

KHALEEJI BANK B.S.C.
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2023

Commercial registration	:	55133 (registered with Central Bank of Bahrain as a retail Islamic bank).
Office	:	Bahrain Financial Harbour GFH Tower PO Box 60002, Manama, Kingdom of Bahrain
Directors	:	Hisham Ahmed Al Rayes – Chairman Sh. Ahmed Bin Isa Khalifa Al Khalifa – Vice Chairman Reyadh Eid Al Yaqoob Mosobah Saif Al Mutairy Isa Abdulla Zainal Mazen Ibrahim Abdulkarim Salah Abdulla Sharif Hussain Sayed Ali Al Hussaini Ali Murad
Chief Executive Officer	:	Sattam Sulaiman Algosabi
Board secretary	:	Mohammed Abdulla Saleh
External Auditors	:	KPMG Fakhro, Bahrain

CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

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*In the name of Allah, the beneficent, the merciful
Prayers and peace upon the last apostle and messenger, our prophet Muhammad (PBUH)*

Ladies and gentlemen, distinguished shareholders,

Greetings,

On behalf of the Board of Directors, I am pleased to present the financial statements of Khaleeji Bank for the year ending on 31st December 2023.

We are delighted to report positive financial results for the fourth consecutive year, with net profits attributable to shareholders reaching BD 9.003 million for the year ended 31st December 2023. These results come despite the global increase in the cost of financing due to rising global profit rates and its impact on local profit rates, which reflected on the performance of the majority of establishments working in the banking sector. We recognise the challenges posed by high profit rates and their impact on growth rates, and our bank must take a proactive approach so that it can adapt to new global transformations. We have allocated our resources towards overcoming these challenges and maintaining the bank's profitability, based on the Kingdom's favourable economic environment which is of great importance to the prosperity and excellence of banks.

The year 2023 marked a significant milestone for this prestigious institution with the rebranding from "Khaleeji Commercial Bank" to "Khaleeji Bank", reflecting our vision for the banking sector and our aspirations and ambitions for the coming period, particularly in providing the foundations for the success of our valued clients and always being an integral part of their achievements and stories.

Additionally, the year 2023 was also marked by our successful partnerships with several public and private institutions, including the signing of a credit facility agreement worth USD 200 million with the Oil & Gas Holding Company, the conclusion of a strategic partnership agreement with STC Pay, and the signing of an MoU with the Social Insurance Organisation aimed at strengthening the partnership between the two parties to facilitate the provision of pension exchange services to citizens under the Organisation's umbrella, in compliance with the provisions and principles of Islamic Shari'a. Additionally, an agreement was reached with the Labour Fund "Tamkeen" to launch a special financing program aimed at supporting Bahraini doctors working in the public and private sectors who wish to complete their studies.

The bank furthered its collaboration with the Ministry of Housing & Urban Planning and Eskan Bank to offer home financing solutions with exceptional benefits to citizens participating in social housing programs. This aligns with our ongoing efforts to support citizens in obtaining adequate housing and securing a permanent residence. Additionally, the bank has entered into partnership agreements with prominent real estate development firms in the Kingdom to offer exclusive real estate financing solutions for clients looking to purchase residential units developed by these leading companies.

As part of its leading and innovative approach, the bank last year has announced the launch of the "Salary Account", which is the first of its kind in the Kingdom of Bahrain that is compatible with the principles and provisions of Islamic Shari'a, offering unique benefits such as an expected profit rate of up to 4%, a chance to enter monthly raffles for valuable cash prizes, and other exclusive benefits.

On the other hand, the bank has celebrated the graduation of the inaugural cohort in its leading training program “Banking Gateway”, which was introduced with the objective of equipping new entrants to the workforce with the expertise needed to meet the demands of the banking industry. Furthermore, and in alignment with our longstanding commitment to social responsibility, the bank has entered into a collaborative agreement with the Royal Medical Services to establish a dedicated prostate cancer center outfitted with state-of-the-art international technologies.

During the current fiscal year, we will strive to maintain our innovative approach while upholding our national duty in enhancing the banking industry and delivering a superior banking experience to our esteemed clientele. This will further solidify our position as a frontrunner in the Islamic Banking sector, in line with the goals of our valued partners, clients, and shareholders.

In conclusion, on behalf of the Board of Directors, executive management, and employees of Khaleej Bank, I extend our deepest thanks to His Majesty King Hamad bin Isa Al Khalifa, King of Bahrain, and His Royal Highness Prince Salman bin Hamad Al Khalifa, Crown Prince and Prime Minister, for their unwavering support to all industries in the Kingdom, especially the banking industry. I would also like to extend my thanks to the Central Bank of Bahrain, ministries, government agencies, and Bahrain Bourse for their continued support and assistance.

I would also like to commend the dedicated efforts of the bank’s staff in strengthening Khaleeji’s leading position in the industry and achieving new levels of success and growth through an innovative approach that we have implemented to deliver optimal results, while continuing to offer cutting-edge banking products & services that cater to the expectations and ambitions of our esteemed clientele. I would also like to express my gratitude to our valued shareholders and clients for their trust and steadfast loyalty to Khaleeji Bank.

In compliance with the Commercial Companies Law No. (21) of 2001 and its amendments, in accordance with Article No. (188) of the Commercial Companies Law and Article No. (125) of the Executive Regulations of Resolution No. (3) of 2022, and the bank’s commitment to upholding the principle of full transparency, we are pleased to provide our valued shareholders with the table below detailing the remuneration of the Board of Directors and Executive Management for the fiscal year ending 31st December 2023.

• **First: Board of Directors’ Remuneration Details:**

Name	Fixed remunerations				Variable remunerations				End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
	Total allowance for attending Board and committee meetings	Remunerations of the chairman and BOD	Others*	Total	Remunerations of the chairman and BOD	Incentive plans	Others**	Total			
First: Independent Directors:											
1- Sh. Ahmed Bin Isa Al Khalifa	20,000	22,000	-	42,000	-	-	-	-	-	42,000	-
2- Hussain Sayed Ali Al Hussaini	26,000	22,000	-	48,000	-	-	-	-	-	48,000	-
3- Reyadh Eid Al Yaqoob	20,000	22,000	-	42,000	-	-	-	-	-	42,000	-
4- Isa Abdulla Zainal	21,500	11,000	-	32,500	-	-	-	-	-	32,500	-
5- Mazen Ibrahim Abdulkarim	29,000	11,000	-	40,000	-	-	-	-	-	40,000	-

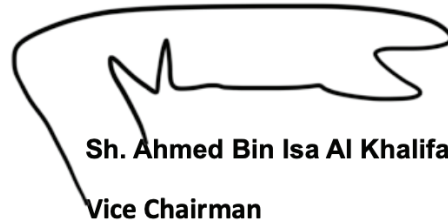
Name	Fixed remunerations				Variable remunerations				End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
	Total allowance for attending board and committee meetings	Remunerations of the chairman and BOD	Others*	Total	Remunerations of the chairman and BOD	Incentive plans	Others**	Total			
Second: Non-Executive Directors:											
1- Mosaboh Saif Al Mutairy	20,000	11,000	-	31,000	-	-	-	-	-	31,000	-
2- Ali Murad	21,000	11,000	-	32,000	-	-	-	-	-	32,000	-
Third: Executive Directors:											
1- Hisham Ahmed Al Rayes	14,000	22,000	-	36,000	-	-	-	-	-	36,000	-
2- Salah Abdulla Sharif	26,000	11,000	-	37,000	-	-	-	-	-	37,000	-
Total	197,500	143,000	-	340,500	-	-	-	-	-	340,500	-
<p>Note: All amounts are stated in Bahraini Dinars.</p> <p>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).</p> <p>Notes: 1. The Bank does not have any variable remuneration payments, end of service benefits, or expense allowances paid to its directors. 2. Board remuneration represents payments proposed for the year 2023 which are subject to the approval of the shareholders in upcoming Annual General Meeting dated 25th March 2024.</p>											

Second: Executive Management Remuneration Details for Top 6 Executives:

Executive management	Fixed paid salaries and allowances	Variable remuneration (Bonus)	Any other cash/ in kind remuneration for 2023	Aggregate Amount
Remuneration of top 6 executives, including CEO and Head of Finance & Administration	974,576	179,827	49,000	1,203,403
<p>Note: All amounts are stated in Bahraini Dinars.</p> <p>Notes: 1. The total bonus included BD 89,914 as cash based remuneration and BD 89,913 as shares based remuneration. 2. Remuneration details include Board remuneration earned by executive management from their role in investee companies or other subsidiaries.</p>				



Hisham Ahmed Alrayes
Chairman of Board of Directors



Sh. Ahmed Bin Isa Al Khalifa
Vice Chairman

25 January 2024
13 Rajab 1445 AH

SHARI'A SUPERVISORY BOARD REPORT TO THE SHAREHOLDERS On the Activities of Khaleeji Bank B.S.C. For the financial year ending 31 December 2023

Prayers and Peace upon the Last Apostle and Messenger, Our prophet Mohammed, His Family and companions.

In compliance with our terms of appointment, the Shari'a Supervisory Board ("SSB") hereby presents the following report to the Shareholders on the activities of Khaleeji Bank ("KHC") and its subsidiaries for the financial year ending 31st December 2023.

Respective responsibility of the Board of Directors and the SSB

The SSB confirms that as a general principle and practice, KHC's management is responsible for ensuring that it conducts its business in accordance with Islamic Shari'a rules and principles. The SSB's responsibility is to form an independent Shari'a opinion based on our review of the Bank's operations and to prepare this report.

Basis of opinion

In compliance with the Shari'a Governance and based on SSB's Fatwas, decisions and the AAOIFI standards, the SSB through its periodic meetings and its executive member have reviewed the internal Shari'a audit plan and Shari'a audit reports and examined the documents and transactions by conducting a sample-test method to ensure its compliance with the Shari'a rules and principles. In addition, the SSB has reviewed the IESCA report. The SSB in collaboration with Shari'a coordination and implementation department has reviewed contracts, agreements, financings and investment structures, products, related policies, consolidated Financial Statements and attached notes for the year ended 31st December 2023.

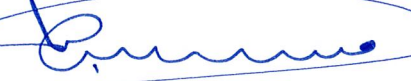
Opinion

Based on our review, The SSB is satisfied that:

1. The contracts, agreements and transactions entered into by the Bank that have been reviewed by the SSB are in compliance with the Shari'a rules and principles.
2. The allocation of profits and charging of losses 'if any' on investment accounts conform to the basis that had been approved by the SSB and in accordance with Shari'a rules and principles.
3. Any earnings resulted by means prohibited by the Shari'a rules and principles have been channeled to charity account.
4. Zakah was calculated in accordance with Shari'a rules and principles based on net assets method according to AAOIFI standards. Each shareholder is responsible to pay their relevant zakah portion related to their respected shares as per zakah guide.
5. The Bank is in compliance with Shari'a rules and principles, SSB's Fatwas and decisions, Shari'a related policies and procedures, AAOIFI's Shari'a standards, relevant rulings of the CSSB and the regulations, resolutions and directives issued by the CBB.

We pray to Allah the almighty to grant us all success and prosperity.


Shaikh Dr. Fareed Al-Muftah
Chairman


Shaikh Dr. Fareed Hadi
Vice-Chairman & Executive Member


Shaikh Dr. Nizam Yaqoobi
Board Member



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CR No. 6220 – 2

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Independent auditors' report

To the Shareholders of

*Khaleeji Bank B.S.C.
PO Box 60002
Manama
Kingdom of Bahrain*

Opinion

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

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

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

Basis for Opinion

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

Key Audit Matters

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

Impairment allowance on Financing contracts

Refer to accounting policy in note 5 (j), use of estimates and judgements in note 27 and management of credit risk in note 37

The key audit matter

We focused on this area because:

- Of the significance of financing contracts representing 36.5% of total assets.
- The estimation of expected credit losses (“ECL”) on financing contracts involve significant judgment and estimates. The key areas where we identified greater level of management judgment and estimates are:
 - Use of complex models
 Use of inherently judgmental complex models to estimate ECL which involves determining Probabilities of default (“PD”), Loss Given Default (“LGD”) and Exposure At default (“EAD”). The PD models are considered the drivers of the ECLs.
 - Economic scenarios
 The need to measure ECLs on an unbiased forward-looking basis incorporating a range of economic conditions. Significant management judgment is applied in determining the economic scenarios used and the probability weightings applied to them.
 - Management overlays
 Adjustments to the ECL model results are made by management to address known impairment model limitations or emerging trends or risks. Such adjustments are inherently uncertain and significant management judgment is involved in estimating these amounts.

How the matter was addressed in our audit

Our procedures, amongst others, included:

- Evaluating the appropriateness of the accounting policies adopted based on the requirements of applicable accounting standards, regulatory guidance, our business understanding and industry practice.
- Confirming our understanding of management’s processes, systems and controls over the ECL calculation process

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

- Testing controls over the transfer of data between underlying source systems and the ECL models that the Group operates.
- Performing a detailed credit risk assessment for a sample of performing corporate contracts to test controls over the credit rating and monitoring process.
- Testing controls over the review and approval of post model adjustments and management overlays and the governance process over such overlays.
- Testing controls over the modelling process, including governance over model monitoring, validation and approval.

Tests of details
 Key aspects of our testing involved:

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

	<ul style="list-style-type: none"> ▪ Sample testing over key data inputs used in estimating the ECL and assessing the completeness, accuracy and relevance of data used. ▪ Re-performing key elements of the Group's model calculations and assessing performance results for accuracy. ▪ Sample testing over factors used to determine whether significant increase in credit risk has been appropriately identified. ▪ Selecting a sample of post model adjustments and management overlays to assess the reasonableness of the adjustments by challenging key assumptions, testing the underlying calculation and tracing a sample back to source data. ▪ Assessing the adequacy of provisions against individually impaired financing contracts (stage 3) in accordance with the applicable FAS. <p>Use of specialists</p> <p>For the relevant portfolios examined, we have involved KPMG specialists to assist us in assessing IT system controls and challenging key management assumptions used in estimating expected credit losses. Key aspects of their involvement included the following:</p> <ul style="list-style-type: none"> ▪ We involved our Information Technology Audit specialists to test the relevant General IT and Application Controls over key systems used for data extraction as part of the ECL calculation process. ▪ We involved our Financial Risk Management (FRM) specialists in: <ul style="list-style-type: none"> ➢ Evaluating the appropriateness of the Group's ECL methodologies (including the staging criteria used); ➢ On a test check basis, re-performing the calculation of certain components of the ECL model (including the staging criteria); ➢ Evaluating the appropriateness of the Group's methodology for determining the economic scenarios used and the probability weights applied to them; and ➢ Evaluating the overall reasonableness of the management forward-looking estimates by comparing it to external market data and our understanding of the underlying sector and macroeconomic trends. <p>Disclosures</p> <p>We assessed the adequacy of the Group's disclosure in relation to use of significant estimates and judgement and credit quality of financing contracts by reference to the requirements of relevant accounting standards.</p>
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Independent auditors' report to the shareholders (continued)
Khaleeji Bank B.S.C.

