacted their profitability and liquidity levels.

Despite these challenges, Corporate & SME Banking department performed well and continued to collaborate and cooperate with its clients and stakeholders and succeeded in growing the revenue line despite reduction in the financing portfolio which was primarily attributed to early partial settlements witnessed from capable clients and lower new disbursements given the prevailing market environment. The increase in the revenue line was primarily driven by repricing the existing facilities and higher financing profit rates booked on new transactions.

On Asset Quality, the Bank succeeded in preserving the Asset Quality of the portfolio which was achieved through close monitoring of the client accounts and proactive measures taken to realign the client installments with their repayment capacity.

KFH-Bahrain took part in financing a number of ESG compliant financing transactions, the latest signed during Q4 of 2023 for a leading manufacturing facility operating in the Kingdom of Bahrain. The Bank is strategically focusing on ESG compliant facility as it is in-line with Islamic Banking principles, spirit and benefit towards the society and environment.

The Bank continued adopting an agile approach that has proven to efficiently perform in challenging market conditions characterized by high levels of uncertainty, making the best use of the available resources as and where needed.

Treasury, FI & Capital Markets

Posting a significant 26.5% increase year-on-year of its operating income, the Department continued playing an important role with regard to the Bank's balance sheet as well.

In addition to its assistance to KFH-Bahrain's funding of operation, its management of a diversified relationship network, and its involvement in areas including foreign exchange monitoring and correspondent banking, the Department recorded a year-on-year rise of its syndicated financing asset participation exceeding 39%.

The Department's contribution to the Bank's balance sheet is further emphasized with its sukuk portfolio weighing about 18% of KFH-Bahrain's total assets as of December 2023. As a prevailing component of the sukuk pool, the HQLA Bahrain papers held by the Department are seen as supporting the Bank both in terms of profitability and liquidity profile.

Through its High Quality Liquid Sukuk portfolio as well as its funding management, the Department has been supportive of the Bank's regulatory compliance in relation to Liquidity Coverage Ratio and Net Stable Funding Ratio (with both ratios standing well above the minimum requirements at the end of 2023).

These sovereign sukuk held by the Department, along with its continued asset financing exposure related to Bahrain Government-related entities, confirm KFH-Bahrain's engagement in the country's sovereign & institutional funding and its status as key investor.

Investments

The Bank continued to focus on realization of its investment portfolio with the aim to re-deploy the funds into core banking.

The Bank has continued to manage, advise and supervise its owned investments and certain real estate projects on behalf of the Group and assisted the portfolio companies in successfully concluding a diverse range of activities. The Bank remained focused on ensuring that its owned and managed portfolio are ready for accelerated but controlled exits.

In line with its strategy to redeploy funds into core banking and strengthen the Bank's balance sheet, KFH-Bahrain endeavored to exit its non-core investments wherever possible, which resulted in a reduction of the Bank's direct real estate exposure and optimized the Bank's capital structure, enabling it to focus on growing its core banking activities.

The assets acquired as a result of financing settlements are managed until a suitable exit opportunity is identified with efforts to meet any stipulated timeframe.

Majority of the owned and managed assets are in the Kingdom with some property assets located in Amman, Hashemite Kingdom of Jordan.

Risk Management Group

KFH-Bahrain's Approach to Risk Management

The Board of Directors (BoD) manages risk by setting a comprehensive limit structure that aligns business and risk strategies to achieve targeted risk-adjusted returns. The Board Risk Committee (BRC) meets regularly to oversee the implementation of the BoD's approved risk management strategies, policies, procedures, risk profile, and risk appetite. Through the Asset and Liability Committee (ALCO), the Bank's senior management develops and implements appropriate risk management and business processes to monitor and manage risks within the BoD-approved risk management framework.

Risk Management Group (RMG) dedicates considerable efforts to gathering, monitoring, and enhancing data in systems to produce timely and meaningful snapshots of the Bank's risk profile in order to support the ALCO, the BRC, and the BoD to make sound business and operating decisions by optimizing risk and return while meeting regulatory requirements.

RMG believes that a robust, holistic, and comprehensively implemented framework is necessary to safeguard our stakeholders' interests and to achieve tangible results. RMG takes a prudent approach to risk management commensurate with the size and complexity of the Bank. RMG pursues strategies that build long-term shareholder value with a focus on customer centricity while optimizing economic capital and meeting regulatory requirements. The Bank's risk management framework facilitates RMG's ability to proactively manage risks throughout the life cycle of a financial transaction across the entire portfolio.

The Bank encourages, cultivates, and disseminates a culture of risk management across its business, control, and support units. Business units are the first line of control and are the front-line operators of risk management strategies, policies, procedures, and practices. Support and control units are the second line of control for the risks that are taken by business units within the Bank's risk appetite. RMG provides various tools and an appropriate framework for business and support units to manage risks within their respective areas. The audit function is responsible for independently assessing and evaluating controls and the departments' adherence to the Bank's BoD-approved risk management strategies, policies, and procedures.

Sophisticated and prudent risk models are periodically developed and refined to evaluate risks taken and to project the impact of these risks on the Bank's business and operational goals. Tools such as rating systems, Stress Testing models and frameworks, the Internal Capital Adequacy and Assessment Program (ICAAP), and others are essential in identifying, measuring, and managing risk across the Bank's portfolio. In addition, RMG uses models for Fund Transfer Pricing (FTP) and risk-adjusted performance measurement tools, including Risk Adjusted Return on Capital (RAROC), as vital elements for optimizing risk-adjusted returns.

RMG continues to focus on improving internal credit processes, enforcing stricter risk and credit eligibility requirements, diversifying the financing and credit portfolios, implementing innovative initiatives to align our clients' interests with the bank's, and ensuring closer and more regular monitoring of clients by all stakeholders.

RMG further focuses on identifying and analyzing emerging risks facing the financial sector as a whole and the Bank in particular to ensure proactive monitoring and management of these risks. RMG's philosophy towards remedial management is to work closely with clients to reach a mutually beneficial outcome.

Sustaining the Bank's asset quality has been the top priority and focus during the high-rate environment that has persisted throughout the year. Proactive steps were taken to mitigate any impact on asset quality, including engaging with clients and constant portfolio-level monitoring to address any potential client-level issues early through the Financing Monitoring Task Force as well as the newly implemented Early Warning Signal predictive model. RMG has also devised and deployed an FTP Rate Discount mechanism to support clients whose businesses have strong fundamentals but need some rate adjustment to sustain operations in light of the prevailing high-rate environment. Such clients were thoroughly assessed from a credit perspective to ensure they required the support. All these measures taken and led by RMG have resulted in the Bank retaining one of the lowest Non-Performing Financing to Total Credit Portfolio Ratio (Stage 3 Ratio) of 1.29% as of December 31, 2023.

In addition, RMG includes vital control areas of the Bank, including Anti-Financial Crimes (AFC), Information Security (IS), and Business Continuity Management (BCM), in line with best market practices and to ensure consolidated risk measurement and control.

Moreover, a full review process was conducted to improve the existing BCM program and to ensure alignment with the CBB and other international best practices. The Bank continuously assesses the readiness of its business continuity site, including the capability of employees to work remotely efficiently and effectively.

Furthermore, RMG has further helped to enhance the Bank's product offering through the launch of the new Mazaya and Tas'heel Social Housing Programs launched by the Ministry of Housing/Eskan Bank. In addition, RMG has enhanced the Bank's existing personal financing criteria by expanding the eligibility criteria and increasing the maximum product limit amount.

RMG has undertaken several projects in line with KFH Group, including the deployment of an industry-leading Early Warning System (EWS) to proactively manage the asset quality of the Bank's retail and wholesale credit portfolios. RMG has integrated EWS results into the Bank's Stress Testing framework and has also developed an EWS Wholesale Financing Policy. RMG has created and implemented the Consumer Protection and Conduct Risk Framework in line with the Bank's customer-centricity initiatives. Personal Data Protection Law (PDPL) data leakage and classification requirements were also successfully implemented across all documents. The reporting of Key Risk Indicators and Operational Risk Incidents has also been automated through the implementation of a Governance, Risk, and Compliance system in line with the Group. RMG has initiated two projects to enhance the Bank's existing Project Finance Scorecard and to develop a new Environment, Social, and Governance (ESG) Scorecard to be integrated with the existing wholesale rating system in line with the Group.

The Bank is constantly strengthening its cybersecurity posture in the wake of new emerging threats. In 2023, the Bank demonstrated its commitment to information security by maintaining its compliance status with various international standards, such as the National Institute of Standards and Technology, the Payment Card Industry Data Security Standard, and ISO 27001 - the world's leading standard for Information Security Management Systems. RMG has also adhered to CBB regulation by completing two rounds of external Vulnerability Assessment and Penetration Testing. Moreover, the IS Team enhanced the overall cyber security awareness of staff members through rigorous training campaigns.

The Bank continued to uphold its commitment to preserve business continuity by maintaining its ISO 22301 certification. Various table-top simulations were held with the relevant departments to replicate the recovery process from disaster scenarios. Finally, the IS Unit conducted a fully-fledged BCM simulation during the year in which all the Bank's systems were functional from the disaster recovery site.

The Anti-Financial Crimes Department is committed to working in partnership with the authorities and regulators to manage financial crime risk and protect the integrity of the financial system and society. The Bank has an independent AFC Department, which holds the responsibility of managing financial crime risk along with the BoD and senior management. The department is responsible for establishing the related compliance framework and managing risks related to attempted money laundering, financing of terrorism, proliferation financing, sanctions, fraud, bribery, and corruption. The department has implemented a risk-based management approach, which includes independently reviewing, monitoring, and overseeing business operations with a focus on compliance with laws, rules, and regulations. Furthermore, the AFC Department supports the Bank in its digital transformation journey by implementing RegTech solutions and managing fintech initiatives.

Corporate Social Responsibility

KFH-Bahrain's commitment to Corporate Social Responsibility (CSR) and socio-economic development remains unwavering. Our CSR strategy continues to play a pivotal role in advancing the Kingdom's prosperity and improving the overall quality of life for its citizens and economy. Aligned with our ethical values, this strategy revolves around the core pillars of Islamic banking and finance, sports, and community development.

Throughout 2023, KFH-Bahrain further expanded its support to various deserving causes, reinforcing its dedication to making a positive impact. We actively endorse charitable initiatives, educational and cultural programs, and social events that contribute to the well-being of our society. By lending our sponsorships and participations to prominent banking-related events, we actively foster the growth of the banking and financial sectors, thereby driving overall economic progress.

Highlights of our CSR activities during the year include:

Supporting Islamic Banking and Finance

- Sponsored the AAOIFI 21st Annual Shari'ah Boards Conference.
- Sponsored the AAOIFI-IsDB 18th Annual Conference.
- Sponsored the Islamic Banking & Digital Revolution Event organized by the Bahrain Chapter of ICAP Members, AAOIFI and BIBF.

Developing Tomorrow's Sporting Champions

- Sponsored the Nasser Bin Hamad Bahrain Premier League and King's Cup 2023-2024 Season.
- Sponsored the Ministry of Education for the Nasser Bin Hamad Football Championship for Schools 2023/2024.
- Sponsored the Bahrain Handball Youth National Team's participation in the 2023 World Cup in Croatia.
- Sponsored the Handball U21 National Team's Participation in the World Cup in Germany and Greece.
- Sponsored Manama Club's participation in the West Asian Super League in Basketball.
- Sponsored Al Najma Club's hosting of the 39th Gulf Handball Cup and the 25th Asian Men's Club League Handball Championship.
- Sponsored the Bahrain Royal Equestrian & Endurance Federation.
- Sponsored the Bahrain Paralympic Committee – Special Olympics World Games 2023.
- Sponsored the Bahrain Athletics Association.
- Sponsored the Bahrain Sports Deaf Association.
- Sponsored the Bahrain Table Tennis Association.
- Sponsored the Malaeb Players League – Ramadan Tournament.
- Sponsored the Bankers Padel League.
- Sponsored the Bahrain Fencing Association.
- Sponsored the 1st Gulf Healthcare & Sport Congress.
- Sponsored the 15th King Hamad Trophy Golf Championship.

Promoting Health, Education and Leadership

- Sponsored the Crown Prince's International Scholarship Program (CPISP).
- Honored high school toppers under the patronage of the Ministry of Education.
- Sponsored Shaikha Hessa Girls' School Graduation.
- Sponsored Bahrain Bayan School's MUN.
- Sponsored Modern Knowledge Schools' MUN.
- Sponsored the 5th edition of Micro Shabab under the patronage of Shaikh Khalid bin Hamad Al Khalifa.
- Sponsored BIBF's Award for Highest Achiever in the Bangor Graduation Ceremony.
- Sponsored Student Entrepreneurs in Al Shurooq Secondary Girls School powered by INJAZ Bahrain.
- Sponsored the Ministry of Youth Affairs for Youth City 2030 the 3rd edition of the National Program "Lamea".
- Sponsored the TradeQuest Program by Bahrain Bourse for 2023-2024.
- Sponsored the Arabian Gulf University – event to raise awareness regarding blood disorders.

Community Support

- Sponsored the Bahrain National Day Celebrations with the Ministry of Information in coordination with the Prime Minister's Office.
- Participated in the Al Garemeen Program established by Bahrain's Ministry of Justice, Islamic Affairs and Waqf.
- Sponsored the Supreme Council for Women – Athar Structure.
- Sponsored Sh. Ebrahim Cultural Center.
- Sponsored the CBB Waqf Fund.
- Sponsored the Kuwait National Day event held by the Kuwaiti Embassy.
- Sponsored the Embassy of the Kingdom of Bahrain Muscat.
- Sponsored the Bahrain Entrepreneurship Organization.
- Sponsored the Bahrain Journalists Association.
- Sponsored the Ministry of Interior – Directorate of Traffic.
- Sponsored the Bahrain Association of Banks - National Initiative for the Development of the Agricultural "Forever Green" Campaign.
- Sponsored Al Bilad's Top 50 Bahraini companies and 10 Most Powerful Banks events.
- Sponsored the Bahrain Deaf Society.
- Sponsored the Bahrain Internal Auditors Association.
- Sponsored the London Breast Cancer Centre.
- Sponsored the Al Hekma Society for Retired.
- Sponsored the Capital Governorate for the Manama Entrepreneurship Week.
- Sponsored the Bahrain Voluntary Work Society.
- Sponsored the Mall of Dilmunia.