Impairment of investment in real estate	
Refer to accounting policy in notes 5 (g), 5 (k) and use of estimates and judgements in note 27	
The key audit matter	How the matter was addressed in our audit
<p>We considered this as a key audit area we focused on because of:</p> <ul style="list-style-type: none"> • the uncertainty prevalent in the property market; and • application of valuation techniques which often involve the exercise of judgment and the use of assumptions and estimates. 	<p>Our procedures included:</p> <ul style="list-style-type: none"> • we involved our real estate valuation specialists, who used their knowledge of the industry and available historical data to assist us in: <ul style="list-style-type: none"> ➤ evaluating the appropriateness of the valuation methodology used by the external, independent property valuers appointed by the Group; and ➤ evaluating the reasonableness of key input and assumptions used in the valuation. • Assessing the qualification and experience of the independent property valuers and reviewing the terms of their engagement letter to determine whether there were any matters that might have affected their objectivity or limited their scope of work; and • evaluating the adequacy of the Group's disclosures related to valuation of investment in real estate by reference to the relevant accounting standards.

Other Information

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

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

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

Responsibilities of Board of Directors for the Consolidated Financial Statements

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

Report on Other Regulatory Requirements

As required by the Commercial Companies Law 2001 (as amended) and Volume 2 of the Rulebook issued by the Central Bank of Bahrain ("CBB"), we report that:

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

The engagement partner on the audit resulting in this independent auditors' report is Mahesh Balasubramanian.

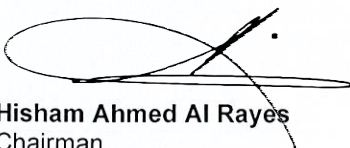


KPMG Fakhro
Partner Registration Number 137
8 February 2024

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2023

	Note	31 December 2023 BD '000	31 December 2022 BD '000
ASSETS			
Cash and bank balances	6	116,383	149,093
Placements with financial institutions	7	124,190	62,630
Investment in sukuk	8	522,746	523,332
Financing contracts	9	548,287	504,860
Investment securities	10	38,570	33,637
Assets held-for-sale	11	-	4,341
Investment in real estate	12	97,787	96,947
Equity accounted investees	13	24,689	24,522
Other assets	14	26,277	22,901
Property and equipment	15	3,489	3,431
Total assets		1,502,418	1,425,694
LIABILITIES			
Placements from financial institutions		237,773	240,080
Placements from non-financial institutions and individuals	16	206,518	215,364
Term financing from financial institutions	17	264,362	130,955
Customers' current accounts		77,880	50,955
Other liabilities	18	22,829	25,437
Total liabilities		809,362	662,791
Equity of investment accountholders			
- From financial institutions		68,054	159,926
- From non-financial institutions and individuals		467,608	445,207
Total equity of investment accountholders	19	535,662	605,133
OWNERS' EQUITY			
Share capital	20	84,783	84,783
Statutory reserve		12,410	11,510
Treasury shares		(6,254)	(6,254)
Investment fair value reserve		(7,165)	(5,790)
Retained earnings		17,719	16,171
Equity attributable to parent		101,493	100,420
Perpetual Mudharaba (AT1)	21	47,222	47,222
Equity attributable to owners of the parent		148,715	147,642
Non-controlling interest		8,679	10,128
Total owners' equity		157,394	157,770
Total liabilities, equity of investment accountholders and owners' equity		1,502,418	1,425,694

The consolidated financial statements were approved by the Board of directors on 8 February 2024 and signed on its behalf by:


Hisham Ahmed Al Rayes
Chairman

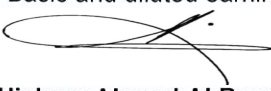
Sh. Ahmed Bin Isa Al Khalifa
Vice Chairman


Sattam Sulaiman Algozaibi
Chief Executive Officer

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2023

	Note	2023 BD '000	2022 BD '000
Income from financing contracts		40,222	35,725
Income from placements with financial institutions		4,819	723
Income from sukuk		29,599	21,977
Income from investment securities		3,372	305
Share of loss from equity accounted investees	13	(925)	(1,252)
Fees and other income, net	22	11,184	4,726
Total income before return to investment accountholders		88,271	62,204
Return to investment accountholders before Bank's share as Mudarib	19	(28,364)	(29,862)
Bank's share as a Mudarib	19	6,806	15,517
Return to investment accountholders		(21,558)	(14,345)
Finance expense on placements from financial institutions, non-financial institutions and individuals		(30,493)	(14,333)
Finance expense on term financing from financial institutions		(10,662)	(4,339)
Total income		25,558	29,187
Staff cost	23	6,618	7,504
Other operating expenses	24	8,424	5,757
Total expenses		15,042	13,261
Profit before impairment allowances		10,516	15,926
Impairment allowance, net	25	(1,469)	(1,919)
PROFIT FOR THE YEAR		9,047	14,007
Attributable to:			
Owner's of the parent		9,003	14,007
Non-controlling interest		44	-
		9,047	14,007
Earnings per share			
Basic and diluted earnings per share (fils)	30	3.753	9.987


Hisham Ahmed Al Rayes
Chairman

Sh. Ahmed Bin Isa Al Khalifa
Vice Chairman


Sattam Sulaiman Algozaibi
Chief Executive Officer

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the year ended 31 December 2023

2023	Equity attributable to parent's shareholders					Perpetual mudharaba (AT1) BD '000	Non-controlling Interest BD '000	Total owners' equity BD '000	
	Share Capital BD '000	Statutory reserve BD '000	Treasury shares BD '000	Investment fair value reserve BD '000	Retained earnings BD '000				Total BD '000
Balance at 1 January 2023	84,783	11,510	(6,254)	(5,790)	16,171	100,420	47,222	10,128	157,770
Net fair value changes	-	-	-	(1,375)	-	(1,375)	-	-	(1,375)
Profit for the year	-	-	-	-	9,003	9,003	-	44	9,047
Total recognised income and expense for the year	-	-	-	(1,375)	9,003	7,628	-	44	7,672
Profit distribution on AT1 Capital (note 21)	-	-	-	-	(6,000)	(6,000)	-	-	(6,000)
Loss of control (note 13)	-	-	-	-	-	-	-	(1,493)	(1,493)
Transfer to statutory reserve	-	900	-	-	(900)	-	-	-	-
Transfer to Zakah fund	-	-	-	-	(555)	(555)	-	-	(555)
Balance at 31 December 2023	84,783	12,410	(6,254)	(7,165)	17,719	101,493	47,222	8,679	157,394

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the year ended 31 December 2023 *(continued)*

2022	Equity attributable to parent's shareholders					Perpetual mudharaba (AT1) BD '000	Non-controlling Interest BD '000	Total owners' equity BD '000	
	Share Capital BD '000	Statutory reserve BD '000	Treasury shares BD '000	Investment fair value reserve BD '000	Retained earnings BD '000				Total BD '000
Balance at 1 January 2022	89,212	10,110	(11,926)	187	11,493	99,076	47,222	11,093	157,391
Net fair value changes	-	-	-	(5,977)	-	(5,977)	-	-	(5,977)
Profit for the year	-	-	-	-	14,007	14,007	-	-	14,007
Total recognised income and expense for the year	-	-	-	(5,977)	14,007	8,030	-	-	8,030
Cancellation of Treasury shares	(4,429)	-	5,963	-	(1,534)	-	-	-	-
Purchase of Treasury shares	-	-	(291)	-	-	(291)	-	-	(291)
Profit distribution on AT1 Capital (note 21)	-	-	-	-	(6,000)	(6,000)	-	-	(6,000)
Loss of control	-	-	-	-	-	-	-	(965)	(965)
Transfer to statutory reserve	-	1,400	-	-	(1,400)	-	-	-	-
Transfer to Zakah fund	-	-	-	-	(395)	(395)	-	-	(395)
Balance at 31 December 2022	84,783	11,510	(6,254)	(5,790)	16,171	100,420	47,222	10,128	157,770

The accompanying notes 1 to 40 form an integral 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			
Payments from financing contracts, net		(6,460)	(10,395)
Receipt of profit on short-term placements		4,819	723
Returns paid to investment accountholders		(17,927)	(14,273)
(Payments to) / receipts from investment accountholders, net		(69,470)	59,937
Payment of profit on placements		(30,493)	(14,333)
Payment for expenses		(25,223)	(25,842)
Other receipts		7,041	4,942
Payment for charity		(724)	(373)
Deposits to / (withdrawal from) customers' current accounts, net		26,925	(1,981)
(Payments towards) / receipts from placements from financial institutions, net		(2,308)	109,882
(Payments for) / Receipts from placements from non-financial institutions and individuals, net		(8,845)	32,147
Net payment for CBB reserve account		(2,597)	(10,505)
Net cash (used in) / generated from operating activities		(125,262)	129,929
INVESTING ACTIVITIES			
Purchase of sukuk		(126,111)	(229,243)
Proceeds from redemption / sale of sukuk		128,210	77,802
Income from sukuk received		31,544	22,775
Proceeds from disposal investment securities		33,276	-
(Purchase of) / proceeds from disposal of investment in real estate, net		(1,675)	3,229
Receipt of dividends / income from investment securities		1,321	145
Purchase of property and equipment, net		(690)	(2,124)
Investment in equity accounted investees		-	(508)
Purchase of investment securities		(30,914)	-
Development properties expense		(191)	-
Net movement in margin call		1,781	-
Net cash generated from / (used in) investing activities		36,551	(127,924)
FINANCING ACTIVITIES			
Purchase of treasury shares, net		-	(291)
Profit distribution on AT1 Capital		(6,000)	(6,000)
Draw down of term financing from financial institutions, net		133,406	59,338
Finance expense on term financing from financial institutions		(10,662)	(4,339)
Net cash generated from financing activities		116,744	48,708
Net increase in cash and cash equivalents		28,033	50,713
Cash and cash equivalents at 1 January		174,338	123,625
Cash and cash equivalents at 31 December		202,371	174,338
Cash and cash equivalent comprise: *			
Cash and bank balances (excluding CBB reserve)	6	87,991	123,298
Placements with financial institutions with original maturities of 90 days or less (excluding margin call account)	7	114,380	51,040
		202,371	174,338

* Cash and cash equivalents is net of the expected credit loss of BD 5 thousand (31 December 2022: BD 2 thousand).

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the year ended 31 December 2023

	Balance at 1 January 2023			Movements during the year					Balance at 31 December 2023			
	No of units (‘000)	Average value per share BD	Total BD ‘000	Investment / (withdrawals) BD ‘000	Revalua- tion BD ‘000	Gross income/ (loss) BD ‘000	Dividends paid BD ‘000	Bank's fees as an agent BD ‘000	Adminstra- tion expenses BD ‘000	No of units (‘000)	Average value per share BD	Total BD ‘000
Safana Investment WLL (RIA 1) and NS12	1,247	1.00	1,247	-	(28)	-	-	-	-	1,219	1.00	1,219
Shaden Real Estate Investment WLL (RIA 5)	269	1.00	269	-	45	-	-	-	-	314	1.00	314
			1,516	-	17	-	-	-	-			1,533

	Balance at 1 January 2022			Movements during the year					Balance at 31 December 2022			
	No of units (‘000)	Average value per share BD	Total BD ‘000	Investment / (withdrawals) BD ‘000	Revalua- tion BD ‘000	Gross income/ (loss) BD ‘000	Dividends paid BD ‘000	Bank's fees as an agent BD ‘000	Adminstra- tion expenses BD ‘000	No of units (‘000)	Average value per share BD	Total BD ‘000
Safana Investment WLL (RIA 1) and NS12	1,247	1.00	1,247	-	-	-	-	-	-	1,247	1.00	1,247
Shaden Real Estate Investment WLL (RIA 5)	269	1.00	269	-	-	-	-	-	-	269	1.00	269
			1,516	-	-	-	-	-	-			1,516

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

KHALEEJI BANK B.S.C.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND
for the year ended 31 December 2023

	Note	2023 BD '000	2022 BD '000
Sources of zakah and charity fund			
At 1 January		522	471
Contributions by the Bank	32	555	395
Non-shari'a compliant income		31	29
Total sources		1,108	895
Uses of zakah and charity fund			
Contributions to charitable organisations		(724)	(373)
Total uses		(724)	(373)
Undistributed zakah and charity fund at 31 December		384	522

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

1. REPORTING ENTITY

Khaleeji Bank B.S.C. (formerly Khaleeji Commercial Bank B.S.C.) (“the Bank”), a public shareholding company listed on Bahrain Bourse, was incorporated on 24 November 2004 in the Kingdom of Bahrain under Commercial Registration No. 55133. The Bank operates under an Islamic retail banking license granted by the Central Bank of Bahrain (“CBB”) on 20 October 2003. On 25 June 2023, as part of the overall group restructuring initiatives, the Bank rebranded its commercial name from "Khaleeji Commercial Bank B.S.C." to "Khaleeji Bank B.S.C." As a result, the trade symbol also changed from "KHCB" to "KHALEEJI".

The Bank is 85.41% (31 December 2022: 85.41%) owned by GFH Financial Group B.S.C. (“the Parent”), a Bahraini incorporated investment bank operating under an Islamic wholesale banking license issued by the Central Bank of Bahrain (“CBB”) and listed on Bahrain Bourse, Boursa Kuwait, Dubai Financial Markets (“DFM”) and Abu Dhabi Security Exchange (“ADX”). The Bank also issued Additional Tier 1 (AT1) Sukuk, which were listed on London Stock Exchange (International Securities Market) in 2020. Refer Note 21 for subsequent events relating to redemption of the AT1 Sukuk and the impact on the capital structure of the Bank.

The Bank’s activities are regulated by the CBB and supervised by a Shari’a Supervisory Board to ensure adherence to Shari’a rules and principles in its activities.

The principal activities of the Bank include retail and corporate banking, consumer finance, wealth management, structured investment products and project financing facilities which comply with Islamic Shari’a rules and principles as determined by the Bank’s Shari’a Supervisory Board.