Fatwa & Shari'a Supervisory Board Report

In the Name of Allah Most Gracious Most Merciful Praise be to Allah, Almighty, and Prayers and Peace be upon Prophet Mohammed, his family and Companions

To: The Shareholders of Kuwait Finance House-Bahrain

Al Salam Alaikum Wa Rahmatu Allah Wa Barakatuh

In compliance with the letter of appointment, we are required to submit the following report:

We have supervised the products and contracts relating the transactions and applications introduced by Kuwait Finance House – Bahrain (the Bank) during the period ended 31st December 2023. We have performed our supervision to form an opinion as to whether the Bank has complied with the Rules and Principles of Islamic Shari'a, as well as Fatwas, rulings and guidelines issued by us, Shari'a related policies and procedures of the Bank, AAOIFI Shari'a Standards, relevant rulings of the Centralized Shari'a Supervisory Board (CSSB), the Shari'a Governance (SG Module), resolutions and directives issued by the Central Bank of Bahrain (CBB).

Responsibility of Management

The Bank management is responsible for ensuring that the Bank conducts its business in accordance with the Rules and Principles of Islamic Shari'a. It is our responsibility to form an independent opinion based on our review of the operations of the Bank and preparing a report for you.

Scope of work of the Fatwa and Shari'a Supervisory Board

Through the periodic reports provided by the head of Internal Shari'a Audit Department and the head of Shari'a Advisory Department, The Fatwa and Shari'a Supervisory Board (The Board) confirmed that the Bank did not violate the Provisions, Rules and Principles of Islamic Shari'a. The reports contained the results of reviewed, approved contracts and agreements and the results of the Bank operations reviewed on a random sample selection in accordance to the annual audit plan for the Internal Shari'a Audit Department which was approved by The Board including the field visits, supervision of the workflow from Shari'a viewpoint and implementation of Fatwa and decisions issued by us.

We planned and performed our supervision to obtain all the information and explanations, which we considered necessary to provide us with sufficient evidence to give a reasonable assurance that the Bank did not violate the Rules and Principles of Islamic Shari'a.

In our opinion

1. The contracts, transactions, and dealings entered into by the Bank during the year ended 31st December 2023 that we have reviewed are in compliance with the Rules and Principles of Islamic Shari'a.
2. The allocation of profits and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with the Rules and Principles of Islamic Shari'a.
3. All earnings that have been realized from sources or by means prohibited by the Rules and Principles of Islamic Shari'a have been set aside in an independent account and are being disposed of to charitable causes;
4. The calculation of Zakat is in compliance with the Rules and Principles of Islamic Shari'a; and
5. The Bank has committed to the Shari'a Principles, Fatawa and Directions given by us.

The Fatwa and Shari'a Supervisory Board approved the report based on the periodic reports provided by the Internal Shari'a Audit and Shari'a Advisory Departments.

The Fatwa and Shari'a Supervisory Board would like to raise its sincere thanks and appreciation to the senior management, the departments and the staff of Kuwait Finance House - Bahrain for their cooperation and commitment to the Board's decisions and guidelines, and asks Allah Almighty to bring them success and Rashad.

We pray to Allah Almighty to guide us to the righteous path.

This report issued on 21st March 2024

Sh. Dr. Sayyed Mohammad Al-Sayyed Abdul Razzaq Al-Tabtaba'e Chairman Fatwa and Shari'a Supervisory Board	Sh. Dr. Mubarak Jazaa Jazaa Al-Harbi Vice Chairman Fatwa and Shari'a Supervisory Board	Sh. Dr. Anwar Shuaib Abdulsalam Member Fatwa and Shari'a Supervisory Board

P1

ENVIRONMENTAL:
PRESERVING **PLANET** THROUGH
SUSTAINABLE PRACTICES

Independent Auditors' Report to the Shareholders of Kuwait Finance House (Bahrain) B.S.C. (c)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Kuwait Finance House (Bahrain) B.S.C.(c) ("the Bank") and its subsidiaries (together "the Group") which comprise the consolidated statement of financial position as at 31 December 2023 and the related consolidated statements of income, cash flows, changes in owners' equity and changes in off-balance sheet equity of restricted investment account holders for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

In our opinion, the Group has also complied with the Islamic Shari'a Principles and Rules as determined by the Shari'a Supervisory Board of the Bank during the year under audit.

Basis for opinion

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions (ASIFI) issued by AAOIFI. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the consolidated financial statements' section of our report. We are independent of the Group in accordance with the AAOIFI's Code of Ethics for Islamic Finance Professionals, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information included in the Group's 2023 Annual Report

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

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

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

Responsibilities of the Board of Directors for the consolidated financial statements

These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'ah Rules and Principles are the responsibility of the Group's Board of Directors.

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

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

Independent Auditors' Report to the Shareholders of Kuwait Finance House (Bahrain) B.S.C. (c) (CONTINUED)

Report on the Audit of the Consolidated Financial Statements (continued)

Auditor's responsibilities for the audit of the consolidated financial statements

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

As part of an audit in accordance with ASIFI issued by AAOIFI, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

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

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

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on Other Regulatory Requirements

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

a) the Group has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
b) the financial information contained in the draft Chairman's Report obtained as at the audit report date is consistent with the consolidated financial statements;
c) we are not aware of any violations of the Bahrain Commercial Companies Law, the CBB and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2023 that might have had a material adverse effect on the business of the Group or on its consolidated financial position; and
d) satisfactory explanations and information have been provided to us by management in response to all our requests.

The partner incharge of the audit resulting in this independent auditors' report is Kazim Merchant.

Ernst + Young

Partner's registration no. 244
22 February 2024
Manama, Kingdom of Bahrain

Consolidated Statement of Financial Position

At 31 December 2023

	Note	2023 BD 000	2022 BD 000
ASSETS			
Cash and balances with banks and the Central Bank of Bahrain	6	**80,623**	78,648
Due from banks	7	**41,419**	45,028
Financing contracts	8	**1,009,312**	999,251
Investments in equity	9	**3,158**	3,419
Investments in sukuk	10	**278,596**	290,034
Receivables and other assets	12	**136,104**	144,993
Premises, equipment and right of use assets		**4,009**	3,707
TOTAL ASSETS		**1,553,221**	1,565,080
LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY			
LIABILITIES			
Customers' current accounts		**122,036**	137,461
Due to banks		**31,357**	17,339
Due to non-banks		**97,151**	108,784
Other liabilities	14	**24,991**	19,960
TOTAL LIABILITIES		**275,535**	283,544
EQUITY OF INVESTMENT ACCOUNT HOLDERS - QUASI EQUITY			
Banks		**227,407**	264,155
Non-banks and individuals	15	**879,214**	832,285
TOTAL EQUITY OF INVESTMENT ACCOUNT HOLDERS - QUASI EQUITY		**1,106,621**	1,096,440
OWNERS' EQUITY			
Equity attributable to shareholders of the Parent			
Share capital	16	**132,519**	132,519
Statutory reserve	16	**31,219**	30,405
Proposed dividend	16	**7,327**	22,172
		171,065	185,096
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY		**1,553,221**	1,565,080
OFF-BALANCE SHEET			
EQUITY OF RESTRICTED INVESTMENT ACCOUNT HOLDERS		**127,110**	122,380
ASSETS UNDER MANAGEMENT	13	**742,388**	725,987
CONTINGENT LIABILITIES AND COMMITMENTS	18	**32,439**	57,128

Mohammad Naser AlFouzan
Chairman of the
Board of Directors

Abdulhakeem Yaqoub Alkhayyat
Managing Director and
Chief Executive Officer

The attached notes 1 to 36 form part of these consolidated financial statements.

Consolidated Statement of Income

For the year ended 31 December 2023

	Note	2023 BD 000	2022 BD 000
Income from financing contracts	20	**68,726**	58,328
Income from investments	21	**2,879**	2,650
Income from sukuk	22	**13,227**	14,275
Income from due from banks	22	**2,255**	1,481
OPERATING INCOME		**87,087**	76,734
Return on equity of investment account holders (wakala)	11	**(44,856)**	(22,062)
Return on equity of investment account holders (mudaraba) before the Group's share as mudarib		**(8,973)**	(9,343)
The Group's share as mudarib		**7,992**	8,107
Return on equity of investment account holders (mudaraba) after the Group's share as mudarib		**(981)**	(1,236)
Profit on due to banks and non-banks	25	**(6,685)**	(4,395)
NET OPERATING INCOME		**34,565**	49,041
Staff costs		**12,437**	12,716
Depreciation and amortisation of premises, equipment and right of use assets		**1,329**	1,648
Allowance for (reversal of) impairment and credit losses – net	23	**1,275**	(173)
Other expenses	24	**11,383**	10,215
TOTAL OPERATING EXPENSES		**26,424**	24,406
NET INCOME FOR THE YEAR		**8,141**	24,635

Mohammad Naser AlFouzan
Chairman of the
Board of Directors

Abdulhakeem Yaqoub Alkhayyat
Managing Director and
Chief Executive Officer

The attached notes 1 to 36 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2023

	Note	2023 BD 000	2022 BD 000
OPERATING ACTIVITIES			
Net income for the year		**8,141**	24,635
Adjustments for:			
Sukuk premium amortisation		**1,370**	1,606
Net gain on sale of investments	21	**-**	(202)
Foreign exchange gain	21	**(1,269)**	(434)
Depreciation and amortisation		**1,329**	1,648
Allowance for (reversal of) impairment and credit losses - net	23	**1,840**	(143)
Operating income before changes in operating assets and liabilities		**11,411**	27,110
Changes in operating assets and liabilities:			
Mandatory reserve with the Central Bank of Bahrain		**(1,050)**	(15,712)
Financing contracts		**(10,425)**	58,090
Receivables and other assets		**(15,169)**	37,016
Customers' current accounts		**(15,425)**	(308)
Due to banks		**14,018**	12,906
Due to non-banks		**(11,633)**	(239,671)
Other liabilities		**6,022**	1,936
Net cash flows used in operating activities		**(22,251)**	(118,633)
INVESTING ACTIVITIES			
Disposal of investments - net		**261**	2,215
Decrease in investment in sukuk - net		**10,071**	63,392
Proceeds from sale of repossessed assets		**590**	-
Purchase of premises and equipment - net		**(604)**	(858)
Net cash flows from investing activities		**10,318**	64,749
FINANCING ACTIVITIES			
Net movement in equity of investment account holders		**10,181**	(49,044)
Payments of obligation in relation to right-of-use assets		**(731)**	(831)
Net cash flows from (used in) financing activities		**9,450**	(49,875)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(2,483)**	(103,759)
Cash and cash equivalents at 1 January		**74,526**	178,285
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	25	**72,043**	74,526

The attached notes 1 to 36 form part of these consolidated financial statements.

Consolidated Statement of Changes in Owners' Equity

For the year ended 31 December 2023

	Equity attributable to shareholders of the Parent					
	Share capital	Statutory reserve	Fair value through equity reserve	Retained earnings	Proposed dividend	Total
	BD 000	BD 000	BD 000	BD 000	BD 000	BD 000
Balance at 1 January 2023	132,519	30,405	-	-	22,172	185,096
Net income for the year	-	-	-	8,141	-	8,141
Dividend payout (note 16)	-	-	-	-	(22,172)	(22,172)
Proposed dividend (note 16)	-	-	-	(7,327)	7,327	-
Transfer to statutory reserve	-	814	-	(814)	-	-
Balance at 31 December 2023	**132,519**	**31,219**	**-**	**-**	**7,327**	**171,065**
Balance at 1 January 2022	132,519	27,942	1,850	-	21,767	184,078
Net income for the year	-	-	-	24,635	-	24,635
Other comprehensive income for the year (note 17)	-	-	(1,850)	-	-	(1,850)
Total comprehensive income for the year	-	-	(1,850)	24,635	-	22,785
Dividend payout (note 16)	-	-	-	-	(21,767)	(21,767)
Proposed dividend (note 16)	-	-	-	(22,172)	22,172	-
Transfer to statutory reserve	-	2,463	-	(2,463)	-	-
Balance at 31 December 2022	132,519	30,405	-	-	22,172	185,096

The attached notes 1 to 36 form part of these consolidated financial statements.

Consolidated Statement of Changes in Off-Balance Sheet Equity of Restricted Investment Account Holders

For the year ended 31 December 2023

	Balance at 1 January 2023	**Additional investments**	**Gross income**	**Mudarib share**	**Withdrawals / distributions**	**Balance at 31 December 2023**
	BD 000	**BD 000**	**BD 000**	**BD 000**	**BD 000**	**BD 000**
Investment in Murabaha	**122,380**	**86,305**	**8,627**	**(1,549)**	**(88,653)**	**127,110**

	Balance at 1 January 2022	Additional investments	Gross income	Mudarib share	Withdrawals / distributions	Balance at 31 December 2022
	BD 000	BD 000	BD 000	BD 000	BD 000	BD 000
Investment in Murabaha	136,710	71,915	7,684	(1,479)	(92,450)	122,380

The attached notes 1 to 36 form part of these consolidated financial statements.

Notes to The Consolidated Financial Statements

At 31 December 2023

1 CORPORATE INFORMATION AND ACTIVITIES

Kuwait Finance House (Bahrain) B.S.C. (c) (the "Bank") is a closed joint stock company incorporated in the Kingdom of Bahrain on 22 January 2002 under the Bahrain Commercial Companies Law (the "Law") No. 21/2001 and is registered with the Ministry of Industry and Commerce (MOIC) under commercial registration (CR) number 48128. The Bank is regulated and supervised by the Central Bank of Bahrain (the "CBB") and has an Islamic retail banking license. The Bank operates under Islamic principles and in accordance with all the relevant regulatory guidelines for Islamic banks issued by the CBB. The address of the Bank's registered office is World Trade Centre, Road number 365, Building number 1B, Block 316, P.O. Box 2066, Manama, Kingdom of Bahrain.