The consolidated financial statements include the results of the Bank and its subsidiaries (together “the Group”). The significant subsidiaries of the Bank are as follows:

Name	Country of incorporation	% holding 2023	% holding 2022	Nature of business
Surooh Limited	Cayman Islands	75.70%	75.70%	To construct and sell properties at “Oryx Hills”.
HH Hotel Properties W.L.L.	Bahrain	86.00%	86.00%	Hospitality business
KHCB Tier 1 Sukuk Limited	Cayman Islands	100.00%	100.00%	To issue additional tier 1 certificates
Amlak II Company*	Cayman Islands	37.00%	61.88%	To hold real estate property.

* During the year, the Group lost control over one of its subsidiaries resulting in recognising it as an associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

2. STATEMENT OF COMPLIANCE

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

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

3. BASIS OF MEASUREMENT

The consolidated financial statements have been prepared on the historical cost basis except for equity and debt securities that are measured at fair value through equity and structured notes that are measured at fair value through income statement. These consolidated financial statements are presented in Bahraini Dinars, being the functional and presentation currency of the Bank, rounded to the nearest Bahraini Dinars thousand (BD), except where otherwise indicated.

4. USE OF SIGNIFICANT JUDGEMENTS AND ESTIMATES

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Management believes that the underlying assumptions are appropriate and the Group's consolidated financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 27.

5. SIGNIFICANT ACCOUNTING POLICIES

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

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

1) FAS 39 Financial Reporting for Zakah

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The Bank does not have any obligation to pay Zakah as per its constitutional documents but only pays Zakah on undistributed profits as an agent on behalf of its shareholders. The Bank has adopted this standard and has provided the necessary additional disclosures in its annual financial statements (refer notes 5 (t) and 32).

2) FAS 41 Interim financial reporting

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

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

3) FAS 44 Determining Control of Assets and Business

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

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

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

ii) New Standards, amendments to Standards issued but not yet effective and not early adopted

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023**

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**1) FAS 1 General Presentation and Disclosures in the Financial Statements**

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

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

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

- a) Revised conceptual framework is now integral part of the AAOIFI FAS's;
- b) Definition of Quasi equity is introduced;
- c) Definitions have been modified and improved;
- d) Concept of comprehensive income has been introduced;
- e) Institutions other than Banking institutions are allowed to classify assets and liabilities as current and non-current;
- f) Disclosure of Zakah and Charity have been relocated to the notes to the financial statements;
- g) True and fair override has been introduced;
- h) Treatment for change in accounting policies, change in estimates and correction of errors has been introduced;
- i) Disclosures of related parties, subsequent events and going concern have been improved;
- j) Improvement in reporting for foreign currency and segment reporting; and
- k) Presentation and disclosure requirements have been divided into three parts. First part is applicable to all institutions, second part is applicable only to banks and similar IFI's and third part prescribes the authoritative status, effective date and amendments to other AAOIFI FAS's.

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

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

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

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023****5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3) FAS 46: Off-Balance-Sheet Assets Under Management**

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

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

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

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

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

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

4) FAS 47: Transfer of Assets Between Investment Pools

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

5. *SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***(a) Basis of consolidation****(i) Business combination**

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meet the definition of a business and control is transferred to the Group.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable tangible and intangible assets acquired and liabilities assumed. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, other contingent consideration is re-measured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

(ii) Subsidiaries

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

5. *SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*(a) *Basis of consolidation (continued)*(ii) *Subsidiaries (continued)***Non-controlling interests (NCI)**

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

Assets under management

The Group in its fiduciary capacity manages and administers assets held in trust and other investment vehicles on behalf of investors. The financial statements of SPE are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's fiduciary assets under management is set out in note 28.

(iii) **Equity accounted investees**

The Group's interests in equity accounted investees comprise interests in associates and a joint venture.

Associates are those entities over which the Group holds exercises significant influence, but not control or joint control, over the financial and operating policies. A Joint venture is an arrangement in which the Group has joint control whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities. These are accounted for using the equity method.

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

The carrying amount of the equity accounted investee is tested for impairment in accordance with the policy described in note 5(k).

(iv) **Transactions eliminated on consolidation**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

5. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***(b) Basis of consolidation (continued)***(b) Foreign currency transactions**

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

Foreign currency transactions are translated using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items carried at their fair value, such as certain equity securities measured at fair value through equity, are included in investments fair value reserve. The other Group companies functional currencies are either denominated in Bahraini dinars or US dollars; however, the Bahraini dinar is effectively pegged to the US dollar. Hence, the translation of financial statements of the group entities that have a functional currency different from the presentation currency do not result in an exchange difference.

(c) Investment securities

Investment securities comprise investments in equity type instruments and investments in debt-type instruments. Investment securities exclude investments in subsidiaries and equity accounted investees (refer note 5(a)).

(i) Classification

The Group segregates its investment into following categories:

- i) Equity-type instruments* - instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities and quasi-equity balances, including ordinary equity instruments and such other structured investment instruments that classify as equity instrument.
- ii) Debt-type instruments:*
 - Monetary debt-type instruments* - instruments whereby the transaction structure results in creation of a financial liability / debt such as Murabaha payable.

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

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

Amortised cost

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

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

Fair value through equity

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023**

5. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(c) *Investment securities (continued)*

(i) *Classification (continued)*

Irrevocable classification at initial recognition

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

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

Fair value through income statement

All other investments are measured at FVTIS.

Business model assessment

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

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

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

(ii) Recognition and de-recognition

Investment securities are recognised at the trade date i.e. the date that the Group contracts to purchase or sell the asset, at which date the Group becomes party to the contractual provisions of the instrument.

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

(iii) Measurement

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023****5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***(c) Investment securities (continued)*

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

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

Following Measurement principles are followed:

A. Amortised cost measurement

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

B. Fair value measurement

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

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

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

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023**

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*(c) Investment securities (continued)**(iii) Measurement (continued)*

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

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

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

(d) Financing contracts

Financing contracts comprise Shari'a compliant financing contracts with fixed or determinable payments. These include financing provided through Murabaha, Musharaka, Mudharaba, Istisna, Wakala contracts and lease-based financing contracts ("Ijarah assets"). Financing contracts are recognised on the date they are originated and are carried at their amortised cost less impairment allowances, if any.

Modification of financing contracts

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

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

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

(d) Placements with and from financial institutions, non-financial institutions and individuals

These comprise inter-bank and over the counter customer placements made/received using Shari'a compliant contracts. Placements are usually for short-term and are stated at their amortised cost.

(e) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash and bank balances (excluding CBB reserve account), and placement with financial institutions with original maturities of three months or less when acquired which are subject to insignificant risk of changes in fair value and are used by the Group in the management of its short-term commitments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

5. *SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*

(f) Ijarah asset (lease-based contracts)

Ijarah assets (Ijarah Muntahia Bittamleek) are stated at cost less accumulated depreciation and any impairment. Under the terms of lease, the legal title of the asset passes to the lessee at the end of the lease term, provided that all lease instalments are settled. Depreciation is calculated using rates that systematically reduce the cost of the leased assets over the period of the lease in a pattern of economic benefits arising from these assets. The Group assesses at each reporting date whether there is objective evidence that the ijarah assets are impaired. Impairment loss is the amount by which the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses, if any, are recognised in the income statement. The estimates of future cash flows, when dependent on a single customer, takes into consideration the credit evaluation of the respective customer in addition to other factors.

(g) Investment in real estate

Investment property

Real estate properties held for rental, or for capital appreciation purposes, or both, are classified as investment property. Investment property are carried at cost less depreciation and impairment allowances. Cost includes expenditure that is directly attributable to the acquisition of the investment property. Investment property includes plots of land held for undetermined use and property leased to third parties. Land is not depreciated.

Development property

Development property is measured at lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less costs to complete development and selling expenses.

(i) Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and impairment allowances, if any. Property includes land which is not depreciated. Other equipment is depreciated using the straight-line method to write-off the cost of the assets over their estimated useful lives as follows:

Buildings	Up to 25 years
Furniture and fixtures	3 to 5 years
Computers	3 to 5 years
Motor vehicles	3 to 5 years
Hotels	Up to 40 years
Other equipment's	3 to 5 years

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

5. *SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*

(j) Impairment of financial instruments

i) Exposures subject to credit risk

The Group recognises loss allowances for ECLs on:

- Cash and bank balances;
- Placements with financial institutions;
- Financing contracts;
- Investments in Sukuk - debt-type securities; and
- Undrawn financing commitments and financial guarantee contracts issued.

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

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

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

- a. The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due (refer note 37).

The Group considers a financial asset to be in default when:

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

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

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

Stage 1: 12-months ECL

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023**

5. *SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(j) Impairment of financial instruments (continued)**i) Exposures subject to credit risk (continued)***Stage 2: Lifetime ECL - not credit impaired**

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

Stage 3: Lifetime ECL - credit impaired

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

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

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

- Financing contracts that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).
- Financing contracts that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn financing commitment: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn and the cash flows that the Group expects to receive;
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover; and
- Purchased or originated credit-impaired financial assets are those assets that are credit-impaired on initial recognition. Their ECL is measured on a lifetime basis (stage 3).

ECLs are discounted at the effective profit rate of the financial instrument.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023****5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***(j) Impairment of financial instruments (continued)**i) Exposures subject to credit risk (continued)***Credit-impaired exposures**

At each reporting date, the Group assesses whether exposures subject to credit risk are credit-impaired. An exposure is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the exposure have occurred. Evidence that an exposure 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 being 90 days or more past due or more;
- the restructuring of a financing facility or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

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

ii) Impairment of equity investments classified at fair value through equity (FVTE)

In the case of investments in equity securities classified as FVTE, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment. The group considers a decline of 30% to be significant and a period of nine months to be prolonged. If any such evidence exists, 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 in income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are subsequently reversed through equity.

(k) Impairment of non-financial assets

The carrying amount of the Group's non-financial assets (other than for financial assets and development property covered in 5(g) above), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use or fair value less costs to sell. An impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023**

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(k) Impairment of financial instruments (continued)**

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

The Group conducts impairment assessment of investment property periodically using external independent property valuers to value the property. The fair value is determined based on the market value of the property using either sales comparable approach, the residual value basis, replacement cost or the market value of the property considering its current physical condition. The Group's investment properties are situated in Bahrain and UAE. Given the dislocation in the property market and infrequent property transactions, it is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of these assets within the next financial year due to significant changes in assumptions underlying such assessments.

(l) Customers' current accounts

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

(m) Equity of investment accountholders

Equity of investment accountholders are funds held by the Group in unrestricted investment accounts, which it can invest at its own discretion. The investment accountholder authorises the Group to invest the account holders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

The Group charges management fee (Mudarib fees) to investment accountholders. Of the total income from investment accounts, the income attributable to customers is allocated to investment accounts after setting aside provisions, reserves (Profit equalisation reserve and Investment risk reserve) and deducting the Group's share of income as a Mudarib. The allocation of income is determined by the management of the Group within the allowed profit sharing limits as per the terms and conditions of the investment accounts. Only the income earned on pool of assets funded from IAH are allocated between the owners' equity and investment accountholders. Administrative expenses incurred in connection with the management of the funds are borne directly by the Group and are not charged separately to investment accounts.

The Group allocates specific provision and collective provision to owners' equity. Amounts recovered from these impaired assets is not subject to allocation between the IAH and owners' equity.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023****5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Investment accounts are carried at their book values and include amounts retained towards profit equalisation, investment risk reserves, if any. Profit equalisation reserve is the amount appropriated by the Group out of the Mudharaba income, before allocating the Mudarib share, in order to maintain a certain level of return to the deposit holders on the investments. Investment risk reserve is the amount appropriated by the Group out of the income of investment accountholders, after allocating the Mudarib share, in order to cater against future losses for investment accountholders. Creation of any of these reserves results in an increase in the liability towards the pool of unrestricted investment accounts.

(n) Restricted investment accounts

Restricted investment accounts represent assets acquired by funds provided by holders of restricted investment accounts and their equivalent and managed by the Group as an investment manager based on either a Mudharaba contract or agency contract. The restricted investment accounts are exclusively restricted for investment in specified projects as directed by the investments accountholders. Assets that are held in such capacity are not included as assets of the Group in the consolidated financial statements.

(o) Financial guarantees

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

(p) Treasury shares

The amount of consideration paid including all directly attributable costs incurred in connection with the acquisition of the treasury shares are recognised in equity. Consideration received on sale of treasury shares is presented in the financial statements as a change in equity. No gain or loss is recognised in the income statement on sale of treasury shares.

(q) Statutory reserve

The Bahrain Commercial Companies Law 2001 requires that 10 per cent of the annual net profit be appropriated to a statutory reserve which is normally distributable only on dissolution. Appropriations may cease when the reserve reaches 50 per cent of the paid up share capital.

(r) Revenue recognition

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

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

Istisna'a revenue and the associated profit margin is recognised using the percentage of completion method.

Income from ijarah assets (Ijarah Muntahia Bittamleek) are recognised applying the effective rate of return method over the lease term.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023****5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(r) Revenue recognition (continued)**

Income from sukuk and structured note and income/expenses on placements is recognised at its effective profit rate over the term of the instrument.

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

Rental income is recognised on a straight line basis over the term of the contract.

Gain on sale of investment in equity securities and structured note is recognised on trade date at the time of derecognition of the investment securities. The gain or loss is the difference between the carrying value on the trade date and the consideration received or receivable.

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

(s) Earnings prohibited by Shari'a

The Group is committed to avoid recognising any income generated from non-shari'a compliant sources. Accordingly, all income prohibited by shari'a is credited to a charity account where the Group uses these funds for social welfare purposes.

(t) Zakah

Zakah is calculated on the Zakah base of the Group in accordance with FAS 39 Zakah using the net assets method. Zakah is calculated and paid by the Group based on the eligible reserve and retained earnings balances at the end of the year and the remaining Zakah is payable by individual shareholders. The Group calculates and notifies the shareholders of their pro-rata share of the Zakah payable annually. The Group also pays Zakah on the balance of treasury shares held at the year-end based on the pro-rata share of Zakah. The calculations of Zakah is approved by the Shari'a Supervisory Board. Payment of Zakah on the unrestricted investment and other accounts is the responsibility of the relevant account holders. . As Zakah is not required to be paid by law or by virtue of its constitution documents of the Banks, the Bank considers itself as an agent to pay Zakah on behalf of its shareholders, and any amount paid in respect of Zakah is adjusted within equity of the owners of the Bank.

(u) Employee benefits**(i) Short-term benefits**

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

(ii) Post-employment benefits

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(u) Employee benefits (continued)**

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

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

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

(iii) Deferred share-based annual incentives

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

(v) Dividends and board remuneration

Dividends to shareholders and board remuneration are recognised as liabilities in the period in which they are declared.