The Bank offers a full range of Islamic banking services and products. The activities of the Bank include accepting Shari'a compliant money placements / deposits, managing Shari'a compliant profit sharing investment accounts, offering Shari'a compliant financing contracts, dealing in Shari'a compliant financial instruments as principal / agent, managing Shari'a compliant financial instruments and other activities permitted under the CBB's Regulated Islamic Banking Services as defined in the licensing framework.

The Bank is a wholly owned subsidiary of Kuwait Finance House K.S.C.P. (the "Ultimate Parent"), a public company incorporated in the State of Kuwait and listed at the Kuwait Stock Exchange. The Ultimate Parent is regulated and supervised by the Central Bank of Kuwait. The Shari'a Supervisory Board of the Group is entrusted to ensure the Group's adherence to Shari'a rules and principles in its transactions and activities.

The Bank and its subsidiaries (together the "Group") operate in the Kingdom of Bahrain and Hashemite Kingdom of Jordan. KFH Jordan is a key subsidiary (wholly owned by the Bank which was incorporated in the Hashemite Kingdom of Jordan in 2007) is engaged in real estate related activities along with its subsidiaries.

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

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors (the "Board") passed on 19 February 2024.

2 BASIS OF PREPARATION

2.1 Accounting convention

The consolidated financial statements have been prepared under the historical cost basis, except for investments in equity and derivatives that are measured at fair value. The consolidated financial statements are presented in Bahraini Dinars ("BD") being the functional currency of the Bank and the presentation currency of the Group. All the values are rounded off to the nearest BD thousand, unless otherwise indicated.

2.2 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI"), the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank, the Law, the CBB and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and the CBB directives.

2 BASIS OF PREPARATION (continued)

2.3 Basis of consolidation

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

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

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and continue to be consolidated until the date when such control ceases. Control is achieved where the Group has power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed off during the year, if any, are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate. A change in the Group's ownership of a subsidiary, without a loss of control, is accounted for as an equity transaction.

3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the consolidated financial statements of the Group requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements. The most significant uses of judgments and estimates are as follows:

3.1 Going concern

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

3.2 Fair value of unquoted equity securities

Fair value is determined for each investment individually in accordance with the valuation policies set out in note 4.21 and note 29. Where the fair values of the unquoted equity securities of the Group cannot be derived from an active market, they are derived using a variety of valuation techniques. Judgment by the management is required to establish fair values through the use of appropriate valuation models, consideration of comparable assets, discount rates and the assumptions used to forecast cash flows.

3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

3.3 Impairment of financing contracts

In determining impairment on financing contracts, judgment is required in the estimation of the amount and timing of future cash flows. Further, assessment is also required of whether credit risk on the financial contract has increased significantly since initial recognition or the default has occurred and also the incorporation of forward-looking information in the measurement of expected credit losses ("ECL").

3.4 Impairment of investments at fair value through equity

The Group treats investments carried at fair value through equity ("FVTE") as impaired when there is a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Group evaluates factors, such as the historical share price volatility for comparable quoted equities, period of time for which fair value has been below cost of investment and future cash flows and the discount factors for comparable unquoted equities.

3.5 Estimation of net realisable value ("NRV") for land and development cost and repossessed assets

Land and development cost and repossessed assets are carried at the lower of their carrying value and expected fair value less costs to sell (i.e. net realisable value). The fair value is determined by independent real estate valuation experts based on appropriate valuation methods taking into consideration local market conditions existing at the reporting date.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

4.1 Adoption of new and amended standards and interpretations

FAS 39 Financial Reporting for Zakah

AAOIFI issued FAS 39 "Financial Reporting for Zakah" in 2021. The objective of this standard is to establish the principles of financial reporting related to Zakah attributable to different stakeholders of an Islamic financial institution and provides guidance on two main categories of institutions namely "institutions obliged to pay Zakah" and "institutions not obliged to pay Zakah". This standard improves upon and supersedes FAS 9 on "Zakah" and aims at setting out the accounting treatment of Zakah in the books of the institutions, including the presentation and disclosure by an Islamic Financial Institution. The accounting and financial reporting requirements such as recognition, presentation and disclosure requirements of this standard shall apply to institutions that are obliged to pay Zakah on behalf of certain or all stakeholders. Institutions that are not obliged to pay Zakah shall apply the disclosure requirements of this standard for certain or all stakeholders, as applicable. The new accounting standard does not have any significant impact on the consolidated financial statements of the Group as it is neither required by the Law nor by its constitution documents to pay Zakah. Zakah is calculated at the Parent level which is transferred to the Bank for distributions.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1 Adoption of new and amended standards and interpretations (continued)

FAS 44 Determining Control of Assets and Business

AAOIFI issued FAS 44 "Determining Control of Assets and Business" in 2023. The objective of this standard is to establish the principles of assessing as to whether and when an institution controls an asset or a business, both in case of underlying assets of a participatory structure, as well as, for the purpose of consolidation of financial statements of subsidiaries. This standard is immediately effective. The new accounting standard does not have any significant impact on the consolidated financial statements of the Group.

4.2 New standards, amendments and interpretations issued but not yet effective

FAS 40 Financial Reporting for Islamic Finance Windows

AAOIFI issued FAS 40 "Financial Reporting for Islamic Finance Windows" in 2021. The objective of this standard is to establish financial reporting requirements for Islamic financial services offered by conventional financial institutions (in form of Islamic finance window). This standard shall be effective for the financial periods beginning on or after 1 January 2024 with early adoption permitted. The Board does not expect the above accounting standard to have an impact on the consolidated financial statements of the Group.

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

The revised FAS 1 "General Presentation and Disclosures in the Financial Statements" describes and improves the overall presentation and disclosure requirements prescribed in line with the global best practices and supersedes the earlier FAS 1. The Islamic Financial Institutions are required to publish periodic financial statements to satisfy the common information needs of the users, as described in the conceptual framework. This standard sets out the overall requirements for presentation of financial statements and a recommended structure of financial statements that facilitate faithful presentation in line with Shari'ah principles and rules and comparability with the institution's financial statements of previous periods, and the financial statements of other institutions. This standard shall be effective on the financial statements of the institutions beginning on or after 1 January 2024. Early adoption of the standard is permitted. The Board is currently assessing the impact of this accounting standard on the consolidated financial statements of the Group.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

FAS 45 Quasi - Equity (Including Investment Accounts)

AAOIFI issued FAS 45 "Quasi - Equity (Including Investment Accounts)" in 2023. The objective of this standard is to establish the principles of financial reporting related to instruments classified as Quasi - Equity, such as investment accounts and similar instruments invested with Islamic financial institutions. Quasi - Equity is an element of financial statements of an institution in line with the "AAOIFI Conceptual Framework for Financial Reporting". This standard shall be effective for the financial periods beginning on or after 1 January 2026 with early adoption permitted. The Board is currently assessing the impact of this accounting standard on the consolidated financial statements of the Group.

FAS 46 Off - Balance - Sheet Assets Under Management

AAOIFI issued FAS 46 "Off - Balance - Sheet Assets Under Management" in 2023. The objective of this standard is to establish the principles of financial reporting related off - balance - sheet assets under management in line with the "AAOIFI Conceptual Framework for Financial Reporting". This standard shall be effective for the financial periods beginning on or after 1 January 2026 with early adoption permitted. The Board is currently assessing the impact of this accounting standard on the consolidated financial statements of the Group.

FAS 47 Transfer of Assets between Investment Pools

AAOIFI issued FAS 47 "Transfer of Assets between Investment Pools" in 2023. The objective of this standard is to establish the principles that apply in respect of transfer of assets between various investment pools of an Islamic financial institution. This standard shall be effective for the financial periods beginning on or after 1 January 2026 with early adoption permitted. The Board is currently assessing the impact of this accounting standard on the consolidated financial statements of the Group.

4.3 Financial assets and impairment

a) Financial assets

Financial assets consist of cash and balances with banks and the CBB, due from banks, investments in equity, investments in sukuk, murabaha financing (net of deferred profits), ijarah muntahia bittamleek, receivables and other assets, financing commitments and financial guarantee contracts. Balances relating to these contracts are stated net of allowance for impairment and credit losses.

b) Impairment assessment

Impairment of financial assets

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

Stage 1: Twelve months ECL

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

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Financial assets and impairment (continued)

b) Impairment assessment (continued)

Stage 2: Lifetime ECL – not credit impaired

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

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

Stage 3: Lifetime ECL – credit impaired

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

For Stage 3 financial contracts, the allowance for impairment and credit losses is determined based on the difference between the net carrying amount and the recoverable amount of the financial contract.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. Evidence that a financial asset is credit-impaired includes the following observable data:
- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event; and
- probability that the borrower will enter bankruptcy or other financial reorganization.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of a provision account and the amount of the loss is recognised in the consolidated statement of income.

Financing contracts together with the associated provisions are written off when there is no realistic prospect of future recovery and collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced in the consolidated statement of income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective profit rate ("EPR"). If a financial asset has a variable profit rate, the discount rate for measuring any impairment loss is the current EPR. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable.

Measurement of ECL

The key inputs into the measurement of ECL are the following variables:
- Probability of Default (PD);
- Loss Given Default (LGD); and
- Exposure At Default (EAD).

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Financial assets and impairment (continued)

b) Impairment assessment (continued)

Stage 3: Lifetime ECL – credit impaired (continued)

Probability of default

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures. The Group employs statistical models for analysing the data collected and generate estimates of PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, across various geographies in which the Group has taken exposures. For most exposures, the key macro-economic indicators include gross domestic product (GDP) growth, real interest rates, oil prices and equity prices.

Incorporation of forward - looking information

The Group employs statistical models to incorporate macro-economic factors on historical default rates. In case none of the macro-economic parameters are statistically significant or the results of forecasted PDs are significantly deviated from the present forecast for the economic conditions, quantitative PD overlay shall be used by the management after analyzing the portfolio.

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

Loss Given Default

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties and collaterals held, based on historical data using both internal and external factors including hair cuts.

Exposure At Default

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amounts allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For financing commitments and financial guarantees, the EAD is converted to consolidated statement of financial position equivalents. The EAD is estimated using the outstanding exposure adjusted by credit conversion factor ("CCF") times undrawn portion of the facilities. In case of financial guarantee, EAD is estimated as CCF times the committed amount. The outstanding exposure is equivalent to the principal outstanding. The undrawn portion refers to the portion of the unutilized credit limit.

Significant Increase in Credit Risk

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

The criteria for determining whether credit risk has increased significantly vary on a portfolio level and include quantitative and qualitative factors, including days past due and risk rating.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Financial assets and impairment (continued)

b) Impairment assessment (continued)

Renegotiated financial assets

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

The Group considers renegotiated financing to customers due to financial difficulties as one of the reasons for determining the SICR. This may involve extending the payment arrangements and documenting the agreement of new conditions for providing finance. Management continuously reviews renegotiated facilities to ensure that all criteria are met and that future payments are likely to occur.

Backward transition

FAS 30 staging model is of symmetrical nature as exposures may migrate from lifetime ECL measurement (Stage 2 and Stage 3) to 12 month ECL measurement (Stage 1). Once such indicators are no longer triggered, movement back to Stage 1 or Stage 2 are subject to certain criteria such as cooling off period, SICR indicators and payment history, where applicable.

Write-offs

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

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

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

- financial assets measured at amortised cost, as a deduction from the gross carrying amount of the assets; and
- financing commitments and financial guarantee contracts: generally as a provision in other liabilities.

4.4 Foreign currency translation

The consolidated financial statements are presented in BD, which is the functional and presentation currency of the Bank. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(i) Transactions and balances

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the consolidated statement of income with the exception of all monetary items that provide an effective protection for a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are recognised in the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial recognition. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Exchange gains and losses on non-monetary items classified as "fair value through statement of income" are taken to the consolidated statement of income and for items classified as FVTE, such differences are taken to other comprehensive income. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.4 Foreign currency translation (continued)

(ii) Group companies

As at the reporting date, the assets and liabilities of subsidiaries are translated into the Group's presentation currency (BD) at the rate of exchange prevailing at the reporting date and their statements of income are translated at the average exchange rates for the year. Exchange differences arising on translation are recognised in other comprehensive income. On disposal of a foreign subsidiary, the cumulative amount recognised in other comprehensive income relating to that particular foreign subsidiary is recognised in the consolidated statement of income.

4.5 Financial instruments - initial recognition and subsequent measurement

Date of recognition

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. All financial assets and liabilities are initially recognised on the trade date, i.e. the date that the Group becomes a party to the contractual provisions of the instrument.

Initial and subsequent measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets recorded at fair value through statement of income.

(i) Due from banks

Murabahas are international commodity murabaha transactions. The Group arranges a murabaha transaction by buying a commodity (which represents the object of the murabaha) and then resells this commodity to the beneficiary murabeh (after computing a profit margin). The sale price (cost plus the profit margin) is paid either lump sum at maturity or in installments by the murabeh over the agreed period.

Murabaha with banks are stated net of deferred profits and provision for impairment, if any. Wakala with banks are stated at cost less provision for impairment, if any.

(ii) Financing contracts

(a) Murabaha

Murabaha represents the sale of goods at cost plus an agreed profit. Murabaha receivables are stated net of deferred profits, any amounts written off and provision for impairment, if any. Promise made in the murabaha to the purchase orderer is not obligatory upon the customer.

(b) Ijarah Muntahia Bittamleek

Ijarah Muntahia Bittamleek mainly comprise of land and buildings and certain other assets. Ijarah Muntahia Bittamleek is a lease whereby the legal title of the leased asset passes to the lessee at the end of the ijarah (lease term), provided that all ijarah installments are settled.

Assets under Ijarah Muntahia Bittamleek are initially recognised at cost and subsequently depreciated at rates calculated to write off the cost of each asset over its useful life to its residual value.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.5 Financial instruments - initial recognition and subsequent measurement (continued)

(iii) Investments

The Group classifies its investments at either (i) amortised cost, (ii) fair value through equity or (iii) fair value through statement of income, on the basis of both the Group's business model for managing investments and the expected cash flow characteristics of the investment in line with the nature of the underlying Islamic contracts.

Recognition and Initial measurement

All investments are initially recognized at cost plus transaction costs except for investments at fair value through statement of income. Transaction costs relating to investments at fair value through statement of income are charged to the consolidated statement of income when incurred.

Subsequent measurement

a) Investments at amortised cost

Investments carried at amortised cost are re-measured using the EPR method. All gains or losses arising from the amortisation process and those arising from de-recognition or impairment of the investments, are recognized in the consolidated statement of income. Investments carried at amortised cost are tested for impairment at each reporting period in accordance with FAS 30 "Impairment, credit losses and onerous commitments".

b) Investments at fair value through statement of income

Investments carried at fair value through statement of income are re-measured at fair value at end of each reporting period. The resultant remeasurement gain or loss, if any being the difference between the carrying amount and the fair value is recognized in the consolidated statement of income.

c) Investments at fair value through equity

Investments carried at FVTE are re-measured at fair value at the end of each reporting period. The resultant re-measurement gain or loss, if any, being the difference between the carrying amount and the fair value is directly recognized in equity under "fair value through equity reserve". Investments carried at FVTE are tested for impairment at each reporting period in accordance with FAS 30 "Impairment, credit losses and onerous commitments".

Reclassification

When, and only when, the Group changes its business model for managing investments, it reclassifies all affected financial assets prospectively from the reclassification date. In case of reclassification, the Group does not restate any previously recognised gains, losses (including impairment gains or losses) or returns/ profits.

(iv) Equity of investment account holders

Equity of investment account holders is invested in cash, balances with banks and the CBB, due from banks, investments in sukuk and financing contracts. No priority is granted to any party for the purpose of distribution of profits. According to the terms of acceptance of the investment account holders' funds, %100 of these funds are invested after deductions of mandatory reserve and sufficient operational cash requirements.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.5 Financial instruments - initial recognition and subsequent measurement (continued)

(iv) Equity of investment account holders (continued)

Equity of investment account holders is carried at fair value of consideration received less amounts settled. Expenses are allocated to investment accounts in proportion of average equity of investment account holders to average assets, however, investment related expenses and assets are excluded.

Income is allocated proportionately between equity of investment account holders and owners' equity on the basis of the average balances outstanding during the year and share of the funds invested.

4.6 Derecognition of financial assets and financial liabilities

(i) Financial assets

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

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

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the continuing involvement of the Group in the asset.

(ii) Financial liabilities

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

4.7 Impairment of financial assets

(i) Financial assets carried at amortised cost

The Group applies three-stage approach to measure ECL on financial assets carried at amortised cost as required by FAS 30 with ECL model explained above.

(ii) Investments at fair value through equity

For investments at FVTE, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as FVTE, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value less any impairment loss on that investment previously recognised is removed from fair value through equity reserve and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value subsequent to impairment are recognised directly in equity.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.8 Offsetting financial instruments

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

4.9 Recognition of income and expense

(i) Income recognition

(a) Murabaha

Where the income is quantifiable and contractually determined at the commencement of the contract, income is recognised on a time-apportioned basis over the period of the contract based on the principal amounts outstanding. Accrual of income is suspended when the Group believes that the recovery of these amounts may be doubtful.

(b) Ijarah Muntahia Bittamleek

Ijarah income is recognised on a time-apportioned basis, net of depreciation, over the lease term. Accrual of income is suspended when the Group believes that the recovery of these amounts may be doubtful.

(c) Dividends

Dividends from investments in equity securities are recognised when the right to receive the payment is established.

(d) Fees and commission income

Fees and commission income is recognised when earned.

(e) Revenue from sale of real estate

Revenue on sale of real estate is recognised when all of the following conditions are met:

- A sale is consummated and contracts are signed;
- The buyer's investment, as of the reporting date, is adequate (25% and above) to demonstrate a commitment to pay for the property; and
- The Group has transferred to the buyer the risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property.

Where property is under development and agreement has been reached to sell such property when construction is complete, the Group considers whether the contract comprises:

- contract to construct a property; or
- contract for the sale of a completed property.

Where a contract is determined to be a construction contract, revenue is recognised using the percentage of completion method as construction progresses. The percentage of work complete is measured based on the costs incurred up until the end of the reporting period as a proportion of total costs expected to be incurred.

Where the contract is judged to be for the sale of a completed property, revenue is recognised when the significant risks and rewards of ownership of the property are transferred to the buyer.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.9 Recognition of income and expense (continued)

(i) Income recognition (continued)

(f) Management fee and other services income

Revenue from management and other services provided is recognised when the services are rendered.

(g) Group's share as a mudarib

The Group's share as a mudarib for managing the equity of investment account holders is accrued based on the terms and conditions of the related mudaraba agreements whereas, for off balance sheet equity of investment account holders, mudarib share is recognised when distributed.

(ii) Expense recognition

(a) Profit on due to banks and non-banks

Profit on due to banks and non-banks is accrued on a time-apportioned basis over the period of the contract based on the principal amounts outstanding.

(b) Return on equity of investment account holders

Return on equity of investment account holders is based on the income generated from jointly financed assets after deducting mudarib share (in case of mudaraba contracts) and is accrued based on the terms and conditions of the underlying mudaraba or wakala agreement. Investors' share of income represents income generated from assets financed by investment account holders net of allocated operating expenses. The Group's share of profit is deducted from the investors' share of income before distribution to investors.

4.10 Premises and equipment

Premises and equipment are stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value, if any.

Depreciation is calculated using the straight-line method to write down the cost of premises and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

	Years
Premises	20
Hardware, software and equipment	3 - 7
Motor vehicles and office furniture	5 - 7

An item of premises and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the consolidated statement of income in the year the asset is derecognised.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.11 Impairment of non-financial assets

The Group assesses at each reporting date or more frequently whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount (the higher of fair value less cost to sell and the value in use). Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. Impairment losses relating to goodwill cannot be reversed for subsequent increase in its recoverable amount in future periods.

4.12 Financial guarantees

In the ordinary course of business, the Group provides financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recorded in the consolidated statement of financial position at fair value in "other liabilities" being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the unamortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recognised in the consolidated statement of income. The premium received is recognised in the consolidated statement of income on a straight line basis over the life of the guarantee.

4.13 Allowance for impairment and credit losses

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

4.14 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). CODM is a person or a group that allocates resources and assesses the performance of the operating segments of the Group. The Group has determined the Managing Director and Chief Executive Officer as its CODM.

4.15 Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with banks, the CBB (excluding mandatory reserve) and due from banks with original maturity of 90 days or less.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.16 Employees' end of service benefits

Provision is made for leaving indemnity payable under the Bahraini Labor Law applicable to non-Bahraini employees' accumulated periods of service at the reporting date.

Bahraini employees of the Group are covered by contributions made to the Social Insurance Organisation ("SIO") as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due. For Bahrainis with basic salaries above a certain threshold, the Group recognises leaving indemnity in line with the requirements of the Bahrain Labour Law.

4.17 Off-balance sheet equity of investment account holders

Off-balance sheet equity of investment account holders represents funds received by the Group on the basis of mudaraba to be invested in specified products as directed by the investment account holders. The assets funded by these funds are managed in a fiduciary capacity by the Group for which the Group earns mudarib share which is disclosed as part of "income from financing contracts". These assets are not included in the consolidated statement of financial position as the Group does not have the right to use or dispose off them except within the conditions laid down in the underlying mudaraba contract. Off-balance sheet equity of investment account holders is included in a separate statement in the consolidated financial statements of the Group.

4.18 Earnings prohibited by Shari'a

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is transferred to charity.

4.19 Inventories

Inventories are carried at the lower of cost and NRV. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and an allowance applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

4.20 Investments in real estate

Investments in real estate consists of development properties and repossessed assets. Repossessed assets are real estate assets acquired in settlement of financing contracts with customers. Development properties and repossessed assets are carried at the lower of carrying amount and fair value less costs to sell and reported within "receivables and other assets" in the consolidated statement of financial position.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.21 Fair value of financial instruments

The Group measures financial instruments at fair value at the reporting date. Fair values of financial instruments are disclosed in note 29.

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

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Observable data used along with the Group's approach to determining fair values of financial instruments and quantitative disclosure are disclosed in note 29.

4.22 Taxation

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on overseas operations is provided for in accordance with the fiscal regulations of the respective countries in which the Group operates and is included in the accompanying consolidated statement of income under "other operating expenses".

4.23 Zakah

In accordance with the instructions of the Shari'a Supervisory Board of the Bank, payment of Zakah is the responsibility of the shareholders of the Bank. Accordingly, no Zakah has been charged to these consolidated financial statements.

4.24 Cross currency swap

Cross currency swap ("Islamic derivative financial instruments") are used to mitigate foreign currency risk. They are initially recognised and subsequently measured in the consolidated statement of financial position at fair value. The fair value of this instrument includes unrealised gain or loss from marking to market the instrument using prevailing market rates or based on fair value determined by the internal pricing models. The instrument with positive market value (unrealised gain) is included in other assets and the instrument with negative market value (unrealised loss) is included in other liabilities in the consolidated statement of financial position. Any gain or loss arising from changes in the fair value of this instrument is taken directly to the consolidated statement of income.

4.25 Provision for onerous contract or commitment to acquire an asset

The Group will recognise provision when the Group is obligated to acquire an asset under a future commitment or contracts permissible to be entered in the future, and it is expected that the obligation under the contract or commitment is higher than the economic benefits expected to flow through acquisition of such asset. In such situation, the Group will create a provision on this account reflecting the expected losses arising on such transaction.

5 CLASSIFICATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

The Group's financial instruments have been classified in accordance with their measurement basis as follows:

	Financial assets at fair value through equity BD 000	Financial assets at amortised cost BD 000	Financial liabilities at at amortised cost BD 000	Total BD 000
At 31 December 2023				
ASSETS				
Cash and balances with banks and the CBB	-	80,623	-	80,623
Due from banks	-	41,419	-	41,419
Financing contracts	-	1,009,312	-	1,009,312
Investments in equity	3,158	-	-	3,158
Investments in sukuk	-	278,596	-	278,596
Receivables and other assets	-	71,279	-	71,279
	3,158	1,481,229	-	1,484,387
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS				
Customers' current accounts	-	-	122,036	122,036
Due to banks	-	-	31,357	31,357
Due to non-banks	-	-	97,151	97,151
Other liabilities	-	-	23,594	23,594
Equity of investment account holders	-	-	1,106,621	1,106,621
	-	-	1,380,759	1,380,759
At 31 December 2022				
ASSETS				
Cash and balances with banks and the CBB	-	78,648	-	78,648
Due from banks	-	45,028	-	45,028
Financing contracts	-	999,251	-	999,251
Investments in equity	3,419	-	-	3,419
Investments in sukuk	-	290,034	-	290,034
Receivables and other assets	-	90,993	-	90,993
	3,419	1,503,954	-	1,507,373
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS				
Customers' current accounts	-	-	137,461	137,461
Due to banks	-	-	17,339	17,339
Due to non-banks	-	-	108,784	108,784
Other liabilities	-	-	18,588	18,588
Equity of investment account holders	-	-	1,096,440	1,096,440
	-	-	1,378,612	1,378,612

6 CASH AND BALANCES WITH BANKS AND THE CENTRAL BANK OF BAHRAIN

	Note	2023 BD 000	2022 BD 000
Cash		**9,602**	11,422
Balances with banks		**9,846**	7,524
Balance with the CBB		**10,826**	10,403
The CBB mandatory reserve	6.1	**50,350**	49,300
		80,624	78,649
Less: allowance for credit losses		**(1)**	(1)
	6.2	**80,623**	78,648

6.1 This mandatory reserve is not available for use in the Group's day to day operations.

6.2 These exposures are all classified as Stage 1 (2022: same).

7 DUE FROM BANKS

		2023 BD 000	2022 BD 000
Murabaha		**23,462**	12,369
Wakala	7.1	**18,307**	32,808
		41,769	45,177
Less: allowance for credit losses		**(350)**	(149)
	7.2 and 7.3	**41,419**	45,028

7.1 Under the above wakala arrangement, the agent pays the Group a profit, when realised, equivalent to the expected profit rate stated in the respective wakala offer and anything beyond this rate goes to the agent as an incentive.

7.2 Due from banks carry profit rates ranging from 5.25% to 6.30% per annum (2022: 0.70% to 5.48% per annum).

7.3 These exposures are all classified as Stage 1 (2022: same).

8 FINANCING CONTRACTS

The table below shows the financing contracts by stage and type of facility:

	31 December 2023		
	Murabaha BD 000	Ijarah Muntahia Bittamleek BD 000	Total BD 000
Stage 1: 12-month ECL	332,418	541,732	874,150
Stage 2: Lifetime ECL not credit-impaired	28,452	104,481	132,933
Stage 3: Lifetime ECL credit-impaired	10,776	8,837	19,613
	371,646	655,050	1,026,696
Less: allowance for impairment and credit losses	(5,527)	(11,857)	(17,384)
	366,119	643,193	1,009,312

Notes to The Consolidated Financial Statements

At 31 December 2023

8 FINANCING CONTRACTS (continued)

	31 December 2022		
	Murabaha	Ijarah Muntahia Bittamleek	Total
	BD 000	BD 000	BD 000
Stage 1: 12-month ECL	365,464	506,863	872,327
Stage 2: Lifetime ECL not credit-impaired	20,447	110,393	130,840
Stage 3: Lifetime ECL credit-impaired	8,840	5,528	14,368
	394,751	622,784	1,017,535
Less: allowance for impairment and credit losses	(9,597)	(8,687)	(18,284)
	385,154	614,097	999,251

The table below shows the days past due for the financing contracts. The amounts presented are gross of impairment allowances.