(w) Trade date accounting

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

(x) Offsetting

Financial assets and liabilities are offset only when there is a legal or Shari’a based 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.

(y) Provisions

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023**

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(z) URIA Protection Scheme**

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

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

(aa) Repossessed assets

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

(bb) Term financing from financial institutions

Term financing from financial institutions represents borrowing obtained through murabaha contract recognized on the origination date and carried at amortized cost.

(cc) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from the contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

(dd) Assets under management

The Group acts as a trustee / manager and in other capacities that result in holding or placing of assets on behalf of a trust or other institution. These assets and income arising thereon are not included in the Group's financial statements as they are not assets of the Group.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023****5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(ee) Ijarah****Identifying an Ijarah**

At inception of a contract, the Group assesses whether the contract is Ijarah, or contains an Ijarah. A contract is Ijarah, or contains an Ijarah if the contract transfers the usufruct (but not control) of an identified asset for a period of time in exchange for an agreed consideration. For Ijarah contracts with multiple components, the Group accounts for each Ijarah component within a contract separately from non-Ijarah components of the contract (e.g. service fee, maintenance charges, toll manufacturing charges etc.).

Measurement

For a contract that contains an Ijarah component and one or more additional Ijarah or non-Ijarah components, the Group allocates the consideration in the contract to each Ijarah component on the basis of relative stand-alone price of the Ijarah component and the aggregate estimated stand-alone price of the non-Ijarah components, that may be charged by the lessor, or a similar supplier, to the lessee.

At the commencement date, a lessee shall recognise a right-of-use (usufruct) asset and a net Ijarah liability.

(i) Right-of-use (usufruct) asset

On initial recognition, the lessee measures the right-of-use asset at cost. The cost of the right-of-use asset comprises of:

- the prime cost of the right-of-use asset;
- initial direct costs incurred by the lessee; and
- dismantling or decommissioning costs.

The prime cost is reduced by the expected terminal value of the underlying asset. If the prime cost of the right-of-use asset is not determinable based on the underlying cost method (particularly in the case of an operating Ijarah), the prime cost at commencement date may be estimated based on the fair value of the total consideration paid/ payable (i.e. total Ijarah rentals) against the right-of-use assets, under a similar transaction. As per the group's assessment, at the time of implementation the fair value of right-of-use assets are equal to the net Ijarah liability.

After the commencement date, the lessee measures the right-of-use asset at cost less accumulated amortisation and impairment losses, adjusted for the effect of any Ijarah modification or reassessment.

The Group amortises the right-of-use asset from the commencement date to the end of the useful economic life of the right-of-use asset, according to a systematic basis that is reflective of the pattern of utilization of benefits from the right-of-use asset. The amortizable amount comprises of the right-of-use asset less residual value, if any.

The Group determines the Ijarah term, including the contractually binding period, as well as reasonably certain optional periods, including:

- extension periods if it is reasonably certain that the Bank will exercise that option; and/ or
- termination options if it is reasonably certain that the Bank will not exercise that option.

Advance rentals paid are netted-off with the gross Ijarah liability.

The Group carries out impairment assessment in line with the requirements of FAS 30 "Impairment, Credit Losses and Onerous Commitments" to determine whether the right-of-use asset is impaired and to account for any impairment losses. The impairment assessment takes into consideration the salvage value, if any. Any related commitments, including promises to purchase the underlying asset, are also considered in line with FAS 30 "Impairment, Credit Losses and Onerous Commitments".

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023****6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The net ijarah liability comprises of the gross Ijarah liability, plus deferred Ijarah cost (shown as a contra-liability).

The gross Ijarah liability is initially recognised as the gross amount of total Ijarah rental payables for the Ijarah term. The rentals payable comprise of the following payments for the right to use the underlying asset during the Ijarah term:

- fixed Ijarah rentals less any incentives receivable;
- variable Ijarah rentals including supplementary rentals; and
- payment of additional rentals, if any, for terminating the Ijarah (if the Ijarah term reflects the lessee exercising the termination option).

Variable Ijarah rentals are Ijarah rentals that depend on an index or rate, such as payments linked to a consumer price index, financial markets, regulatory benchmark rates, or changes in market rental rates. Supplementary rentals are rentals contingent on certain items, such as additional rental charge after provision of additional services or incurring major repair or maintenance. As of 31 December 2023, the Group did not have any contracts with variable or supplementary rentals.

After the commencement date, the Group measures the net Ijarah liability by:

- increasing the net carrying amount to reflect return on the Ijarah liability (amortisation of deferred Ijarah cost)
- reducing the carrying amount of the gross Ijarah liability to reflect the Ijarah rentals paid
- re-measuring the carrying amount in the event of reassessment or modifications to Ijarah contract, or to reflect revised Ijarah rentals

The deferred Ijarah cost is amortised to income over the Ijarah terms on a time proportionate basis, using the effective rate of return method. After the commencement date, the Group recognises the following in the income statement:

- amortisation of deferred Ijarah cost; and
- Variable Ijarah rentals (not already included in the measurement of Ijarah liability) as and when the triggering events/ conditions occur

Ijarah contract modifications

After the commencement date, the Group accounts for Ijarah contract modifications as follows:

- change in the Ijarah term: re-calculation and adjustment of the right-of-use asset, the Ijarah liability, and the deferred Ijarah cost; or
- change in future Ijarah rentals only: re-calculation of the Ijarah liability and the deferred Ijarah cost only, without impacting the right-of-use asset.

An Ijarah modification is considered as a new Ijarah component to be accounted for as a separate Ijarah for the lessee, if the modification both additionally transfers the right to use of an identifiable underlying asset and the Ijarah rentals are increased corresponding to the additional right-of-use asset.

For modifications not meeting any of the conditions stated above, the Group considers the Ijarah as a modified Ijarah as of the effective date and recognises a new Ijarah transaction. The Group recalculates the Ijarah liability, deferred Ijarah cost, and right-of-use asset, and de-recognise the existing Ijarah transaction and balances.

Expenses relating to underlying asset

Operational expenses relating to the underlying asset, including any expenses contractually agreed to be borne by the Bank, are recognised by the Bank in income statement in the period incurred. Major repair and maintenance, takaful, and other expenses incidental to ownership of underlying assets (if incurred by lessee as agent) are recorded as receivable from lessor.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

5. *SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*

Recognition exemptions and simplified accounting for the lessee

The Group has elected not to apply the requirements of Ijarah recognition and measurement of recognizing right-of-use asset and lease liability for the following:

- short-term Ijarah; and
- Ijarah for which the underlying asset is of low value.

Short-term Ijarah exemption can be applied on a whole class of underlying assets if they have similar characteristics and operational utility. However, low-value Ijarah exemption can only be applied on an individual asset/ Ijarah transaction, and not on group/ combination basis.

6. **CASH AND BANK BALANCES**

	31 December 2023 BD 000's	31 December 2022 BD 000's
Cash	3,081	3,430
Balances with banks	44,374	95,080
Balances with the Central Bank:		
- Current account	40,537	24,789
- Reserve account	28,392	25,795
Less: impairment allowance	(1)	(1)
	116,383	149,093

The reserve account with the Central Bank of Bahrain is not available for day-to-day operational purposes.

7. **PLACEMENTS WITH FINANCIAL INSTITUTIONS**

	31 December 2023 BD '000	31 December 2022 BD '000
Gross Murabaha and Wakala receivable	124,327	62,657
Less: Deferred profits on Murabaha	(133)	(26)
Less: Impairment allowance	(4)	(1)
	124,190	62,630

The average profit rate on placement with financial institutions for 2023 was 6.33% per annum (2022: 3.68% per annum).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

8. INVESTMENT IN SUKUK

	31 December 2023 BD '000	31 December 2022 BD '000
Debt type instruments - at amortised cost:		
- Quoted sukuk*	400,012	404,822
- Unquoted sukuk	1,317	1,317
Less: impairment allowance	(1,617)	(1,524)
Debt type instruments – at fair value through equity		
- Quoted sukuk	64,737	64,546
Equity type instruments – at fair value through equity		
- Quoted sukuk	58,297	54,171
	522,746	523,332

* As of 31 December 2023, out of sovereign sukuk of BD 357,234 thousand (31 December 2022: BD 361,174 thousand) and corporate sukuk of BD 42,778 thousand (31 December 2022: BD 43,648 thousand), BD 271,520 thousand (31 December 2022: BD 234,229 thousand) were pledged against term financing from financial institutions of BD 216,362 thousand (31 December 2022: BD 81,753 thousand) (refer note 17).

9. FINANCING CONTRACTS

	31 December 2023 BD '000	31 December 2022 BD '000
Murabaha	352,667	332,324
Mudharaba	7,753	6,536
Wakala	-	90
Ijara	210,818	188,465
Gross financing contract	571,238	527,415
Less: Impairment allowance	(22,951)	(22,555)
Net financing contract	548,287	504,860

Murabaha financing contracts are net of deferred profits of BD 15,731 thousand (31 December 2022: BD 18,900 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

9. FINANCING CONTRACTS (CONTINUED)

Movement in ijarah assets financing is as follows:

	31 December 2023 BD '000	31 December 2022 BD '000
Cost		
At 1 January	246,944	204,736
Additions during the year	44,365	58,289
Settlements/adjustments during the year	(19,978)	(16,081)
At 31 December	271,331	246,944
Accumulated depreciation / amortisation		
At 1 January	58,479	47,030
Charge for year	22,822	17,465
Settlements during the year	(20,788)	(6,016)
At 31 December	60,513	58,479
Net book value at 31 December	210,818	188,465

The movement on impairment allowances is as follows:

2023	Stage 1 BD '000	Stage 2 BD '000	Stage 3 BD '000	POCI* BD '000	Total BD '000
At 1 January 2023	5,330	4,361	12,243	621	22,555
Net movement between stages	(706)	222	484	-	-
Net charge	(2,915)	1,134	3,452	(296)	1,375
Write-off	-	-	(90)	-	(90)
Disposal	-	-	(889)	-	(889)
At 31 December 2023	1,709	5,717	15,200	325	22,951

2022	Stage 1 BD '000	Stage 2 BD '000	Stage 3 BD '000	POCI* BD '000	Total BD '000
At 1 January 2022	6,266	2,680	16,148	612	25,706
Net movement between stages	906	(269)	(637)	-	-
Net charge	(1,842)	1,950	2,017	209	2,334
Write-off	-	-	(3,532)	-	(3,532)
Disposal	-	-	(1,753)	(200)	(1,953)
At 31 December 2022	5,330	4,361	12,243	621	22,555

* Purchased or originated credit impaired (POCI) assets are initially recognised at their fair values and subsequently remeasured for any change in ECL or expected recoverable amounts. The POCI assets are currently carried at 25% (31 December 2022: 20.74%) compared to their original contractual outstanding amounts. On a cumulative basis, the impaired assets (Stage 3 and POCI) are carried at 64.42% (31 December 2022: 44.05%) compared to their original contractual outstanding amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

10. INVESTMENT SECURITIES

	31 December 2023 BD '000	31 December 2022 BD '000
Equity type instruments:		
<i>At fair value through income statement</i>		
- Structured notes		
At 1 January	14,900	15,531
Accrued profit	516	516
Redemption	(621)	(763)
Changes in fair value	1	(384)
	14,796	14,900
<i>At fair value through equity</i>		
Unquoted equity securities*	23,774	18,737
	23,774	18,737
	38,570	33,637

* Includes Bank's share in equity type Securities with carrying value of BD 5,844 for which the legal title are in the name of a third party held for beneficial interest of the Bank.

11. ASSETS HELD-FOR-SALE

The Group has BD 4,341 thousand of investment in real estate classified as held for sale in prior periods based on a settlement program with its investors. Due to conditions beyond the control of the Group, the overall plan has been delayed beyond 12 months. During the year, these assets have been reclassified as held for use under investment in real estate. There was no impact on the income statement due to such reclassification.

12. INVESTMENT IN REAL ESTATE

	31 December 2023 BD '000	31 December 2022 BD '000
Development property	68,643	71,039
Investment property*	29,144	25,908
	97,787	96,947

* Includes Bank's share in 3 plots of lands and a building with carrying value of BD 12,234 for which the title deeds are in the name of a third party held for beneficial interest of the Bank.

- (i) *Development property*
Development property comprise mainly a property under construction in Bahrain Financial Harbour in the Kingdom of Bahrain are residential units that were repossessed.
- (ii) *Investment property*
Investment property comprise plots of land in the Kingdom of Bahrain and United Arab Emirates held for capital appreciation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

12. INVESTMENT IN REAL ESTATE (CONTINUED)

The fair value of investment property as of 31 December 2023 was BD 27,643 thousand (31 December 2022: BD 27,643 thousand), determined by an external independent real estate valuer based on sales comparison approach and accordingly has been categorised as level 2 in the fair value hierarchy. Based on management assessment, there are no indicators of impairment as of year-end; hence, no impairment provision have been considered.

13. EQUITY ACCOUNTED INVESTEEES

	31 December 2023 BD '000	31 December 2022 BD '000
At 1 January	24,522	25,268
(Sale) / additions	(399)	506
Recognition of associate upon deconsolidation of subsidiary	1,491	-
Share of loss for the year	(925)	(1,252)
At 31 December	24,689	24,522

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

	2023 BD '000	2022 BD '000
Total assets	79,623	67,192
Total liabilities	23,816	9,749
Total revenues	2,245	2,178
Total net loss	(1,592)	(1,951)

Name	Country of incorporation	% holding		Nature of business
		2023	2022	
Capital Real Estate Projects Company	Kingdom of Bahrain	30.00%	30.00%	Real estate development
Al Areen Hotels W.L.L.	Kingdom of Bahrain	50.00%	50.00%	Hospitality business
Travelex Bahrain W.L.L.*	Kingdom of Bahrain	-	25.00%	Exchange Company
Amlak II Company**	Cayman Islands	37.00%	61.88%	To hold real estate property.

* Sold during the year for a loss of BD 5K.

The Group through shareholder's agreement agreed to exercise joint control with 50% shareholding over AlAreen Hotels W.L.L. with its partner (it's Parent), hence, it is considered as an equity-accounted investee.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

14. OTHER ASSETS

	31 December 2023 BD '000	31 December 2022 BD '000
Repossessed assets*	1,011	4,938
Profit accrued on Sukuk	5,601	5,779
Receivable from customers	4,564	4,564
Right-of-use asset	1,378	499
Prepaid expenses	585	870
Due from investments	345	279
Other receivables	12,793	5,972
	26,277	22,901

* Includes Bank's share in 2 plots of lands with carrying value of BD 398 thousand for which the title deeds are in the name of a third party held for beneficial interest of the Bank.