	31 December 2023			
	Stage 1: 12-month ECL	**Stage 2: Lifetime ECL not credit-impaired**	**Stage 3: Lifetime ECL credit-impaired**	**Total**
	BD 000	**BD 000**	**BD 000**	**BD 000**
Not past due	**839,177**	**85,816**	**3,430**	**928,423**
1 to 89 days past due	**34,973**	**47,117**	**1,079**	**83,169**
90 days or more past due	**-**	**-**	**15,104**	**15,104**
	874,150	**132,933**	**19,613**	**1,026,696**
Less: allowance for impairment and credit losses	**(957)**	**(10,638)**	**(5,789)**	**(17,384)**
	873,193	**122,295**	**13,824**	**1,009,312**

	31 December 2022			
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	Total
	BD 000	BD 000	BD 000	BD 000
Not past due	831,086	105,288	1,781	938,155
1 to 89 days past due	41,241	25,552	211	67,004
90 days or more past due	-	-	12,376	12,376
	872,327	130,840	14,368	1,017,535
Less: allowance for impairment and credit losses	(8,240)	(8,463)	(1,581)	(18,284)
	864,087	122,377	12,787	999,251

8 FINANCING CONTRACTS (continued)

The movement in allowance for impairment and credit losses on financing contracts during the year is as follows:

	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	Total
	BD 000	BD 000	BD 000	BD 000
Balance at 1 January 2023	**8,240**	**8,463**	**1,581**	**18,284**
- transferred to Stage 1: 12-month ECL	58	(15)	(43)	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(208)	213	(5)	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(6)	(279)	285	-
Net remeasurement of loss allowance	(7,127)	2,256	5,235	364
Allowance for impairment and credit losses	**(7,283)**	**2,175**	**5,472**	**364**
Amounts written off during the year	-	-	(1,264)	(1,264)
Balance at 31 December 2023	**957**	**10,638**	**5,789**	**17,384**

	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	Total
	BD 000	BD 000	BD 000	BD 000
Balance at 1 January 2022	13,248	4,358	2,796	20,402
- transferred to Stage 1: 12-month ECL	256	(214)	(42)	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(19)	34	(15)	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(7)	(59)	66	-
Net remeasurement of loss allowance	(5,238)	4,344	1,528	634
Allowance for impairment and credit losses	(5,008)	4,105	1,537	634
Amounts written off during the year	-	-	(2,752)	(2,752)
Balance at 31 December 2022	8,240	8,463	1,581	18,284

8.1 The movement in deferred profit from murabaha contracts during the year is as follows:

	2023	2022
	BD 000	BD 000
Deferred profit at the beginning of the year	**42,837**	44,700
Murabaha sales revenue during the year	**665,034**	1,228,527
Murabaha cost of sales	**636,197**	1,156,864
	28,837	71,663
Deferred profit collected during the year	**(4,496)**	(39,784)
Deferred profit settled during the year	**(32,580)**	(33,742)
Deferred profit at the end of the year	**34,598**	42,837

8 FINANCING CONTRACTS (continued)

8.2 Ijarah Muntahia Bittamleek mainly comprise of land and building. The breakup of the balance is as follows:

	2023 BD 000	2022 BD 000
Ijarah Muntahia Bittamleek - cost	**720,863**	704,016
Less: accumulated depreciation	**(72,912)**	(89,831)
Ijarah Muntahia Bittamleek- net assets	**647,951**	614,185
Ijarah Muntahia Bittamleek- receivables	**7,099**	8,599
	655,050	622,784
Less: allowance for impairment and credit losses	**(11,857)**	(8,687)
	643,193	614,097

8.3 During the year, properties amounting to BD 12,868 thousand were repossessed as part of financing settlements (2022: BD 1,767). These were classified as repossessed assets in the receivables and other assets. .

9 INVESTMENTS IN EQUITY

	2023 BD 000	2022 BD 000
Fair value through equity investments		
Unquoted equity securities	**3,158**	3,419

The movement of investments carried at FVTE during the year is as follows:

	2023 BD 000	2022 BD 000
At 1 January	**3,419**	7,071
Capital repayments / disposals during the year	**(261)**	(2,858)
Fair value changes	**-**	(794)
At 31 December	**3,158**	3,419

The industry composition of the Group's equity investments portfolio is as shown in the table below. All of these investments are in the Middle East.

	2023 BD 000	2022 BD 000
Banking and financial services	**1,030**	1,030
Others	**2,128**	2,389
	3,158	3,419

10 INVESTMENTS IN SUKUK

	Note	2023 BD 000	2022 BD 000
Quoted sukuk			
Government		**205,289**	211,206
Unquoted sukuk			
Government		**69,521**	75,043
Others		**3,796**	3,798
		278,606	290,047
Less: allowance for credit losses		**(10)**	(13)
	10.1 and 10.2	**278,596**	290,034

10.1 Fair value of investments in sukuk as at 31 December 2023 amounted to BD 269,588 thousand (2022: BD 280,032 thousand).

10.2 These exposures are all classified as Stage 1 (2022: same).

10.3 All sukuk investments are classified as debt-type instruments.

11 FUNDS UNDER WAKALA ARRANGEMENT

The Group has the below Wakala funds which are received from different fund providers and are reinvested by the Group in it's capacity as Wakeel under multi-level investment arrangements into unrestricted investment accounts with the Group. Under those Wakala agreements, the Group agrees a target rate with the fund providers and any rate beyond that is considered as incentive fee for the Group. Currently, all the below Wakala arrangements are reinvested and maintained under Unrestricted Investment Account. All expenses incurred with relation to Wakala funds are borne by the fund providers. The Group does not charge mudarib fee on these funds.

	2023 BD 000	2022 BD 000
Banks	**227,407**	264,155
Non-banks and individuals	**644,267**	558,844
	871,674	822,999

The movement of Wakala funds during the year is as follows:

	2023 BD 000	2022 BD 000
At 1 January	**822,999**	838,491
Additions during the year	**395,665**	418,342
Income during the year	**59,409**	40,754
Less: expenses charged during the year	**(14,553)**	(13,112)
Less: incentive fee	**-**	(5,580)
Distributions to wakala holders	**(44,856)**	(22,062)
Withdrawals	**(302,134)**	(411,772)
At 31 December	**871,674**	822,999

12 RECEIVABLES AND OTHER ASSETS

	Note	2023 BD 000	2022 BD 000
Land and development cost		**19,582**	20,119
Fees receivable		**939**	1,159
Repossessed assets		**42,218**	30,398
Prepaid expenses		**986**	1,005
Receivables relating to disposal of investments	12.1	**64,398**	87,223
Receivables from corporate customers		**945**	1,258
Other assets		**7,036**	3,831
	12.2	**136,104**	144,993

12.1 This mainly represents a receivable of BD 64,398 thousand (2022: BD 86,570 thousand) due from a related party. This receivable is expected to be settled through the realisation of underlying assets and dividend payouts from the Group. The Ultimate Parent has provided a letter of guarantee for settlement of the receivable.

12.2 These exposures are all classified as Stage 1 (2022: same).

13 ASSETS UNDER MANAGEMENT

Assets under management of the Group amounts to BD 742,388 thousand (2022: BD 725,987 thousand) and are managed by the Group on behalf of the Parent and the clients. These assets under management include investment entities under management and client funds received on a non-discretionary basis. These amounts are not included in the consolidated statement of financial position of the Group. The funds received under wakala agreement (refer to note 11) are not included in assets under management.

14 OTHER LIABILITIES

	Note	2023 BD 000	2022 BD 000
Pay orders issued but not presented		**4,166**	3,282
Payable on account of financing contracts		**2,321**	1,997
Staff related accruals		**4,045**	4,369
Obligation on account of right to use assets	14.1	**688**	438
Zakat and charity payable	14.2	**3,238**	56
Fixed assets related payables		**1,809**	2,190
Unearned fees		**1,397**	1,372
Accrued expenses and other liabilities		**7,327**	6,256
		24,991	19,960

14.1 The breakup of the balance is as follows:

	2023 BD 000	2022 BD 000
Gross obligation	**763**	452
Less: deferred cost	**(75)**	(14)
	688	438

In respect of obligation on account of right to use assets, BD 56 thousand (2022: BD 194 thousand) are due within one year, BD 632 thousand (2022: BD 244 thousand) are due in one to five years.

14.2 This represent amounts received during the year from the Parent on account of its Zakat payment, to be distributed by the Bank.

15 EQUITY OF INVESTMENT ACCOUNT HOLDERS - NON-BANKS AND INDIVIDUALS

The mudarib share on investment accounts ranges from 30% to 85% (2022: 30% to 85%) depending on the investment period and in the case of saving accounts, where there is no restriction on cash withdrawal, the mudarib share ranges from 85% to 95% (2022: 85% to 95%). No mudarib share is charged on the URIA collected as per the wakala arrangement with customers in accordance with the multi-level arrangement (refer note 11). The following table includes the funds received from the Non-Banks and individuals under the wakala arrangement and does not include URIA balances received from Banks under this arrangement. The rate of return to investment account holders, as at 31 December 2023 and 2022, for various types of investment accounts, denominated in BD and United States Dollars ("USD"), is as follows:

Investment accounts (mudaraba) - denominated in BD and USD	2023 Rate of return %	2022 Rate of return %
Saving accounts	**0.20**	0.16
VIP saving accounts	**0.40 - 0.59**	0.31 - 0.47
One month investment accounts	**1.19 - 1.59**	0.94 - 1.25
Three months investment accounts	**1.59 - 1.98**	1.25 - 1.56
Six months investment accounts	**1.98 - 2.38**	1.56 - 1.88
One year investment accounts	**2.38 - 2.78**	1.88 - 2.19

15 EQUITY OF INVESTMENT ACCOUNT HOLDERS - NON-BANKS AND INDIVIDUALS (continued)

Investment accounts (wakala) - denominated in BD	2023 Rate of return %	2022 Rate of return %
Saving call accounts	**2.00 - 4.00**	2.00 - 2.75
One month investment accounts	**3.40 - 4.00**	3.40 - 4.00
Three months investment accounts	**4.60 - 5.20**	4.60 - 5.20
Six months investment accounts	**5.00 - 5.60**	5.00 - 5.60
Nine months investment accounts	**5.00 - 5.60**	5.00 - 5.60
One year investment accounts	**5.10 - 5.70**	5.10 - 5.70
Two year investment accounts	**4.90 - 5.50**	5.10 - 5.70
Three year investment accounts	**4.80 - 5.40**	5.10 - 5.70
Five year investment accounts	**4.60 - 5.20**	5.10 - 5.70

In case of USD denominated investment accounts (wakala) rate of return, respective term secured overnight financing rate (“SOFR”) (2022: respective London interbank offered rate (“LIBOR”) less 50 basis points) is considered.

15.1 Quasi Equity - by type and maturity

	2023 BD 000	2022 BD 000
Saving accounts - on demand	**240,888**	301,924
VIP saving accounts - on demand	**8,031**	9,824
One month investment accounts - on a contractual basis	**23,713**	37,715
Three months investment accounts - on a contractual basis	**89,557**	102,720
Six months investment accounts - on a contractual basis	**174,782**	110,431
Nine months investment accounts - on a contractual basis	**1,925**	1,714
One year investment accounts - on a contractual basis	**293,492**	227,460
Two year investment accounts - on a contractual basis	**22,330**	20,873
Three year investment accounts - on a contractual basis	**16,523**	12,652
Five year investment accounts - on a contractual basis	**7,973**	6,972
	879,214	832,285

In case of investment accounts on contractual basis, these can be withdrawn subject to deduction of profit upon management discretion.

16 SHARE CAPITAL AND RESERVES

Share Capital

	2023 BD 000	2022 BD 000
Authorised:		
3,500,000 thousand (2022: 3,500,000 thousand) ordinary shares of BD 0.1 each	**350,000**	350,000
Issued and fully paid up:		
As at the beginning and end of the year 1,325,187 thousand (2022: 1,325,187 thousand) ordinary shares of BD 0.1 each	**132,519**	132,519

Nature and purpose of reserves

Statutory reserve

As required by the Law and the articles of association of the Bank, 10% of the net income for the year has been transferred to the statutory reserve. However, as allowed under the Law the Bank may resolve to discontinue such annual transfers when the reserve totals 50% of paid up share capital. The reserve is not distributable except in such circumstances as stipulated in the Law and following the approval of the CBB.

Fair value through equity reserve

Unrealised gains and losses resulting from investments carried at FVTE, if not determined to be impaired is recorded in the fair value through equity reserve and is not available for distribution. Upon disposal of related assets, the related cumulative gains or losses are transferred to statement of income.

Retained earnings

Retained earnings is the cumulative amount of annual earnings not paid out as dividends.

Dividend

Proposed dividend is shown separately within equity till it is approved by the Annual General Meeting. The Board of the Bank have proposed BD 7,327 thousand dividend for the year ended 31 December 2023 (2022: BD 22,172 thousand). Further, during the year, the Bank has paid dividend of BD 22,172 thousand (2022: BD 21,767 thousand) which was used to settle the receivable due from a related party (refer note 12.1).

Notes to The Consolidated Financial Statements

At 31 December 2023

17 TOTAL COMPREHENSIVE INCOME

	2023 BD 000	2022 BD 000
Net income for the year	**8,141**	24,635
Other comprehensive income		
Changes to fair value relating to fair value through equity investments	-	(794)
Transfer from fair value through equity reserve on disposal	-	(1,056)
Total other comprehensive income for the year	-	(1,850)
Total comprehensive income for the year	**8,141**	22,785

18 CONTINGENT LIABILITIES AND COMMITMENTS

	2023 BD 000	2022 BD 000
Contingent liabilities		
Letters of credit	**4,151**	3,987
Guarantees	**6,741**	6,678
	10,892	10,665
Irrevocable commitments to extend credit (original term to maturity of one year or less)	**21,106**	45,213
Securitisation related commitment	**441**	1,250
	32,439	57,128

18.1 As of 31 December 2023, the Group had contingent liabilities and commitments that are subject to credit risk of BD 30,299 thousand classified as stage 1 (2022: BD 54,895 thousand) and BD 1,699 thousand classified as stage 2 (2022: BD 983 thousand). Against these contingent liabilities and commitments, the Group is carrying an allowance for impairment and credit losses of BD 17 thousand (2022: BD 35 thousand) classified in other liabilities.

19 CROSS CURRENCY SWAP

The Group enters into cross currency swap with the Parent ("Islamic derivative financial instruments") to mitigate foreign currency risk. Cross currency swap is based on Wa'ad (promise) structure between two parties to buy a specified Shari'a compliant commodity at an agreed price on the relevant date in future. It is a conditional promise to purchase a commodity through unilateral purchase undertaking. For cross currency swaps, fixed or floating payments as well as notional amounts are exchanged in different currencies.

The table below shows the positive and negative fair value of these instruments, which are equivalent to the market value, together with the notional amounts. The notional amount is the amount of currency swap instruments' underlying asset, reference rate or index and is the basis upon which changes in the value of this instrument is measured. The notional amounts indicate the volume of transactions outstanding at the period end and are not indicative of the credit risk.

	Currency Swap		
	Positive fair value BD 000	Negative fair value BD 000	Notional amount BD 000
31 December 2023	**-**	**-**	**115,400**
31 December 2022	-	-	77,700

In respect of cross currency swaps, the notional amount represents the gross cash flows. However, the amounts may be settled net. The following table shows the net cash flows:

	31 December 2023			
	Notional amount BD 000	Within 3 months BD 000	3 to 12 months BD 000	More than 12 months BD 000
Cash inflows	**115,400**	-	**115,400**	-
Cash outflows	**(115,400)**	-	**(115,400)**	-
	-	-	-	-

	31 December 2022			
	Notional amount BD 000	Within 3 months BD 000	3 to 12 months BD 000	More than 12 months BD 000
Cash inflows	77,700	-	77,700	-
Cash outflows	(77,700)	-	(77,700)	-
	-	-	-	-

20 INCOME FROM FINANCING CONTRACTS

	Note	2023 BD 000	2022 BD 000
Murabaha		**26,122**	22,431
Ijarah Muntahia Bittamleek	20.1	**40,261**	33,466
	20.2	**66,383**	55,897
Mudarib share from off balance sheet equity of investment account holders		**1,549**	1,479
Fees and commission income		**794**	952
Income from financing contracts		**68,726**	58,328

20.1 This rent revenue is presented net of depreciation on Ijarah Muntahia Bittamleek assets amounting to BD 25,870 thousand (2022: BD 28,758 thousand).

20.2 This excludes profit of BD 816 thousand (2022: BD 215 thousand) suspended during the year on account of regulatory requirements.

21 INCOME FROM INVESTMENTS

	2023 BD 000	2022 BD 000
Net gain on sale of investments	**-**	202
Dividend income	**56**	94
Fee income	**1,525**	1,864
Foreign exchange	**1,269**	434
Other income	**29**	56
	2,879	2,650

22 INCOME AND EXPENSE RELATING TO FINANCING CONTRACTS AND SUKUK

	Note	2023 BD 000	2022 BD 000
Income from financing contracts - Murabaha and Ijarah Muntahia Bittamleek contracts	20	**66,383**	55,897
Income from sukuk		**13,227**	14,275
Income from due from banks		**2,255**	1,481
		81,865	71,653
Less: Profit on due to banks and non-banks		**6,685**	4,395
Less: Return on equity of investment account holders (wakala)	11	**44,856**	22,062
Less: Return on equity of investment account holders (mudaraba)		**981**	1,236
		52,522	27,693
		29,343	43,960

23 ALLOWANCE FOR (REVERSAL OF) IMPAIRMENT AND CREDIT LOSSES – NET

	Note	2023 BD 000	2022 BD 000
Due from banks		201	(301)
Financing contracts	8	364	634
Investments carried at FVTE		-	(864)
Investments in sukuk		(3)	10
Receivables and other assets		1,296	377
Financing commitments and financial guarantees		(18)	1
Recoveries from written-off accounts		(565)	(30)
		1,275	(173)

24 OTHER EXPENSES

	2023 BD 000	2022 BD 000
Business development	2,633	1,969
Technology and communication	4,178	4,125
Legal, consulting and outsourcing	571	580
Premises - rentals and maintenance	1,115	1,058
Administration, selling and others	2,886	2,483
	11,383	10,215

25 CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the purpose of the consolidated statement of cash flows comprise of the following amounts:

	2023 BD 000	2022 BD 000
Cash	9,602	11,422
Balances with banks	9,846	7,524
Balances with the CBB excluding mandatory reserve	10,826	10,403
Due from banks with original maturity of ninety days or less	41,769	45,177
	72,043	74,526

26 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent associated companies, the parent and its major shareholders, directors and key management personnel of the Group, the Group's Shari'a Supervisory Board and entities controlled, jointly controlled or significantly influenced by such parties. Transactions with related parties arise from the ordinary course of business. Pricing policies and terms of these transactions are approved by the Group's management. Outstanding balances at the year end, excluding financing contracts, are unsecured.

The balances with related parties included in the consolidated statement of financial position as at 31 December 2023 are as follows:

	Note	Parent BD 000	Directors and key management personnel BD 000	Other related parties BD 000	Total BD 000
Balances with banks		**1,492**	**-**	**127**	**1,619**
Financing contracts		**-**	**497**	**-**	**497**
Investments in sukuk		**-**	**-**	**3,796**	**3,796**
Fees receivable		**-**	**-**	**939**	**939**
Receivables and other assets	12.1	**-**	**-**	**64,398**	**64,398**
Due to banks		**1,070**	**-**	**73**	**1,143**
Customers' current accounts		**-**	**537**	**4,787**	**5,324**
Equity of investment account holders		**165,625**	**3,171**	**9,009**	**177,805**
Off balance sheet equity of restricted investment account holders					
- Funds extended to related parties		**-**	**-**	**127,110**	**127,110**
- Funds received from related parties		**-**	**200**	**-**	**200**
Assets under management		**-**	**-**	**511,363**	**511,363**

The balances with related parties included in the consolidated statement of financial position as at 31 December 2022 are as follows:

	Note	Parent BD 000	Directors and key management personnel BD 000	Other related parties BD 000	Total BD 000
Balances with banks		1,668	-	178	1,846
Due from banks		-	-	7,012	7,012
Financing contracts		-	572	-	572
Investments in sukuk		-	-	3,798	3,798
Fees receivable		-	-	1,159	1,159
Receivables and other assets	12.1	-	-	86,570	86,570
Due to banks		212	-	11,436	11,648
Customers' current accounts		-	533	3,469	4,002
Equity of investment account holders		170,901	2,957	27,893	201,751
Off balance sheet equity of restricted investment account holders					
- Funds extended to related parties		-	-	122,380	122,380
- Funds received from related parties		-	670	-	670
Assets under management		-	-	509,544	509,544

26 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

The income and expenses in respect of related parties included in the consolidated statement of income for the year ended 31 December 2023 are as follows:

	Parent BD 000	Directors and key management personnel BD 000	Other related parties BD 000	Total BD 000
Income from due from banks	-	-	26	26
Income from financing contracts	-	11	-	11
Income from sukuk	-	-	229	229
Fee income	-	-	653	653
Profit on due to banks	-	-	35	35
Profit on due to non-banks	-	-	7	7
Profit on equity investment account holders	9,579	92	419	10,090
Staff costs	-	4,808	-	4,808
Other expenses	-	-	1,664	1,664
Mudarib share from off-balance sheet equity of restricted investment account holders	-	-	1,549	1,549

The income and expenses in respect of related parties included in the consolidated statement of income for the year ended 31 December 2022 are as follows:

	Parent BD 000	Directors and key management personnel BD 000	Other related parties BD 000	Total BD 000
Income from due from banks	321	-	326	647
Income from financing contracts	-	18	-	18
Income from sukuk	-	-	229	229
Fee income	-	-	661	661
Profit on due to banks	-	-	65	65
Profit on due to non-banks	-	-	13	13
Profit on equity investment account holders	4,872	47	345	5,264
Staff costs	-	4,915	-	4,915
Other expenses	-	-	1,649	1,649
Mudarib share from off-balance sheet equity of restricted investment account holders	-	-	1,479	1,479

Compensation of key management personnel, included in the consolidated statement of income, is as follows:

	2023 BD 000	2022 BD 000
Short term employee benefits	4,513	4,686
Long term employee benefits	295	229

Directors' remuneration and attendance fee for the year ended 31 December 2023 amounted to BD 193 thousand and BD 133 thousand respectively (2022: BD 170 thousand and BD 103 thousand respectively).

27 DISTRIBUTION OF ASSETS AND NET OPERATING INCOME BY OWNERSHIP

The table below shows the distribution of assets between owners' equity finance and joint finance with investment account holders:

31 December 2023	Self financed BD 000	Jointly Financed Self BD 000	Jointly Financed Investment account holders BD 000	Jointly Financed Total BD 000	Grand Total BD 000
Cash and balances with banks and the CBB	-	16,984	63,639	80,623	80,623
Due from banks	-	7,907	33,512	41,419	41,419
Financing contracts	36,483	185,703	787,126	972,829	1,009,312
Investments in equity	3,158	-	-	-	3,158
Investments in sukuk	3,796	52,456	222,344	274,800	278,596
Receivables and other assets	136,104	-	-	-	136,104
Premises, equipment and right-of-use assets	4,009	-	-	-	4,009
	183,550	263,050	1,106,621	1,369,671	1,553,221

31 December 2022	Self financed BD 000	Jointly Financed Self BD 000	Jointly Financed Investment account holders BD 000	Jointly Financed Total BD 000	Grand Total BD 000
Cash and balances with banks and the CBB	-	18,171	60,477	78,648	78,648
Due from banks	-	8,762	36,266	45,028	45,028
Financing contracts	44,256	185,834	769,161	954,995	999,251
Investments in equity	3,419	-	-	-	3,419
Investments in sukuk	3,798	55,700	230,536	286,236	290,034
Receivables and other assets	144,993	-	-	-	144,993
Premises, equipment and right-of-use assets	3,707	-	-	-	3,707
	200,173	268,467	1,096,440	1,364,907	1,565,080

27 DISTRIBUTION OF ASSETS AND NET OPERATING INCOME BY OWNERSHIP (continued)

The table below shows the distribution of operating income and operating expenses between owners' equity finance and joint finance with investment account holders:

		Jointly Financed			
	Self financed	Self	Investment account holders	Total	Grand Total
31 December 2023	**BD 000**	**BD 000**	**BD 000**	**BD 000**	**BD 000**
Income from financing contracts	**3,742**	**16,771**	**48,213**	**64,984**	**68,726**
Income from investments	**2,879**	**-**	**-**	**-**	**2,879**
Income from sukuk	**253**	**3,288**	**9,686**	**12,974**	**13,227**
Income from due from banks	**-**	**572**	**1,683**	**2,255**	**2,255**
Operating income	**6,874**	**20,631**	**59,582**	**80,213**	**87,087**
Operating expenses	**2,211**	**5,461**	**18,752**	**24,213**	**26,424**

		Jointly Financed			
	Self financed	Self	Investment account holders	Total	Grand Total
31 December 2022	BD 000	BD 000	BD 000	BD 000	BD 000
Income from financing contracts	2,438	13,646	42,244	55,890	58,328
Income from investments	2,650	-	-	-	2,650
Income from sukuk	248	3,302	10,725	14,027	14,275
Income from due from banks	-	348	1,133	1,481	1,481
Operating income	5,336	17,296	54,102	71,398	76,734
Operating expenses	901	5,730	17,775	23,505	24,406

The above amounts are excluding the impact of profits paid on due to banks, non-banks and return on equity of investment account holders.

28 SEGMENT INFORMATION

For management purposes, the Group is organised into the following segments.

Corporate banking	Principally engaged in Shari'a compliant profit sharing investment arrangements, providing Shari'a compliant financing contracts and other facilities to corporate customers.
Retail and private banking	Principally engaged in Shari'a compliant profit sharing investment arrangements, providing Shari'a compliant financing contracts and other facilities to retail and private banking customers.
Investments	Principally engaged in investment banking activities including private equity, managed funds and other investment management activities.
Treasury	Principally engaged in liquidity management, Shari'a compliant financing contracts to treasury customers, investment in Sukuk, investment accounts from non-bank customers and other international banking relationships.

28 SEGMENT INFORMATION (continued)

Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on segment profit (as reported in internal management reports) which is measured using the same measurement principles as are used in the preparation of these consolidated financial statements.

The following table presents segment wise operating income, net income, total assets and total liabilities and equity of investment account holders of the Group for the year ended and as at 31 December 2023:

	Corporate banking BD 000	Retail & Private Banking BD 000	Investment BD 000	Treasury BD 000	Total BD 000
Operating income	32,802	26,073	899	27,313	87,087
Net income for the year	826	6,214	899	202	8,141
Segment assets	502,551	442,054	91,103	517,513	1,553,221
Segment liabilities and equity of investment account holders	26,714	1,079,341	401	275,700	1,382,156

The following table shows the distribution of the Group's operating income and total assets by geographical segments, based on the location in which the transactions and assets are originated, for the year ended and as at 31 December 2023:

	Kingdom of Bahrain BD 000	Other countries BD 000	Total BD 000
Operating income	84,391	2,696	87,087
Segment assets	1,474,012	79,209	1,553,221

The following table presents segment wise operating income, net income, total assets and total liabilities and equity of investment account holders of the Group for the year ended and as at 31 December 2022:

	Corporate banking BD 000	Retail & Private Banking BD 000	Investment BD 000	Treasury BD 000	Total BD 000
Operating income	30,112	24,024	1,013	21,585	76,734
Net income for the year	6,513	12,052	1,412	4,658	24,635
Segment assets	516,524	441,539	113,727	493,290	1,565,080
Segment liabilities and equity of investment account holders	42,484	1,047,579	451	289,470	1,379,984

The following table shows the distribution of the Group's operating income and total assets by geographical segments, based on the location in which the transactions and assets are originated, for the year ended and as at 31 December 2022:

	Kingdom of Bahrain BD 000	Other countries BD 000	Total BD 000
Operating income	74,466	2,268	76,734
Segment assets	1,461,344	103,736	1,565,080

29 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the value representing the estimate of the amount of cash or cash equivalents that would be received for an asset sold or the amount of cash or cash equivalents paid for a liability extinguished or transferred in an orderly transaction between a willing buyer and a willing seller at the measurement date.