Below are further details related to the right-of-use asset:

	2023 BD '000	2022 BD '000
Balance as at 1 January	499	820
Additional right-of-use assets for the year, net	1,287	228
Amortisation charge during the year	(408)	(549)
Balance as at 31 December	1,378	499

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

15. PROPERTY AND EQUIPMENT

	Furniture and fixtures	Computers	Motor vehicle and other equipment	Work-in-progress	2023 Total	2022 Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Cost						
At 1 January	4,659	6,284	625	2,498	14,066	11,977
Additions	68	465	72	191	796	2,125
Disposals	-	-	-	(3)	(3)	(36)
Transfer	1,497	261	11	(1,769)	-	-
At 31 December	6,224	7,010	708	917	14,859	14,066
Accumulated Depreciation						
At 1 January	4,410	5,675	550	-	10,635	10,279
Charge for year (note 24)	286	417	32	-	735	392
Disposals	-	-	-	-	-	(36)
At 31 December	4,696	6,092	582	-	11,370	10,635
Net book value						
At 31 December 2023	1,528	918	126	917	3,489	
At 31 December 2022	249	609	75	2,498		3,431

16. PLACEMENTS FROM NON-FINANCIAL INSTITUTIONS AND INDIVIDUALS

	31 December 2023	31 December 2022
	BD '000	BD '000
Individuals	129,355	106,829
Non-financial institutions	77,163	108,535
	206,518	215,364

These represent placements in the form of Murabaha contracts and are net of deferred profit of BD 6,647 thousand (31 December 2022: BD 11,036 thousand).

17. TERM FINANCING FROM FINANCIAL INSTITUTIONS

Represents term Murabaha facilities of BD 216,362 thousand (31 December 2022: BD 81,753 thousand) secured by pledge over sukuk of BD 271,520 thousand (31 December 2022: BD 234,229 thousand) (refer note 8). The average rate of term financing is 6.11% (2022: 3.54%) with an average maturity ranging up-to six months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

18. OTHER LIABILITIES

	31 December 2023 BD '000	31 December 2022 BD '000
Mudharaba profit accrual	8,601	4,970
Payable to Investors*	5,560	10,542
Net ijarah liability	1,345	404
Advance received from customers	244	231
Zakah and charity payable	384	522
Employee related accruals	1,296	1,453
Payable for Istisna'a contracts	27	27
Other payables and accrued expenses**	5,372	7,288
	22,829	25,437

* Relates to cash settlement with investors on account of restructuring (note 11)

** Includes impairment allowance on commitments and financial guarantees of BD 61 thousand (31 December 2022: BD 63 thousand)

The breakup of the Net Ijarah liability per maturity analysis is as follows:

Net Ijarah Liability

Maturity analysis	31 December 2023		
	Gross Ijarah liability BD '000	Deferred Ijarah BD '000	Net Ijarah liability BD '000
Less than one year	407	(15)	392
One to five years	1,024	(71)	953
Total	1,431	(86)	1,345

Maturity analysis	31 December 2022		
	Gross Ijarah liability BD '000	Deferred Ijarah BD '000	Net Ijarah liability BD '000
Less than one year	143	(7)	136
One to five years	295	(27)	268
Total	438	(34)	404

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

19. EQUITY OF INVESTMENT ACCOUNTHOLDERS

	31 December 2023 BD '000	31 December 2022 BD '000
From financial institutions	68,054	159,926
From non-financial institutions and individuals	467,608	445,207
	535,662	605,133

The funds received from investment accountholders have been commingled and jointly invested with the Group in the following asset classes:

	31 December 2023 BD '000	31 December 2022 BD '000
Balances with banks	-	94,191
CBB reserve account	28,392	25,795
Placements with financial institutions	-	62,631
Debt type instruments – sukuk	83,863	172,029
Financing contracts	378,813	250,487
Investment securities	26,893	-
Investment in real estate	17,198	-
Other assets	503	-
	535,662	605,133

As at 31 December 2023, the balance of profit equalisation reserve and investment risk reserve was Nil (31 December 2022: Nil).

The Group does not allocate non-performing assets to IAH pool. All the impairment allowances are allocated to owners' equity. Recoveries from non-performing financial assets are also not allocated to IAH accountholders.

Only profits earned on pool of assets funded from IAH are allocated between the owners' equity and IAH. The Group did not charge any administration expenses to investment accounts.

Following is the average percentage for profit allocation between owner's equity and investment accountholders.

	2023		2022	
	Mudarib share	IAH shares	Mudarib share	IAH shares
1 month Mudharaba *	50.36%	49.64%	65.01%	34.99%
3 months Mudharaba	14.08%	85.92%	52.56%	47.44%
6 months Mudharaba	10.48%	89.52%	52.53%	47.47%
12 months Mudharaba	20.63%	79.37%	42.04%	57.96%
18 months Mudharaba	22.74%	77.26%	53.58%	46.42%
24 months Mudharaba	1.81%	98.19%	24.67%	75.33%
36 months Mudharaba	23.12%	76.88%	38.08%	61.92%

* Includes savings, Al Waffer and Call Mudharaba accounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

19. *EQUITY OF INVESTMENT ACCOUNTHOLDERS(CONTINUED)*

During the year, average mudarib share as a percentage of total income allocated to IAH was 28.13% (2022: 45.06%) as against the average mudarib share contractually agreed with IAH. Hence the Group sacrificed average mudarib fees of 38.44% (2022: 23.50%).

The Group does not share profits resulting from the assets funded through current accounts and other funds received on the basis other than mudharaba contract.

The funds raised from IAH are deployed in the assets on a priority basis after setting aside certain amount in cash and placement with Banks for liquidity management purposes.

20. **SHARE CAPITAL**

	31 December 2023 BD '000	31 December 2022 BD '000
Authorised: 3,000,000,000 ordinary shares of BD 0.100 each	300,000	300,000
Issued and fully paid up: 847,830,534 ordinary shares (2022: 847,830,534 shares) of BD 0.100 each	84,783	84,783

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

31 December 2023

Categories*	Number of Shares	Number of Shareholders	% of total outstanding shares
Less than 1%	53,735,841	331	6.34%
1% up to less than 5%	22,403,211	2	2.64%
5% up to less than 10% **	47,588,090	1	5.61%
50% and above	724,103,392	1	85.41%
	847,830,534	335	100.00%

* Expressed as a percentage of total outstanding shares of the Bank.

** Includes treasury shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

20. *SHARE CAPITAL (continued)*

31 December 2022

Categories*	Number of Shares	Number of Shareholders	% of total outstanding shares
Less than 1%	53,735,841	342	6.34%
1% up to less than 5%	22,403,211	2	2.64%
5% up to less than 10% **	47,588,090	1	5.61%
50% and above	724,103,392	1	85.41%
	847,830,534	346	100.00%

* Expressed as a percentage of total outstanding shares of the Bank.

** Includes treasury shares.

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

31 December 2023

	Nationality	Number of shares	% of total outstanding shares
GFH Financial Group*	Bahrain	724,103,392	85.41%
Khaleeji Bank B.S.C	Bahrain	47,588,090	5.61%

* These shares are held by KHCB Asset Company on behalf of GFH Financial Group, the Parent.

31 December 2022

	Nationality	Number of shares	% of total outstanding shares
GFH Financial Group*	Bahrain	724,103,392	85.41%
Khaleeji Bank B.S.C	Bahrain	47,588,090	5.61%

* These shares are held by KHCB Asset Company on behalf of GFH Financial Group, the Parent.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

21. PERPETUAL MUDHARABA (AT1)

	31 December 2023 BD '000	31 December 2022 BD '000
Perpetual Mudharaba (AT1)	47,222	47,222
	47,222	47,222

In 2020, the Bank issued a Perpetual Mudharaba (Basel III compliant Additional Tier 1 capital securities) of face value of US\$ 159 million (BD 60 million) at a premium of USD 31.8 million (BD 12 million). Such capital was raised in order to meet minimum regulatory requirements relating to total equity as prescribed by Central Bank of Bahrain. The carrying value is net of issuance costs.

Summary of key terms and conditions are as follows:

- Profits on these securities shall be distributed on a semi-annual basis subject to and in accordance with terms and conditions on the outstanding nominal value of the securities at an expected rate of 10% p.a.
- The Perpetual Mudharaba is recognized under the owners' equity in the consolidated statement of financial position and the profits paid to rab al-maal (security holder) are accounted for as appropriation of profits.
- Perpetual Mudharaba is invested in a general mudharaba pool of assets on a unrestricted comingled basis.
- Security holder will not have a right to claim the profits and such event will not be considered as event of default.
- In the event of non-viability, the certificates will be converted either in full or in part on a pro-rata basis in accordance with the terms of the certificate which require conversion at the fair value of the Bank's share at the time of such non-viability event.
- The Certificates carry a call option after 5 years from the date of issue.

During the year, the Group paid profit distribution on its AT1 to the its holders for an amount of BD 6,000 thousand (2022: BD 6,000 thousand).

Subsequent events

Subsequent to the year end, after seeking in-principle approval from its regulator and its Board of Directors, the Bank has agreed to convert part of its AT1 Sukuk amounting to BD28.26 million to 282,610,178 common equity shares and to settle the remaining AT1 Sukuk of BD31.0 million in cash, subject to obtaining requisite final approvals in the ensuing Extraordinary General Meeting of the Sukukholders and shareholders of the Bank. Post the partial conversion of the AT1 Sukuk, the issued share capital of the Bank would increase by BD28.2 million and overall equity would reduce by BD31.0 Million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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22. FEES AND OTHER INCOME, NET

	2023 BD '000	2022 BD '000
Fees income	848	931
Foreign exchange gain	1,314	1,163
Recovery of written-off assets	3,199	1,808
Gain on disposal of investment in real estate	4,924	229
Others	899	595
	11,184	4,726

23. STAFF COST

	2023 BD '000	2022 BD '000
Salaries and short-term benefits	5,537	6,470
Social insurance	913	845
Indemnity expenses	109	74
Other staff expenses	59	115
	6,618	7,504

24. OTHER OPERATING EXPENSES

	2023 BD '000	2022 BD '000
Professional fees	1,067	1,113
Distribution channel expenses	1,117	700
Information technology expenses	1,082	855
Net ijarah cost	446	561
Board expenses	582	278
Depreciation expense (note 15)	735	392
Advertisement and marketing expenses	1,074	386
Premises cost	362	225
Communication expenses	194	197
Other operating expenses	1,765	1,050
	8,424	5,757

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

25. IMPAIRMENT ALLOWANCE, NET

	2023 BD '000	2022 BD '000
Financing contracts (note 9)	1,375	2,334
Investments in sukuk	93	(395)
Balances and placements with banks and financial institutions	3	1
Commitments and financial guarantees (note 38)	(2)	(21)
	1,469	1,919

26. SHARE-BASED EMPLOYEE INCENTIVE SCHEME

The shareholders in their annual general meeting dated 24 March 2022, approved the amendments to the share incentive scheme. In line with the revised scheme 104,734 shares (unallocated) were transferred from the KHCB employee benefit Trust to the Bank as treasury shares. During 2022, the KHCB employee benefit Trust was terminated. The Bank has now transitioned to cash-settled deferred variable compensation.

27. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes judgments, estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. However, the process of making the required estimates and assumptions involved further challenges due to the prevailing uncertainties.

I. Judgements

Establishing the criteria for determining whether credit risk on an exposure subject to credit risk has increased significantly since initial recognition, determining methodology for incorporating forward looking information into measurement of ECL and selection and approval of models used to measure ECL is set out in Note 5j (i) and Note 37.

Impairment allowance on financing portfolio at amortised cost

In determining the appropriate level of expected credit losses (ECLs) the Group considered the macro-economic outlook, customer credit quality, the type of collateral held, exposure at default, and the effect of payment deferral options as at the reporting date.

The ECL methodology, significant increase in credit risk (SICR) thresholds, and definition of default remain consistent with those used as at 31 December 2022.

The re-assessed model inputs, including forward-looking information, scenarios and associated weightings, were revised to reflect the current outlook. Noting the wide range of possible scenarios and macroeconomic outcomes, and the relative uncertainty of how the social and economic factors will materialize, these scenarios represent reasonable and supportable forward-looking views as at the reporting date. The Group's models are calibrated periodically to consider past performance and macrocosmic forward-looking variables as inputs.

The Group considers both qualitative and quantitative information in the assessment of significant increase in credit risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

27. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

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

a. Classification of investments

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as 1) monetary or non-monetary debt-type instruments carried at fair value through equity or at amortised cost, or 2) equity-type instruments carried at fair value through equity or at fair value through income statement. The classification of each investment is based on business model assessment by management and is subject to different accounting treatments based on such classification (refer note 5 (c) (i)).

b. Impairment of equity investments at fair value through equity – (refer to Note 5 (j) (ii))

II. Estimations

a) Impairment of financing contracts at amortised cost

- Determining inputs into ECL measurement model including incorporation of forward-looking information is set out in Note 5 (j) and Note 37; and
- Key assumptions used in estimating recoverable cash flows

b) Measurement of fair value of unquoted equity investments (level 3) -refer to Note 5 (c) (iii) and Note 36

Assessment of impairment of investment in real estate (Note 5(h),5(k)) and Note 12)

28. ASSETS UNDER MANAGEMENT

The Group provides corporate administration, investment management and advisory services to its investment entities, which involves making decisions on behalf of such entities. Assets that are held in such capacity are not included in these consolidated financial statements. At the reporting date, the Group had assets under management of BD 198.77 million (31 December 2022: BD 196.99 million). During the year, the Group has not charged any management fees (2022: BD Nil) for the management of these assets. The Group has outsourced the day-to-day management of the assets under management to its Parent.

29. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include the parent company, other significant shareholders and entities over which the Group and the shareholders exercises significant influence, directors, sharia board members and executive management of the Group. The transactions with these parties were made on agreed commercial terms.

Details of Directors' interests in the Bank's ordinary shares as at the end of the year were nil (2022: Nil).

Compensation of key management personnel

Key management personnel of the Group comprise the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group.