At 31 December 2023 and 2022, the fair value of financial instruments carried at amortised cost approximate their carrying values except for the investments in sukuk. Refer note 10.

Financial instruments recorded at fair value

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

31 December 2023	**Level 1 BD 000**	**Level 2 BD 000**	**Level 3 BD 000**	**Total BD 000**
Investments at FVTE				
Unquoted equity securities	-	-	**3,158**	**3,158**
	-	-	**3,158**	**3,158**

31 December 2022	Level 1 BD 000	Level 2 BD 000	Level 3 BD 000	Total BD 000
Investments at FVTE				
Unquoted equity securities	-	-	3,419	3,419
	-	-	3,419	3,419

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

29 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets which are recorded at fair value:

	Unquoted equity securities 2023 BD 000	Unquoted equity securities 2022 BD 000
Balance at 1 January	3,419	4,648
Capital repayments / disposals during the year	(261)	(1,095)
Fair value changes	-	(134)
Balance at 31 December	3,158	3,419

Valuation techniques and assumptions

The fair value of quoted equity securities is derived from quoted market prices in active market. Investments in unquoted securities are fair valued by reference to valuations by independent real estate valuation experts (when significant proportion of the net assets of the investee comprise of real estate assets) or certain other valuation techniques for private equity investments. The determination of the fair value of such assets is based on local market conditions existing at the reporting date.

Sensitivity analysis

Below is the impact on the consolidated statement of income of 10% movement in fair value of Level 3 financial instruments, which are measured at fair value:

	Carrying amount 2023 BD 000	Effect of reasonably possible alternative assumption 2023 BD 000	Carrying amount 2022 BD 000	Effect of reasonably possible alternative assumption 2022 BD 000
Investments at FVTE				
Unquoted equity securities	3,158	316	3,419	342
	3,158	316	3,419	342

Notes to The Consolidated Financial Statements

At 31 December 2023

30 MATURITY ANALYSIS OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS

The table below shows an analysis of assets, liabilities and equity of investment account holders analysed according to when they are expected to be recovered or settled. Group's contractual undiscounted repayment obligations are disclosed in note 31.3 'Risk Management - Liquidity Risk and Funding Management'.

		Up to one year			Over one year				
	No Maturity 2023 BD 000	Up to 3 months 2023 BD 000	3 to 12 months 2023 BD 000	Subtotal up to 12 months 2023 BD 000	1 to 5 years 2023 BD 000	5 to 10 years 2023 BD 000	Over 10 years 2023 BD 000	Subtotal Over 1 year 2023 BD 000	Total 2023 BD 000
Assets									
Cash and balances with banks and the CBB	-	16,800	1,606	**18,406**	16,168	15,456	30,593	**62,217**	**80,623**
Due from banks	-	41,419	-	**41,419**	-	-	-	**-**	**41,419**
Financing contracts	-	172,820	158,129	**330,949**	251,419	240,299	186,645	**678,363**	**1,009,312**
Investments in equity	3,158	-	-	**-**	-	-	-	**-**	**3,158**
Investments in sukuk	-	67,017	3,796	**70,813**	175,042	32,741	-	**207,783**	**278,596**
Receivables and other assets	-	7,675	65,880	**73,555**	62,549	-	-	**62,549**	**136,104**
Premises, equipment and right of use assets	4,009	-	-	**-**	**-**	**-**	-	**-**	**4,009**
Total	**7,167**	**305,731**	**229,411**	**535,142**	**505,178**	**288,496**	**217,238**	**1,010,912**	**1,553,221**
Liabilities and equity of investment account holders									
Customers' current accounts	-	6,481	1,159	**7,640**	38,132	38,132	38,132	**114,396**	**122,036**
Due to banks	-	1,176	-	**1,176**	30,181	-	-	**30,181**	**31,357**
Due to non-banks	-	4,643	831	**5,474**	37,039	27,319	27,319	**91,677**	**97,151**
Other liabilities	-	14,285	6,613	**20,898**	4,093	-	-	**4,093**	**24,991**
Equity of investment account holders	-	62,895	33,213	**96,108**	470,237	270,138	270,138	**1,010,513**	**1,106,621**
Total	**-**	**89,480**	**41,816**	**131,296**	**579,682**	**335,589**	**335,589**	**1,250,860**	**1,382,156**
Net	**7,167**	**216,251**	**187,595**	**403,846**	**(74,504)**	**(47,093)**	**(118,351)**	**(239,948)**	**171,065**

30 MATURITY ANALYSIS OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS (continued)

		Up to one year			Over one year				
	No Maturity	Up to 3 months	3 to 12 months	Subtotal up to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Subtotal Over 1 year	Total
	2022	2022	2022	2022	2022	2022	2022	2022	2022
	BD 000	BD 000	BD 000	BD 000	BD 000	BD 000	BD 000	BD 000	BD 000
Assets									
Cash and balances with banks and the CBB	-	16,601	1,390	17,991	15,389	15,297	29,971	60,657	78,648
Due from banks	-	45,028	-	45,028	-	-	-	-	45,028
Financing contracts	-	233,786	93,512	327,298	259,769	198,100	214,084	671,953	999,251
Investments in equity	3,419	-	-	-	-	-	-	-	3,419
Investments in sukuk	-	9,302	-	9,302	266,677	14,055	-	280,732	290,034
Receivables and other assets	-	27,383	31,602	58,985	86,008	-	-	86,008	144,993
Premises, equipment and right of use assets	3,707	-	-	-	-	-	-	-	3,707
Total	7,126	332,100	126,504	458,604	627,843	227,452	244,055	1,099,350	1,565,080
Liabilities and equity of investment account holders									
Customers' current accounts	-	6,831	674	7,505	43,319	43,319	43,318	129,956	137,461
Due to banks	-	17,339	-	17,339	-	-	-	-	17,339
Due to non-banks	-	9,654	501	10,155	34,229	32,200	32,200	98,629	108,784
Other liabilities	-	12,033	4,128	16,161	3,799	-	-	3,799	19,960
Equity of investment account holders	-	73,259	25,015	98,274	465,714	266,226	266,226	998,166	1,096,440
Total	-	119,116	30,318	149,434	547,061	341,745	341,744	1,230,550	1,379,984
Net	7,126	212,984	96,186	309,170	80,782	(114,293)	(97,689)	(131,200)	185,096

31 RISK MANAGEMENT

31.1 Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring of material risks. The Group manages its exposure to risks within the approved risk limits. The process of risk management is critical to the Group's continuing profitability and each business unit within the Group is accountable for the risk exposures relating to its responsibilities. The Group is mainly exposed to credit risk, liquidity risk, profit rate risk and market risk, the latter being subdivided into trading and non-trading risks. The Group is also subject to prepayment risk and operating risk.

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

Risk Management Structure

The Board is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board is responsible for the overall risk management approach and for approving the risk strategies, policies and risk appetite of the Group.

Audit and Compliance Committee (ACC)

The ACC is a Board appointed committee which is comprised of two independent directors and an executive director. The Chairman of the ACC is also an independent director. For audit related matters, the ACC assists the Board 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 Group. For compliance related matters, the ACC assists the Board in the assessment of compliance with law, regulations and other requirements imposed on the Group from time to time. The ACC also overseas and manages the compliance and anti financial crime requirements of the Group and legal related matters.

Board Risk Committee (BRC)

The BRC is a Board appointed committee which is comprised of three independent directors and one executive director. The Chairman of the BRC is also an independent director. The BRC is a reviewing and recommending body appointed by the Board to assist the Board in discharging its oversight duties relating to:

- Recommendation of the risk charter of the Group 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 Group; and
- Establishing appropriate policies and procedures to mitigate the applicable risks on the overall operations of the Group.

Governance Committee (GC)

The GC is a Board appointed committee which is comprised of three independent directors including the Chairman. The GC is a reviewing and recommending body appointed by the Board to assist the Board in discharging its oversight duties relating to:

- Establishing appropriate Corporate Governance structures, delegation of authority and reporting protocols; and
- Ensure potential measure and improvements in corporate governance are implemented.

31 RISK MANAGEMENT (continued)

31.1 Introduction (continued)

Internal Control Systems

The Board is responsible for approving and reviewing the effectiveness of the Group's systems of internal control, for the purpose of ensuring effective and efficient operations, quality of internal and external reporting, internal control, and compliance with laws and regulations. Senior management is responsible for establishing and maintaining the systems of internal control designed to manage the risk of failure to achieve the Group's objectives. The system of internal control can only provide reasonable but not absolute assurance against the risk of material loss.

The effectiveness of the internal control system is reviewed by the Board and the ACC, which also receives review reports undertaken by the Group's Internal Audit, Compliance and Anti Financial Crime departments. The ACC reviews the management letters issued by the external auditors and holds periodic meetings with them to discuss various matters including existing and potential internal control issues.

The regulatory non-compliances, if any, resulting in financial penalties are disclosed in the Annual Public Disclosures of the Group. The Group always enhances its internal control environment to avoid recurrence of similar penalties.

Asset and Liability Committee (ALCO) / Risk Management Committee (RMC)

ALCO / RMC is a senior management committee responsible for maintaining oversight of the Group's risk profile and governance aspects. It helps the BRC in establishing the risk policies and strategies and monitors the risk appetite in terms of risk limits and reports. It also controls the risks by appropriate actions. ALCO / RMC establishes policy and objectives for the asset and liability management of the Group in terms of structure, distribution, risk and return and its impact on profitability. It also monitors the cash flow, cost and yield profiles and tenor of assets and liabilities and evaluates both from profit rate sensitivity and liquidity points of view, makes corrective adjustments based upon perceived trends and market conditions and monitors liquidity, foreign exchange exposures and positions.

Shari'a Supervisory Board

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

Provisioning Committee (PC)

The PC is a senior management committee responsible for ensuring adequate provisions and profit suspensions against all the past due and impaired exposures of the Group. It reviews past due details and approves the resulting provisioning and profit suspension amounts submitted by the respective departments in line with the approved Provisions and Impairment Policy of the Group. The PC also reviews credit classification and reclassification requests submitted by Business Units and recommends the provisions and profit suspensions to the ACC and the Board for final approval.

Risk Management Department

The risk management department is responsible for implementing and maintaining risk related procedures to ensure an independent control process. It also helps the ALCO / RMC in establishing risk strategies, policies and limits, across the Group. The department is also responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This department also ensures the complete capture of the risks in risk measurement and reporting systems and performs stress tests on the various portfolios of the Group.

Treasury Department

The treasury department is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group.

31 RISK MANAGEMENT (continued)

31.1 Introduction (continued)

Internal Audit

Independent, objective activity that reviews the effectiveness of risk management, internal control environment and governance processes. Internal audit discusses the results of all assessments with the management, and reports its findings and recommendations to the ACC.

Compliance Department

The compliance department is responsible for managing all the compliance related issues with external parties and regulators. A compliance framework is in place to ensure appropriate adherence to applicable laws and regulations. Updates on compliance matters or issues are reported to the ACC on a quarterly basis.

Risk Measurement And Reporting Systems

The Group identifies, measures, controls and monitors its material risks on a periodic basis. The Group has established relevant risk limit structures to quantify its risk appetite. The Group conducts stress testing under various scenarios for its material portfolios using statistical methods to assess the impact of such scenarios on its portfolio and regulatory capital.

Established risk limits reflect the business strategy and market environment in which the Group operates as well as the level of risk that the Group is willing to accept. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposures across its material risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify risks at an early stage. This information is presented and explained to the Board, the BRC and senior management. The report includes aggregate credit exposures, concentration limits, investment limits, foreign exchange exposures, profit rate limits, liquidity gaps and ratios and changes in Group's risk profile. On a periodic basis, detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the general allowance for credit losses on a quarterly basis. The Board receives the risk management report once in a quarter or when needed which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

As part of the risk management's reporting framework, tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information. Periodic briefing is given to the Managing Director and Chief Executive Officer and all other relevant members of the Group on the utilisation of market limits, proprietary investments and liquidity and any other risk developments.

31.2 Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties fail to discharge their contractual obligations. The Group manages and controls its credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established with the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings for corporate customers are subject to revision at the time of renewal of the corporate facility. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

The Group adopts FAS 30 where impairment is based on a forward-looking ECL model. ECL would be measured taking into account the projected cash flows, PD, LGD and EAD. The amount of ECLs recognised as a loss allowance or provision depends on the extent of credit deterioration since initial recognition. Refer summary of significant accounting policies (note 4) for further details.

31 RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

Credit-related commitments risk

The Group makes available to its customers guarantees which may require that the Group makes payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Group to risks similar to financing contracts and these are mitigated by the same control processes and policies.

Risk concentrations of the maximum exposure to credit risk without taking collateral

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

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

The maximum credit exposure to any client or counterparty as of 31 December 2023 was BD 267,799 thousand (2022: BD 315,785 thousand).