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for the year ended 31 December 2023

29. RELATED PARTY TRANSACTIONS (CONTINUED)

The key management personnel compensation during the year is as follows:

	2023 BD '000	2022 BD '000
Board member fees and allowances	445	286
Salaries and other short-term benefits	1,555	1,451
Post employment benefits	93	63

The key management personnel balances as of the end the year is as follows:

	31 December 2023 BD '000	31 December 2022 BD '000
Balances due to key management as compensation	480	463

The related party balances and transactions (except for compensation of key managerial personnel) included in these consolidated financial statements are as follows:

31 December 2023	Associates	Directors / Key management personnel and shari'a board members	Parent company / other significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
Assets					
Financing contracts	-	4,245	23,206	-	27,451
Investment securities	-	-	2,284	4,240	6,524
Equity accounted investees	24,689	-	-	-	24,689
Investment in sukuk	-	-	58,297	-	58,297
Other assets	-	-	568	108	676
Liabilities					
Placement from financial institutions, Non-FIs and individuals	-	2,112	43,541	-	45,653
Customers' current accounts	1,120	6	11,021	442	12,589
Equity of investment accountholders	335	1,895	126,520	129	128,879
Other liabilities	-	480	-	-	480

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29. *RELATED PARTY TRANSACTIONS (CONTINUED)*

31 December 2022	Associates	Directors / Key management personnel and shari'a board members	Parent company / other significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
Assets					
Financing contracts	-	3,171	6,902	-	10,073
Investment securities	-	-	2,284	4,461	6,745
Equity accounted investees	24,522	-	-	-	24,522
Investment in sukuk	-	-	54,171	-	54,171
Other assets	17	-	272	46	335
Liabilities					
Placement from financial institutions, Non-FIs and individuals	-	1,274	86,222	-	87,496
Customers' current accounts	723	69	5,572	451	6,815
Equity of investment accountholders	362	1,084	226,111	219	227,776

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

29. *RELATED PARTY TRANSACTIONS (CONTINUED)*

2023	Associates	Directors / Key management personnel and shari'a board members	Parent company / other significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
Income					
Income from financing contracts	-	298	3,218	-	3,516
Income from investment securities	-	-	-	422	422
Share of loss from equity accounted investees	(925)	-	-	-	(925)
Income from sukuk	-	-	2,194	-	2,194
Fees and other income, net	-	-	3,523	-	3,523
Expenses					
Finance expense on placements from financial institutions, non-financial institutions and individuals	-	102	4,394	-	4,496
Return to investment accountholders	14	94	5,375	6	5,489
Staff cost	-	1,648	-	-	1,648
Other expenses	-	445	-	57	502

During the year, the Bank and its Parent entered into an exchange agreements to swap investment properties with a carrying value of BD 9,887 thousand in exchange for unquoted equity securities of BD 5,844 thousand and investment in sukuk of BD 7,566 thousand resulting in a gain of BD 3,523 thousand recognised as gain on disposal of investment in real estate under fee and other income, net.

During the year, there were 2 land plots sold to a board member under financing arrangement at their carrying value. The total carrying value for these lands was BD 558 thousand.

During the year, the Group paid profit distribution on its AT1 to the Parent for an amount of BD 5,666 thousand (2022: 5,666).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

29. *RELATED PARTY TRANSACTIONS (CONTINUED)*

2022	Associates	Directors / Key management personnel and shari'a board members	Parent company / other significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
Income					
Income from financing contracts	-	198	476	-	674
Income from investment securities	-	-	-	-	-
Share of loss from equity accounted investees	(1,252)	-	-	-	(1,252)
Income from sukuk	-	-	1,083	-	1,083
Fees and other income, net	-	-	-	-	-
Expenses					
Finance expense on placements from financial institutions, non-financial institutions and individuals	-	34	1,504	-	1,538
Return to investment accountholders	10	38	6,087	4	6,139
Staff cost	-	1,451	-	-	1,451
Other expenses	-	286	-	-	286

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

30. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of equity shares outstanding during the year adjusted for impact arising from shares issued under the employee share incentive scheme.

Basic EPS	2023 BD '000	2022 BD '000
Profit attributable to shareholders of parent for the year	9,003	14,007
Less: Profit distribution on AT1 Capital	6,000	6,000
Profit attributable to the shareholders of the parent for basic and diluted earnings per share computation for the year	3,003	8,007
Weighted average number of shares outstanding during the year, net of treasury shares (thousand)	800,242	801,760
Basic and diluted earnings per share (in fils)	3.753	9.987

The Group did not have any dilutive instruments as of 31 December 2023 and 31 December 2022.

31. SHARI'A SUPERVISORY BOARD

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

32. ZAKAH

Zakah is directly borne by the shareholders on distributed profits and investment accountholders. The Group currently does not collect or pay Zakah on behalf of its shareholders and investors in restricted investment accounts. Zakah payable by the shareholders is computed by the Group on the basis of the method prescribed by the Group's Shari'a Supervisory Board and notified to shareholders annually. During the year, the Shari'a Supervisory Board has computed Zakah payable of BD 940 thousand (2022: BD 660 thousand) of which BD 769 thousand (2022: 555 thousand) represents the Zakah computed on the statutory reserve and cumulative retained earnings as at 31 December 2023, payable by the Group. The remaining Zakah balance amounting to BD 171 thousand or 0.202 fils per share (2022: BD 105 thousand or 0.124 fils per share) is due and payable by the shareholders. The Group will pay Zakah of BD 11 thousand (2022: BD 6 thousand) on the treasury shares held as of 31 December 2023 based on 0.202 fils per share (2022: 0.124 fils per share).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

33. SEGMENT REPORTING

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group's chief operating decision maker (Board of Directors) to make decisions about resource allocation to each segment and assess its performance and for which discrete financial information is available. An operating segment is divided into business segment and geographic segments. For management purposes, the Group is organised into two major business segments:

Banking

This mainly covers licensed activities of providing customer services such as accepting Mudharaba deposits, savings account and current account facilities, fund transfer facilities, bill payment facilities. This business deploys the funding to provide financing facilities (in the form of Commodity Murabaha, Mudharaba, Musharaka, Istisna'a and for Ijarah facilities) to corporate clients and High-Networth-Individuals and consumer finance products. This segment also includes liquidity management through money market and treasury services in the form of short term Commodity Murabaha and Wakala to banks, financial institutions and investments in sukuk to manage funding profile of the Group's banking business.

Investments

Primarily relates to conceptualising of investment deals and performing roles of an arranger, lead manager, and administrator of the funds (involves structuring of deals, raising of funds through private placement and fund administration). Also involves carrying out strategic investments in the form of equity contribution (either in the funds created and managed by the Group or other institutions).

Segment performance is measured based on results for each department as mentioned in the internal management reports that are reviewed by the Board of directors on a quarterly basis. Segment results is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate in these industries.

The Group reports directly attributable revenue and cost relating to transactions originating from respective segments as segment revenue and segment cost respectively. Indirect costs and corporate overheads are treated as unallocated. The group does not use a transfer pricing mechanism between its segments. The internal management reports are designed to reflect revenue and cost for respective segments which are measured against the budgeted figures.

The Group primarily operates from Bahrain and does not have any overseas branches/divisions. The geographic concentration of assets and liabilities is disclosed in note 35 (b) to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

33. *SEGMENT REPORTING (CONTINUED)*

These segments are the basis on which the Group reports its primary segment information. Transactions between segments (if any) are conducted on agreed terms.

31 December 2023	Investments BD '000	Banking BD '000	Unallocated BD '000	Total BD '000
Cash and bank balances	1	116,382	-	116,383
Placements with financial institutions	(9)	124,199	-	124,190
Investment in sukuk	-	522,746	-	522,746
Financing contracts	-	548,287	-	548,287
Investment securities	38,570	-	-	38,570
Assets held-for-sale	-	-	-	-
Investment in real estate	97,787	-	-	97,787
Equity accounted investees	24,689	-	-	24,689
Other assets	4,134	6,106	16,037	26,277
Property and equipment	-	-	3,489	3,489
Total segment assets	165,172	1,317,720	19,526	1,502,418
Placements from financial institutions	-	237,773	-	237,773
Placements from non-financial institutions and individuals	-	206,518	-	206,518
Term financing from financial institutions	-	264,362	-	264,362
Customers' current accounts	(9)	77,889	-	77,880
Other liabilities	6,285	9,780	6,764	22,829
Total segment liabilities	6,276	796,322	6,764	809,362
Equity of investment accountholders	-	535,662	-	535,662
Restricted investment accounts	1,533	-	-	1,533

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

33. **SEGMENT REPORTING (CONTINUED)**

2023	Investments BD '000	Banking BD '000	Unallocated BD '000	Total BD '000
Income from financing contracts	-	40,222	-	40,222
Income from placements with financial institutions	-	4,819	-	4,819
Income from sukuk	-	29,599	-	29,599
Income from investment securities	3,372	-	-	3,372
Share of loss from equity accounted investees	(925)	-	-	(925)
Fees and other income, net	4,062	7,122	-	11,184
Total income before return to investment accountholders	6,509	81,762	-	88,271
Less: Return to investment accountholders before Bank's share as Mudarib	-	(28,364)	-	(28,364)
Bank's share as a Mudarib	-	6,806	-	6,806
Return to investment accountholders	-	(21,558)	-	(21,558)
Less:				
Finance expense on placements from financial institutions, non-financial institutions and individuals	-	(30,493)	-	(30,493)
Finance expense on term financing from financial institutions	-	(10,662)	-	(10,662)
Total segment income	6,509	19,049	-	25,558
Staff cost	662	2,647	3,309	6,618
Other expenses	258	2,200	5,966	8,424
Total segment expenses	920	4,847	9,275	15,042
Segment results before impairment allowances	5,589	14,202	(9,275)	10,516
Impairment allowance, net	(93)	(1,376)	-	(1,469)
Segment results	5,496	12,826	(9,275)	9,047

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

33. *SEGMENT REPORTING (CONTINUED)*

31 December 2022	Investments BD '000	Banking BD '000	Unallocated BD '000	Total BD '000
Cash and bank balances	2	149,091	-	149,093
Placements with financial institutions	576	62,054	-	62,630
Investment in sukuk	-	523,332	-	523,332
Financing contracts	-	504,860	-	504,860
Investment securities	33,637	-	-	33,637
Assets held-for-sale	4,341	-	-	4,341
Investment in real estate	96,947	-	-	96,947
Equity accounted investees	24,522	-	-	24,522
Other assets	5,289	5,936	11,676	22,901
Property and equipment	-	-	3,431	3,431
Total segment assets	165,314	1,245,273	15,107	1,425,694
Placements from financial institutions	-	240,080	-	240,080
Placements from non-financial institutions and individuals	-	215,364	-	215,364
Term financing from financial institutions	-	130,955	-	130,955
Customers' current accounts	576	50,379	-	50,955
Other liabilities	12,249	5,913	7,275	25,437
Total segment liabilities	12,825	642,691	7,275	662,791
Equity of investment accountholders	-	605,133	-	605,133
Restricted investment accounts	1,516	-	-	1,516

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

33. *SEGMENT REPORTING (CONTINUED)*

2022	Investments BD '000	Banking BD '000	Unallocated BD '000	Total BD '000
Income from financing contracts	-	35,725	-	35,725
Income from placements with financial institutions	7	716	-	723
Income from sukuk	-	21,977	-	21,977
Income from investment securities	305	-	-	305
Share of loss from equity accounted investees	(1,252)	-	-	(1,252)
Fees and other income, net	-	4,726	-	4,726
Total income before return to investment accountholders	(940)	63,144	-	62,204
Less: Return to investment accountholders before Bank's share as Mudarib	-	(29,862)	-	(29,862)
Bank's share as a Mudarib	-	15,517	-	15,517
Return to investment accountholders	-	(14,345)	-	(14,345)
Less:				
Finance expense on placements from financial institutions, non-financial institutions and individuals	-	(14,333)	-	(14,333)
Finance expense on term financing from financial institutions	-	(4,339)	-	(4,339)
Total segment income	(940)	30,127	-	29,187
Staff cost	122	7,382	-	7,504
Other expenses	38	5,719	-	5,757
Total segment expenses	160	13,101	-	13,261
Segment results before impairment allowances	(1,100)	17,026	-	15,926
Impairment allowance, net	395	(2,314)	-	(1,919)
Segment results	(705)	14,712	-	14,007

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

34. MATURITY PROFILE

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

31 December 2023	Up to 3 months BD '000	3 to 6 months BD '000	6 months - 1 year BD '000	1 to 3 years BD '000	Over 3 years BD '000	Total BD '000
Assets						
Cash and bank balances	103,727	3,265	8,662	729	-	116,383
Placements with financial institutions	124,190	-	-	-	-	124,190
Investment in sukuk	331,553	-	-	94,638	96,555	522,746
Financing contracts	57,309	11,786	69,201	118,785	291,206	548,287
Investment securities	-	-	-	14,796	23,774	38,570
Assets held-for-sale	-	-	-	-	-	-
Investment in real estate	-	-	-	-	97,787	97,787
Equity accounted investees	-	-	-	-	24,689	24,689
Other assets	4,165	-	-	21,103	1,009	26,277
Property and equipment	-	-	-	-	3,489	3,489
Total assets	620,944	15,051	77,863	250,051	538,509	1,502,418
Liabilities						
Placements from financial institutions	178,655	40,214	12,697	6,207	-	237,773
Placements from non-financial institutions and individuals	24,605	15,418	53,513	222	112,760	206,518
Term financing from financial institutions	-	-	-	264,362	-	264,362
Customers' current account	5,428	9,579	-	5,241	57,632	77,880
Other liabilities	14,015	3,511	3,179	2,124	-	22,829
Total liabilities	222,703	68,722	69,389	278,156	170,392	809,362
Equity of investment accountholders	36,766	14,616	27,298	10,025	446,957	535,662
Restricted investment accounts	-	-	-	1,533	-	1,533
Commitments and financial guarantees	34,864	6,924	12,623	3,802	51	58,264

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

34. **MATURITY PROFILE (CONTINUED)**

31 December 2022	Up to 3 months BD '000	3 to 6 months BD '000	6 months - 1 year BD '000	1 to 3 years BD '000	Over 3 years BD '000	Total BD '000
Assets						
Cash and bank balances	137,100	2,780	5,109	4,104	-	149,093
Placements with financial institutions	62,630	-	-	-	-	62,630
Investment in sukuk	134,352	-	-	283,926	105,054	523,332
Financing contracts	47,141	12,593	52,410	106,457	286,259	504,860
Investment securities	-	-	-	14,900	18,737	33,637
Assets held-for-sale	4,341	-	-	-	-	4,341
Investment in real estate	-	-	-	-	96,947	96,947
Equity accounted investees	-	-	-	-	24,522	24,522
Other assets	4,548	1,001	2,084	10,328	4,940	22,901
Property and equipment	-	-	-	-	3,431	3,431
Total assets	390,112	16,374	59,603	419,715	539,890	1,425,694
Liabilities						
Placements from financial institutions	191,762	16,599	19,443	12,276	-	240,080
Placements from non-financial institutions and individuals	29,427	14,359	13,727	76,363	81,488	215,364
Term financing from financial institutions	-	-	-	130,955	-	130,955
Customers' current account	3,552	6,267	-	3,429	37,707	50,955
Other liabilities	18,366	2,753	2,503	1,815	-	25,437
Total liabilities	243,107	39,978	35,673	224,838	119,195	662,791
Equity of investment accountholders	45,899	13,348	24,349	8,960	512,577	605,133
Restricted investment accounts	-	-	-	1,516	-	1,516
Commitments and financial guarantees	21,238	1,611	18,575	13,030	646	55,100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

35. CONCENTRATION OF ASSETS, LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND RESTRICTED INVESTMENT ACCOUNTS**(a) Industry sector****31 December 2023**

	Banks and financial institutions	Real estate	Government / Sovereign	Others	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
Assets					
Cash and bank balances	116,383	-	-	-	116,383
Placements with financial institutions	124,190	-	-	-	124,190
Investment in sukuk	64,546	77,125	357,234	23,841	522,746
Financing contracts	2,853	277,139	40,406	227,889	548,287
Investment securities	14,796	17,858	-	5,916	38,570
Assets-held-for-sale	-	-	-	-	-
Investment in real estate	-	97,787	-	-	97,787
Equity accounted investees	-	24,689	-	-	24,689
Other assets	698	5,330	-	20,249	26,277
Property and equipment	-	-	-	3,489	3,489
Total assets	323,466	499,928	397,640	281,384	1,502,418
Liabilities					
Placements from financial institutions	237,773	-	-	-	237,773
Placements from non-financial institutions and individuals	1,518	-	2,786	202,214	206,518
Term financing from financial institutions	216,362	-	48,000	-	264,362
Customers' current accounts	352	3,732	1,674	72,122	77,880
Other liabilities	-	396	-	22,433	22,829
Total liabilities	456,005	4,128	52,460	296,769	809,362
Equity of investment accountholders	66,148	62,643	65,344	341,527	535,662
Restricted investment accounts	-	1,533	-	-	1,533
Commitments and financial guarantees	245	11,052	-	46,967	58,265

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2023****35. CONCENTRATION OF ASSETS, LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND RESTRICTED INVESTMENT ACCOUNTS (CONTINUED)**(a) *Industry sector (continued)*

31 December 2022

	Banks and financial institutions	Real estate	Government / Sovereign	Others	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
Assets					
Cash and bank balances	98,510	-	50,583	-	149,093
Placements with financial institutions	62,630	-	-	-	62,630
Investment in sukuk	64,546	73,826	356,045	28,915	523,332
Financing contracts	3,637	265,442	1,757	234,024	504,860
Investment securities	14,899	14,275	-	4,463	33,637
Assets-held-for-sale	-	4,341	-	-	4,341
Investment in real estate	-	96,947	-	-	96,947
Equity accounted investees	-	24,522	-	-	24,522
Other assets	-	10,270	-	12,631	22,901
Property and equipment	-	-	-	3,431	3,431
Total assets	244,222	489,623	408,385	283,464	1,425,694
Liabilities					
Placements from financial institutions	240,080	-	-	-	240,080
Placements from non-financial institutions and individuals	1,615	77,606	890	135,253	215,364
Term financing from financial institutions	130,955	-	-	-	130,955
Customers' current accounts	1,582	8,628	835	39,910	50,955
Other liabilities	-	396	-	25,041	25,437
Total liabilities	374,232	86,630	1,725	200,204	662,791
Equity of investment accountholders	159,914	9,043	57,837	378,339	605,133
Restricted investment accounts	-	1,516	-	-	1,516
Commitments and financial guarantees	-	11,477	-	43,623	55,100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

35. CONCENTRATION OF ASSETS, LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND RESTRICTED INVESTMENT ACCOUNTS (CONTINUED)

(b) Geographic sector

31 December 2023	GCC countries	Europe	America	Asia	Australia	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Assets						
Cash and bank balances	108,026	863	7,463	31	-	116,383
Placements with financial institutions	104,074	20,116	-	-	-	124,190
Investment in sukuk	441,238	81,508	-	-	-	522,746
Financing Contracts	542,246	6,041	-	-	-	548,287
Investment securities	19,534	14,796	-	-	4,240	38,570
Assets held-for-sale	-	-	-	-	-	-
Investment in real estate	97,787	-	-	-	-	97,787
Equity accounted investees	24,689	-	-	-	-	24,689
Other assets	26,232	15	-	29	1	26,277
Property and equipment	3,489	-	-	-	-	3,489
Total assets	1,367,315	123,339	7,463	60	4,241	1,502,418
Liabilities						
Placements from financial institutions	237,773	-	-	-	-	237,773
Placements from non-financial institutions and individuals	201,630	4,888	-	-	-	206,518
Term financing from financial institutions	214,805	49,557	-	-	-	264,362
Customers' current accounts	56,537	10,816	-	10,527	-	77,880
Other liabilities	22,829	-	-	-	-	22,829
Total liabilities	733,574	65,261	-	10,527	-	809,362
Equity of investment accountholders	505,196	28,876	-	1,590	-	535,662
Restricted investment accounts	1,533	-	-	-	-	1,533
Commitments and financial guarantee	58,265	-	-	-	-	58,265

Concentration by location for financing contracts is measured based on the location of the counterparty, which has a high correlation with the location of the collateral for the exposure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2023****35. CONCENTRATION OF ASSETS, LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND RESTRICTED INVESTMENT ACCOUNTS (CONTINUED)***(b) Geographic sector (continued)*

31 December 2022	GCC countries BD '000	Europe BD '000	America BD '000	Asia BD '000	Australia BD '000	Total BD '000
Assets						
Cash and bank balances	104,343	1,896	42,850	4	-	149,093
Placements with financial institutions	51,040	11,590	-	-	-	62,630
Investment in sukuk	442,201	81,131	-	-	-	523,332
Financing Contracts	498,799	6,061	-	-	-	504,860
Investment securities	14,276	14,900	-	-	4,461	33,637
Assets held-for-sale	4,341	-	-	-	-	4,341
Investment in real estate	96,947	-	-	-	-	96,947
Equity accounted investees	24,522	-	-	-	-	24,522
Other assets	22,856	15	-	29	1	22,901
Property and equipment	3,431	-	-	-	-	3,431
Total assets	1,262,756	115,593	42,850	33	4,462	1,425,694
Liabilities						
Placements from financial institutions	240,080	-	-	-	-	240,080
Placements from non-financial institutions and individuals	213,470	1,894	-	-	-	215,364
Term financing from financial institutions	74,500	56,455	-	-	-	130,955
Customers' current accounts	49,627	514	-	814	-	50,955
Other liabilities	25,437	-	-	-	-	25,437
Total liabilities	603,114	58,863	-	814	-	662,791
Equity of investment accountholders	593,900	9,697	-	1,536	-	605,133
Restricted investment accounts	1,516	-	-	-	-	1,516
Commitments and financial guarantee	55,100	-	-	-	-	55,100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

36. FAIR VALUE

a) Fair value

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

The fair value of quoted Sukuk carried at amortised cost of BD 400,012 thousand (31 December 2022: BD 404,822 thousand) is BD 386,760 thousand as at 31 December 2023 (31 December 2022: BD 392,127 thousand).

The fair value of financing contracts carried at amortised cost of BD 548,287 thousand was estimated at BD 534,640 thousand as at 31 December 2023. The Bank considered the difference between original effective profit rates and current market rates till the expected date of next repricing to market rates, without any further adjustments for pre-payment risk, credit risk, liquidity or other portfolio attributes. The estimated fair values of the Group's other financial instruments are not significantly different from their carrying values due to their short-term nature.

b) Fair value hierarchy

The table below analyses the financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31 December 2023

	Level 1 BD '000	Level 2 BD '000	Level 3 BD '000	Total BD '000
Structured notes at fair value through income statement	-	14,796	-	14,796
Debt-type sukuk at fair value through equity	-	64,737	-	64,737
Equity-type sukuk at fair value through equity	-	58,297	-	58,297
Equity type securities carried at fair value through equity	-	-	23,774	23,774
	-	137,830	23,774	161,604

31 December 2022

	Level 1 BD '000	Level 2 BD '000	Level 3 BD '000	Total BD '000
Structured notes at fair value through income statement	-	14,900	-	14,900
Debt-type sukuk at fair value through equity	-	64,546	-	64,546
Equity-type sukuk at fair value through equity	-	54,171	-	54,171
Equity type securities carried at fair value through equity	-	-	18,738	18,738
	-	133,617	18,738	152,355

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

36. FAIR VALUE (CONTINUED)

b) Fair value hierarchy (continued)

The table below shows the reconciliation of movements in value of investments measured using Level 3 inputs:

	2023 BD '000	2022 BD '000
At 1 January	18,738	15,353
Fair value change in equity	(623)	(341)
Purchases	5,932	-
Sales	(216)	-
Settlements	(57)	2,281
Transfer from assets held-for-sale	-	1,445
At 31 December	23,774	18,738

The potential effect of using reasonable possible alternative assumptions for fair valuing certain equity investments classified as level 3 are summarised below:

31 December 2023

Valuation technique used	Key unobservable inputs	Fair value at 31 December 2023 BD '000	Reasonable possible shift +/- (in average input)	Increase / (decrease) in valuation
Market multiples approach	Enterprise value to EBITDA	2,817	+/- 1X	246 / (246)
Market multiples approach	Price to book value	5,101	+/- 1X	726 / (726)
Market multiples approach	Price to total assets	1,142	+/- 1%	24 / (24)
Discounted cash flow	Cost of equity and terminal growth rate	735	+/- 2%	70 / (70)
Adjusted Net Asset Value	Change in net asset value	13,979	+/- 10%	1,398 / (1,398)
		23,774		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

36. *FAIR VALUE (CONTINUED)*

b) *Fair value hierarchy (continued)*

31 December 2022

Valuation technique used	Key unobservable inputs	Fair value at 31 December 2022 BD '000	Reasonable possible shift +/- (in average input)	Increase / (decrease) in valuation
Market multiples approach	Enterprise value to EBITDA	2,817	+/- 0.5X	94 / (94)
Market multiples approach	Price to book value	5,101	+/- 0.5X	157 / (157)
Market multiples approach	Price to total assets	1,142	+/- 5%	12 / (12)
Discounted cash flow	Cost of equity and terminal growth rate	735	+/- 1%	27 / (27)
Adjusted Net Asset Value	Change in net asset value	8,943	+/- 5%	447 / (447)
		18,738		

37. **FINANCIAL RISK MANAGEMENT**

Introduction and overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established various committees with responsibilities for managing the overall risks associated with the Group. The committees also continuously monitors consistent implementation of the Board approved policies in the Group and reports deviations, if any, to the Board. The committees consists of heads of business and other functional units in the Group. The committees comprise the following: Executive Risk Management, Executive Credit and Investment Committee (credit and investment risks), and Assets and Liabilities Committee (market and capital risks). In addition to the Committees, the Board has established an independent Risk Management Department with an overall responsibility to identify, measure, control risks and recommend policies and corrective actions. Risk Management Department reports directly to the Board Audit and Risk Management Committee.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023****37. FINANCIAL RISK MANAGEMENT (CONTINUED)***Risk Management Framework (CONTINUED)*

The Group's Audit and Risk Management Committee is responsible for monitoring compliance with the risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit and Risk Management Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Management Committee.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's exposures to placements with financial institutions, financing contracts, investment in sukuk and other receivables. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual and group exposure risk, country and sector concentration risk, related party exposure, etc.).

The Group manages its credit risks through its various business units, an independent Risk Management Department, Board Audit & Risk Management Committee ("BARMC"), and the Executive Credit & Investment Committee ("ECICOM"). The Credit risk management framework comprises the following:

- Formulating credit risk strategies policies and risk appetite which are developed after careful assessment of the market, capital requirement, regulatory rules, and the Board's risk appetite. The risk strategies and risk appetites are coded into policies approved by the Board. The Group's credit policy framework includes, inter alia, the following: credit risk management framework, credit risk mitigations, credit risk rating, credit risk pricing, expected credit loss, cross border business policy, personal finance product programs, approval authorities' matrix, and many others.
- Credit granting process. All credit exposures are assumed after careful assessment of the risks. Business proposals are initiated by the business units through formal credit applications. Such credit application provide adequate information about the proposed exposure including description of possible risks and mitigating factors. Credit applications are independently reviewed by a Credit Review Unit to assess the adequacy of the due diligence conducted, independent assessment of the risks and mitigants, ensure compliance with limits and policies. Credit Review Unit issue formal opinion in respect of the proposals which may include recommendations for enhancing the Group's position. Proposals are then presented to approving authorities for their considerations (see proceeding point below). Where applicable and necessary, credit applications are also independently reviewed by the Sharia Compliance Officer to ensure adherence to Islamic principles.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Approval authorities are documented in the Credit Authorities Policy of the Group which describes the various approval authorities, conditions, and limits for approving business transactions arising from investment and credit activities within the Group. There are 5 main levels of credit and investment authorities within the Group: Board of Directors, Board Investment & Credit Committee, Executive Credit & Investment Committee, Chief Executive Officer, and Heads of Business Units. Approval authorities are decided based on the magnitude of the risk and transactions size while at the same time allowing for smooth business operations.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023****37. FINANCIAL RISK MANAGEMENT (CONTINUED)**

CREDIT RISK (CONTINUED)