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

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

	Gross maximum exposure 2023 BD 000	Gross maximum exposure 2022 BD 000
Balances with banks and the CBB	**71,021**	67,226
Due from banks	**41,419**	45,028
Financing contracts	**1,009,312**	999,251
Investments in sukuk	**278,596**	290,034
Receivables and other assets	**71,279**	90,993
Total	**1,471,627**	1,492,532
Contingent liabilities and commitments	**31,998**	55,878
Total credit risk exposure	**1,503,625**	1,548,410

Notes to The Consolidated Financial Statements

At 31 December 2023

31 RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

Risk concentrations of the maximum exposure to credit risk

The Group's financial assets having credit risk, before taking into account any collateral held can be analysed by the following geographical regions:

	Bahrain 2023 BD 000	Other GCC countries 2023 BD 000	North America and Other 2023 BD 000	Total 2023 BD 000
Balances with banks and the CBB	61,187	4,854	4,980	71,021
Due from banks	39,975	1,444	-	41,419
Financing contracts	991,788	17,524	-	1,009,312
Investments in sukuk	278,596	-	-	278,596
Receivables and other assets	5,457	65,822	-	71,279
Contingent liabilities and commitments	31,998	-	-	31,998
	1,409,001	89,644	4,980	1,503,625

	Bahrain 2022 BD 000	Other GCC countries 2022 BD 000	North America and Other 2022 BD 000	Total 2022 BD 000
Balances with banks and the CBB	59,714	2,964	4,548	67,226
Due from banks	39,671	-	5,357	45,028
Financing contracts	984,266	14,985	-	999,251
Investments in sukuk	290,034	-	-	290,034
Receivables and other assets	2,544	88,449	-	90,993
Contingent liabilities and commitments	55,878	-	-	55,878
	1,432,107	106,398	9,905	1,548,410

31 RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

Risk concentrations of the maximum exposure to credit risk (continued)

An industry sector analysis of the Group's financial assets having credit risk, before taking into account collateral held or other credit enhancements, is as follows:

	Government 2023 BD 000	Banking and financial institutions 2023 BD 000	Construction and real estate 2023 BD 000	Others 2023 BD 000	Total 2023 BD 000
Balances with banks and the CBB	-	71,021	-	-	71,021
Due from banks	-	41,419	-	-	41,419
Financing contracts	133,299	4,340	628,127	243,546	1,009,312
Investments in sukuk	-	256,157	3,795	18,644	278,596
Receivables and other assets	-	68,071	1,389	1,819	71,279
Contingent liabilities and commitments	1,000	-	4,297	26,701	31,998
	134,299	441,008	637,608	290,710	1,503,625

	Government 2022 BD 000	Banking and financial institutions 2022 BD 000	Construction and real estate 2022 BD 000	Others 2022 BD 000	Total 2022 BD 000
Balances with banks and the CBB	-	67,226	-	-	67,226
Due from banks	-	45,028	-	-	45,028
Financing contracts	107,363	115	577,047	314,726	999,251
Investments in sukuk	-	286,239	3,795	-	290,034
Receivables and other assets	-	87,405	2,218	1,370	90,993
Contingent liabilities and commitments	18,716	-	6,328	30,834	55,878
	126,079	486,013	589,388	346,930	1,548,410

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained by the Group are as follows:

- For commercial financing, lien over investment accounts, charges over real estate properties, inventory, trade receivables and unlisted equities; and
- For retail and consumer financing, lien over investment accounts, and mortgages over the related assets.

31 RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

Collateral and other credit enhancements (continued)

The Group also obtains personal guarantees from company owners for commercial financing obtained. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collaterals obtained periodically during its review of the allowance for ECL.

The Group closely monitors collaterals held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of the collaterals to mitigate potential credit losses. Financial assets that are credit-impaired and related collaterals held in order to mitigate potential losses are shown below:

	Gross Exposures 2023	Allowance for Impairment and Credit Losses 2023	Carrying Amount 2023	Value of Collateral Held 2023
	BD 000	BD 000	BD 000	BD 000
Murabaha	10,776	3,094	7,682	51,921
Ijarah Muntahia Bittamleek	8,837	2,695	6,142	15,022
	19,613	5,789	13,824	66,943

	Gross Exposures 2022	Allowance for Impairment and Credit Losses 2022	Carrying Amount 2022	Value of Collateral Held 2022
	BD 000	BD 000	BD 000	BD 000
Murabaha	8,840	778	8,062	47,765
Ijarah Muntahia Bittamleek	5,528	803	4,725	10,817
	14,368	1,581	12,787	58,582

31.3 Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management arranges diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

31 RISK MANAGEMENT (continued)

31.3 Liquidity risk and funding management (continued)

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 Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a mandatory reserve with the CBB equal to 5% of customer deposits denominated in BD, excluding deposits from resident subsidiaries. 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 Group. The most important of these is to maintain limits on the ratio of high quality liquid assets ("HQLA") to customer deposits. HQLA comprise of cash, balances with the CBB, investments in quoted equities and liquid sukuk in line with the Liquidity Risk Module of the CBB. Customer deposits comprise of customers' current accounts, unrestricted investment accounts and due to non-banks. The ratios during the year were as follows:

HQLA to Customer Deposits Ratio	2023 %	2022 %
31 December	**31.38%**	34.61%
During the year:		
Average	**32.66%**	34.45%
Highest	**35.85%**	38.32%
Lowest	**31.35%**	31.68%

Analysis of financial liabilities and equity of investment account holders by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities and equity of investment account holders at 31 December 2023 and 2022 based on contractual undiscounted repayment obligations. Maturity analysis of assets, liabilities and equity of investment account holders by expected maturities is disclosed in Note 30. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

At 31 December 2023	On demand BD 000	Less than 3 months BD 000	3 to 12 months BD 000	1 to 5 years BD 000	Total BD 000
Due to banks	**1,176**	**30,312**	**-**	**-**	**31,488**
Due to non-banks	**-**	**49,884**	**32,817**	**19,885**	**102,586**
Customers' current accounts	**122,036**	**-**	**-**	**-**	**122,036**
Other liabilities	**-**	**14,269**	**5,211**	**4,114**	**23,594**
Equity of investment account holders	**872,557**	**199,751**	**5,818**	**31,343**	**1,109,469**
Total undiscounted financial liabilities and equity of investment account holders - 2023	**995,769**	**294,216**	**43,846**	**55,342**	**1,389,173**

At 31 December 2022	On demand BD 000	Less than 3 months BD 000	3 to 12 months BD 000	1 to 5 years BD 000	Total BD 000
Due to banks	345	17,023	-	-	17,368
Due to non-banks	-	32,203	67,084	12,331	111,618
Customers' current accounts	137,461	-	-	-	137,461
Other liabilities	-	12,010	2,756	3,822	18,588
Equity of investment account holders	311,747	426,437	311,232	64,204	1,113,620
Total undiscounted financial liabilities and equity of investment account holders - 2022	449,553	487,673	381,072	80,357	1,398,655

31 RISK MANAGEMENT (continued)

31.3 Liquidity risk and funding management (continued)

Contingent liabilities and commitments

These include commitments to enter into contracts which are designed to meet the requirements of the Group's customers. Commitments represent contractual commitments under murabaha and ijarah muntahia bittamleek contracts. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being exercised, the total contract amounts do not necessarily represent future cash flow requirements.

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

The table below shows the contractual expiry by maturity of the Group's credit commitments and contingent items.

At 31 December 2023	On demand BD 000	Less than 3 months BD 000	3 to 12 months BD 000	1 to 5 years BD 000	Total BD 000
Letters of credit	1,465	78	-	2,608	4,151
Guarantees	6,450	73	84	134	6,741
Irrevocable commitments to extend credit	475	1,674	1,613	17,344	21,106
Securitisation related commitment	441	-	-	-	441
	8,831	1,825	1,697	20,086	32,439

At 31 December 2022	On demand BD 000	Less than 3 months BD 000	3 to 12 months BD 000	1 to 5 years BD 000	Total BD 000
Letters of credit	266	883	-	2,838	3,987
Guarantees	5,554	-	73	1,051	6,678
Irrevocable commitments to extend credit	-	3,515	19,896	21,802	45,213
Securitisation related commitment	1,250	-	-	-	1,250
	7,070	4,398	19,969	25,691	57,128

31.4 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as profit rates, foreign exchange rates, and equity prices. The Group manages and monitors the positions using sensitivity analysis.

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 Group measures the profit rate risk by measuring and managing the repricing gaps. It also performs sensitivity analysis.

The following table demonstrates the sensitivity to reasonably possible change in profit rates, with all other variables held constant of the Group's consolidated statement of income. The sensitivity of the consolidated statement of income is the effect of the assumed changes in profit rates on the consolidated net income for the year, based on the non-trading financial assets and financial liabilities held as at the reporting date.

Notes to The Consolidated Financial Statements

At 31 December 2023

31 RISK MANAGEMENT (continued)

31.4 Market risk (continued)

Profit rate risk (continued)

The effect of decrease in basis points is expected to be equal and opposite to the effect of the increase shown.

	2023 BD 000	Change in basis points	Effect on net income for the year BD 000
ASSETS			
Due from banks	**41,419**	**+25**	**104**
Financing contracts	**655,050**	**+25**	**1,638**
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS			
Due to banks	**31,357**	**+25**	**(78)**
Due to non-banks	**97,151**	**+25**	**(243)**
Equity of investment account holders	**1,106,621**	**+25**	**(2,767)**
Total			**(1,346)**

	2022 BD 000	Change in basis points	Effect on net income for the year BD 000
ASSETS			
Due from banks	45,028	+25	113
Financing contracts	622,784	+25	2,202
LIABILITIES AND EQUITY INVESTMENT ACCOUNT HOLDERS			
Due to banks	17,339	+25	(43)
Due to non-banks	108,784	+25	(272)
Equity of investment account holders	1,096,440	+25	(2,741)
Total			(741)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group has established Value at Risk limit for foreign currency exposures. This limit is monitored on a regular basis by the risk management department and reported to the ALCO / RMC.

31 RISK MANAGEMENT (continued)

31.4 Market risk (continued)

Currency risk (continued)

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

	Equivalent long (short) 2023 BD 000	Equivalent long (short) 2022 BD 000
Currency		
GBP	**83**	(283)
KWD	**(208)**	(2,692)
EUR	**(251)**	(1,306)

The table below indicates the currencies to which the Group had significant exposure at 31 December on all its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the BD, with all other variables held constant, on the consolidated statement of income.

The effect of decreases in currency rate is expected to be equal and opposite to the effect of the increases shown.

	Change in currency rate %	Effect on profit 2023 BD 000	Change in currency rate %	Effect on profit 2022 BD 000
GBP	**+20**	**17**	+20	(57)
KWD	**+20**	**(42)**	+20	(538)
EUR	**+20**	**(50)**	+20	(261)
		(75)		(856)

Equity price risk

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 effect on income and equity (as a result of a change in the fair value of equity instruments) due to a reasonably possible change (i.e. +10%) in the value of individual investments, with all other variables held constant, is nil and BD 316 thousand (2022: nil and BD 342 thousand) respectively.

The effect of decrease in the value of individual investments is expected to be equal and opposite to the effect of the increase shown, except in cases where impairment loss occurred which will result in decrease being taken to the consolidated statement of income.

31 RISK MANAGEMENT (continued)

31.5 Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is managing them. The Group has implemented Risks and Controls Self Assessment (RCSA) process whereby each of the units identifies risks in processes, key risk indicators and implemented controls. The key risk indicators values and actual incidents to the operational risk unit are reported to senior management for action. Controls include effective segregation of duties, access controls, authorisation and reconciliation procedures, staff education and assessment processes.

32 CAPITAL MANAGEMENT

The Group maintains an actively managed 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 Group. The Group has also implemented the Internal Capital Adequacy and Assessment Plan (ICAAP) as per the CBB guidelines based on Pillar II recommendations of the Basel Committee. The Bank had identified the capital requirement for future three years based on the Group's projected financials and the risk charges required for its significant risks including credit risk, market risk, profit rate risk, liquidity risk, investments risks and operational risks. The Board, on an annual basis, review and approve the ICAAP plan for both normal and stress conditions.

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.

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

32 CAPITAL MANAGEMENT (continued)

Regulatory capital and risk-weighted assets

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

	Note	2023 BD 000	2022 BD 000
Common equity Tier 1 capital	32.1	**175,897**	195,995
Tier 2 capital	32.2	**6,881**	7,323
Total capital		**182,778**	203,318
Credit risk-weighted assets		**550,459**	585,841
Market risk-weighted assets		**20,186**	24,165
Operational risk-weighted assets		**123,954**	126,824
Total risk weighted assets		**694,599**	736,830
Capital adequacy ratio		**26.3%**	27.6%
Minimum requirement		**12.5%**	12.5%

32.1 Common equity Tier 1 capital comprises of share capital, share premium, general reserve, statutory reserve and retained earnings, less unrealised loss arising from fair valuing equities.

32.2 Tier 2 capital comprises of provisions against stage 1 and stage 2 exposures and asset revaluation reserves.

33 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

The Group did not receive any significant income or incur significant expenses which were prohibited by the Shari'a.

34 SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through donations to charitable causes and organisations approved by Shari'a Supervisory Board.

35 COMPARATIVE FIGURES

Certain of the prior year figures have been reclassified to conform to the presentation adopted in the current year. Such reclassification does not affect previously reported net income or owners' equity.

36 NSFR REQUIREMENTS AND CALCULATION METHODOLOGY

The Net Stable Funding Ratio ('NSFR') is calculated in accordance with the Liquidity Risk Management Module guidelines, issued by the CBB. The minimum NSFR ratio as per CBB is 100%. The Group's consolidated NSFR ratio as of 31 December 2023 is as follows:

The NSFR (as a percentage) is calculated as follows:

	Unweighted Values (i.e. before applying relevant factors)					
	No specified maturity	Less than 9 months	More than 9 months and less than one year	Over one year	Total weighted value 2023	Total weighted value 2022
	BD 000	BD 000	BD 000	BD 000	BD 000	BD 000
Available Stable Funding (ASF):						
Regulatory Capital	177,143	-	-	6,565	**183,708**	200,423
Less stable deposits	-	655,365	112,869	33,761	**725,172**	629,329
Other wholesale funding	-	478,085	29,324	43,038	**165,024**	198,278
Other liabilities not included in the above categories	-	29,698	-	-	**-**	-
Total ASF	177,143	1,163,148	142,193	83,364	**1,073,904**	1,028,030
Required Stable Funding (RSF):						
Total NSFR high-quality liquid assets (HQLA)	328,465	16,193	-	-	**13,426**	13,865
Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	46,247	-	-	**6,937**	4,152
Performing financing to non-financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs	-	139,165	53,125	463,001	**489,696**	501,186
Performing financing with a risk weight of less than or equal to 35% as per the CBB capital adequacy ratio guidelines	-	-	-	129,699	**84,305**	67,084
Performing residential mortgages, with a risk weight of less than or equal to 35% under the CBB capital adequacy ratio guidelines	-	-	-	222,383	**144,549**	147,524
Securities/sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	3,796	**3,227**	3,229
All other assets not included in the above categories	151,747	-	-	-	**151,747**	156,199
Off Balance sheet items	32,296	-	-	-	**1,615**	2,856
Total RSF	512,508	201,605	53,125	818,879	**895,502**	896,086
NSFR (%)					**119.9%**	114.7%