- **Managing concentrations.** The Group places significant emphasis on diversifying its portfolio through applying a portfolio strategy in which the Group spreads its assets and liabilities' businesses so that results from volatility or fluctuations in such businesses become subdued, controlled, and assist in the consistent long-term growth of the shareholders' interests. An important element of such portfolio strategy is to establish limits within which the Management may conduct business. In principle, the Group shall adhere to all maximum limits established by regulatory authorities. At the same time, the Group has defined its own internal limits to control the following: Credit risk concentration, Counterparty limits, Industry limits, Country limits, Collateral concentration limits, Product mix, Maturity limits, amongst others. These internal limits are reviewed on periodic basis taking into considerations the following factors: The Group's risk appetite, Business and budget plans, Counterparty's risk rating, Risk rating of the Counterparty's country, the Group's financial positions including liquidity and Capital adequacy, General market condition; and other factors as determined by the Board of Directors or the Board Audit & Risk Management Committee. In general, the Group adopts a negative correlation between risks and limits in that lower limits are defined for higher risks.
- **Credit Measurement Methodologies.** The Group quantifies its credit risk using two main metrics: expected loss (EL) and economic capital (EC). The expected loss reflects the average value of the estimated losses (i.e. the cost of the business) and is associated with the Group's policy on provisions, while economic capital is the amount of capital necessary to cover unexpected losses (i.e. if actual losses are higher than expected losses). As part of its measurement techniques, the Group conducts adequate stress testing on its portfolio.
- **Credit risk rating (CRR).** An important tool in monitoring the quality of individual credits, as well as the total portfolio, is the use of Credit Risk Rating systems. The Group adopts a well-structured internal CRR system as a mean of differentiating the degree of credit risk in the different credit exposures of the Group to allow more accurate determination of the overall characteristics of the asset portfolio, concentrations, limits management, problem assets, pricing, and the adequacy of loss reserves (provisions). As well as identifying the risks associated with a counterparty and a credit facility, CRRs provide a key input for the capital charges and risk weights. The Group's approach to credit risk rating is documented in the Credit Risk Rating Policy which aims at achieving the following: (a) create a benchmark for assessing relative creditworthiness of the graded entity and measure credit risk in relation to the market, (b) arrive at a system of risk-based pricing for credit facilities granted by the Group, (c) monitor the overall credit risk inherent in the Group's Credit portfolio, (d) create a benchmark for recognition of accrued income on credit assets, (e) link asset review frequency and approval authority levels to Credit risk and emphasize focus on effective management of weak assets, and (f) provide a means to link Internal Capital Adequacy to the portfolio credit risk.
- **Classifications and identification of non-performing exposures.** The Group has adopted FAS 30 / IFRS 9 standards for classifying exposures into three stages. Accounts are moved into higher staging depending on occurrence of Significant Increase in Credit Risks. Exposures with past due 90 days or more are classified as non-performing.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023**

37. FINANCIAL RISK MANAGEMENT (CONTINUED)**CREDIT RISK (CONTINUED)**

Remedial management. All credit exposures assumed by the Group are considered after thorough risk and reward analysis adequate for the size and nature of business being considered. However, despite all due diligence exercised to minimize the risks involved, it is inevitable that certain exposures may experience setbacks due to various reasons such as: fundamental changes in the market conditions, changes in regulations and laws, changes in the status of counterparties (such as death, loss of job, sanctions, seizure of business, or bankruptcy), delays in deliverables (such as delays in completion of projects), or Unintentional errors in the initial assumptions. From business impact point of view, such exposures would have high costs due to suspension of profits, provisioning, liquidity, reputational, or opportunity costs. To prevent such adverse business impact, the Group has developed a prudent remedial strategy appropriate for the size, nature, and delinquency period. Such strategy is documented in the Remedial Management Policy. The Group, through its Remedial and Collection department pursue various recovery techniques including dunning, rescheduling, restructuring, collateral foreclosure, legal actions, and cash settlement amongst others.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

37. *FINANCIAL RISK MANAGEMENT (CONTINUED)*

CREDIT RISK (CONTINUED)

Exposures subject to credit risk

31 December 2023

	Stage 1 BD '000	Stage 2 BD '000	Stage 3* BD '000	Total BD '000
Financing contracts				
Grade 8 -10 Impaired	-	-	47,782**	47,782
Past due but not impaired				
<i>Grade 1-6 Low-Fair Risk</i>	19,373	48,635	-	68,008
<i>Grade 7 Watch list</i>	1,309	10,897	-	12,206
<u>Past due comprises:</u>				
Up to 30 days	19,386	10,484	-	29,870
30-60 days	1,011	23,559	-	24,570
60-90 days	285	25,489	-	25,774
Neither past due nor impaired				
<i>Grade 1-6 Low-Fair Risk</i>	404,328	37,318	-	441,646
<i>Grade 7 Watch list</i>	77	1,519	-	1,596
Gross carrying amount	425,087	98,369	47,782	571,238
Less: expected credit losses	(1,709)	(5,716)	(15,526)	(22,951)
Net carrying amount	423,378	92,653	32,256	548,287

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

37. *FINANCIAL RISK MANAGEMENT (CONTINUED)*

CREDIT RISK (CONTINUED)

Exposures subject to credit risk (continued)

31 December 2023	Stage 1 BD '000	Stage 2 BD '000	Stage 3 BD '000	Total BD '000
Investment in Sukuk				
Grade 8 -10 Impaired	-	-	1,318	1,318
Grade 1-6 Low-Fair Risk	523,045	-	-	523,045
Gross carrying amount	523,045	-	1,318	524,363
Less: expected credit losses	(299)	-	(1,318)	(1,617)
Net carrying amount	522,746	-	-	522,746
Balances with banks and placements				
Grade 1-6 Low-Fair Risk	168,568	-	-	168,568
Gross carrying amount	168,568	-	-	168,568
Less: expected credit losses	(5)	-	-	(5)
Net carrying amount	168,563	-	-	168,563
Commitments and financial guarantees				
Grade 8 -10 Impaired	-	-	-	-
Grade 1-6 Low-Fair Risk	56,347	1,912	6	58,265
Grade 7 Watch list	-	-	-	-
Gross carrying amount	56,347	1,912	6	58,265
Less: expected credit losses	(19)	(36)	(6)	(61)
Net carrying amount	56,328	1,876	-	58,204
Total net carrying amount	1,171,014	94,529	32,256	1,297,799

* Includes facilities under cooling off period of BD 3,524 thousand.

** includes BD 1,475 thousand of purchased or originated credit impaired assets (POCI).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

37. *FINANCIAL RISK MANAGEMENT (CONTINUED)*

CREDIT RISK (CONTINUED)

Exposures subject to credit risk (continued)

31 December 2022

	Stage 1 BD '000	Stage 2 BD '000	Stage 3* BD '000	Total BD '000
Financing contracts				
Grade 8 -10 Impaired	-	-	25,700**	25,700
Past due but not impaired				
<i>Grade 1-6 Low-Fair Risk</i>	95,905	16,762	-	112,667
<i>Grade 7 Watch list</i>	74	14,074	-	14,148
<u>Past due comprises:</u>				
Up to 30 days	40,004	8,082	-	48,086
30-60 days	9,669	3,178	-	12,847
60-90 days	46,306	19,576	-	65,882
Neither past due nor impaired				
<i>Grade 1-6 Low-Fair Risk</i>	351,451	14,944	-	366,395
<i>Grade 7 Watch list</i>	79	8,426	-	8,505
Gross carrying amount	447,509	54,206	25,700	527,415
Less: expected credit losses	(5,330)	(4,361)	(12,864)	(22,555)
Net carrying amount	442,181	49,843	12,836	504,860

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

37. *FINANCIAL RISK MANAGEMENT (CONTINUED)*

CREDIT RISK (CONTINUED)

Exposures subject to credit risk (continued)

31 December 2022	Stage 1 BD '000	Stage 2 BD '000	Stage 3 BD '000	Total BD '000
Investment in Sukuk				
Grade 8 -10 Impaired	-	-	1,318	1,318
Grade 1-6 Low-Fair Risk	404,821	-	-	404,821
Gross carrying amount	404,821	-	1,318	406,139
Less: expected credit losses	(206)	-	(1,318)	(1,524)
Net carrying amount	404,615	-	-	404,615
Balances with banks and placements				
Grade 1-6 Low-Fair Risk	208,295	-	-	208,295
Gross carrying amount	208,295	-	-	208,295
Less: expected credit losses	(1)	-	-	(1)
Net carrying amount	208,294	-	-	208,294
Commitments and financial guarantees				
Grade 8 -10 Impaired	-	-	-	-
Grade 1-6 Low-Fair Risk	53,265	354	6	53,625
Grade 7 Watch list	-	130	-	130
Gross carrying amount	53,265	484	6	53,755
Less: expected credit losses	(56)	(1)	(6)	(63)
Net carrying amount	53,209	483	-	53,692
Total net carrying amount	1,108,299	50,325	12,838	1,171,461

* Includes facilities under cooling off period of BD 46,900 thousand.

** includes BD 6,621 thousand of purchased or originated credit impaired assets (POCI).

Significant increase in credit risk

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

In determining whether credit risk has increased significantly since initial recognition, the following criteria are considered:

- 1 Downgrade in risk rating according to the approved ECL policy;
- 2 Facilities restructured during previous twelve months;
- 3 Qualitative indicators; and
- 4 Facilities overdue by 30 days as at the reporting date subject to rebuttal in deserving circumstances

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023**

37. *FINANCIAL RISK MANAGEMENT (CONTINUED)*

CREDIT RISK (CONTINUED)

Credit risk grades

The Group allocates each exposure to credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. Exposers are rated 1 to 10 with 1 to being good and 7 being watch list and 8, 9 and 10 default grades. The monitoring typically involves use of the following data.

Corporate exposures

- Information obtained during periodic review of customer files- e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, and senior management changes
- Data from credit reference agencies. press articles, changes in external credit ratings
- Quoted bond and credit default swap (CDS) prices for the borrower where available
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities

Retail exposures

- Internally collected data on customer behaviour -e.g. utilisation of credit card facilities
- Affordability metrics
- External data from credit reference agencies including industry-standard credit scores

All exposures

- Payment record this includes overdue status as well as a range of variables about payment ratios
- Utilisation of the granted limit
- Requests for and granting of forbearance
- Existing and forecast changes in business, financial and economic conditions

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analyzed by jurisdiction or region and by type of product, borrower and credit risk grading.

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

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark profit rates and oil price. For exposures to specific industries and/or regions. the analysis may extend to relevant commodity and/or real estate prices.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023****37. FINANCIAL RISK MANAGEMENT (CONTINUED)****CREDIT RISK (CONTINUED)****Generating the term structure of PD (continued)**

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

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

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

Qualitative indicators, including different criteria used for different portfolios credit cards and commercial real estate.

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

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

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

Definition of default

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is 90 days or more past due on any material obligation to the Group.
- It is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligation.

In assessing whether the borrower is in default, the Group considers qualitative and quantitative indicators. The definition of default aligns with that applied by the Group for regulatory capital purposes.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023****37. FINANCIAL RISK MANAGEMENT (CONTINUED)****CREDIT RISK (CONTINUED)*****Incorporation of forward-looking information***

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Executive Risk Management Committee ("ERMC") and economic experts and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, supranational organisations such as the OECD and the International Monetary Fund, and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at 31 December 2023 included the key indicators for the selected countries such as the domestic credit growth, volume of imports of goods and services and the GDP growth.

Modified financial contracts

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

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

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023****37. FINANCIAL RISK MANAGEMENT (CONTINUED)****CREDIT RISK (CONTINUED)****Modified financial contracts (continued)**

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired / in default (refer Note 5). A customer needs to demonstrate consistently good payment behaviour over a period of time (3 months for retail customers and 6 months for corporate inline with the CM module under volume 2 issued by CBB) before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Measurement of ECLs

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

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

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

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

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters using various approaches which includes the history of recovery rates of claims against defaulted counterparties and regulatory haircuts on collaterals as a basis to determine the LGD. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For financing contracts secured by retail property, LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective profit rate as the discounting factor.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

37. *FINANCIAL RISK MANAGEMENT (CONTINUED)*

CREDIT RISK (CONTINUED)

The following tables show reconciliations from the opening to the closing balance of the loss allowance: 12-month ECL, lifetime ECL and credit-impaired.

	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3 + POCI)	Total
	BD '000	BD '000	BD '000	BD '000
Balance at 1 January 2023	5,594	4,362	14,188	24,144
<i>Transfer to 12-month ECL</i>	1,608	(1,278)	(330)	-
<i>Transfer to lifetime ECL non-credit- impaired</i>	(1,720)	1,776	(56)	-
<i>Transfer to lifetime ECL credit-impaired</i>	(872)	(227)	1,099	-
<i>Net transfers</i>	(984)	271	713	-
<i>Net re-measurement of loss allowance</i>	(2,578)	1,119	2,928	1,469
<i>Write-offs</i>	-	-	(90)	(90)
<i>Settlements</i>	-	-	(889)	(889)
Balance at 31 December 2023	2,032	5,752	16,850	24,634

Break down of ECL by category of assets in the statement of financial position and off-balance sheet commitments:

	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3 + POCI)	Total 2023
	BD '000	BD '000	BD '000	BD '000
<i>Balances and placements with banks and financial institutions</i>	5	-	-	5
<i>Investment in sukuk (note 8)</i>	299	-	1,318	1,617
<i>Financing contracts (note 9)</i>	1,709	5,716	15,526	22,951
<i>Commitments and financial guarantees (note 18)</i>	19	36	6	61
	2,032	5,752	16,850	24,634

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

37. **FINANCIAL RISK MANAGEMENT (CONTINUED)**

CREDIT RISK (CONTINUED)

The following tables show reconciliations from the opening to the closing balance of the loss allowance: 12-month ECL, lifetime ECL and credit-impaired.

	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3 + POCI)	Total
	BD '000	BD '000	BD '000	BD '000
Balance at 1 January 2023	5,594	4,362	14,188	24,144
<i>Transfer to 12-month ECL</i>	1,608	(1,278)	(330)	-
<i>Transfer to lifetime ECL non-credit- impaired</i>	(1,720)	1,776	(56)	-
<i>Transfer to lifetime ECL credit-impaired</i>	(872)	(227)	1,099	-
<i>Net transfers</i>	(984)	271	713	-
<i>Net re-measurement of loss allowance</i>	(2,578)	1,119	2,928	1,469
<i>Write-offs</i>	-	-	(90)	(90)
<i>Settlements</i>	-	-	(889)	(889)
Balance at 31 December 2023	2,032	5,752	16,850	24,634

Break down of ECL by category of assets in the statement of financial position and off-balance sheet commitments:

	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3 + POCI)	Total 2023
	BD '000	BD '000	BD '000	BD '000
<i>Balances and placements with banks and financial institutions</i>	5	-	-	5
<i>Investment in sukuk (note 8)</i>	299	-	1,318	1,617
<i>Financing contracts (note 9)</i>	1,709	5,716	15,526	22,951
<i>Commitments and financial guarantees (note 18)</i>	19	36	6	61
	2,032	5,752	16,850	24,634

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2023****37. FINANCIAL RISK MANAGEMENT (CONTINUED)
CREDIT RISK (CONTINUED)**

The following tables show reconciliations from the opening to the closing balance of the loss allowance: 12-month ECL, lifetime ECL and credit-impaired.

	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3 + POCI)	Total
	BD '000	BD '000	BD '000	BD '000
<i>Balance at 1 January 2022</i>	6,949	2,680	18,083	27,712
<i>Transfer to 12-month ECL</i>	1,583	(1,179)	(404)	-
<i>Transfer to lifetime ECL non-credit- impaired</i>	(621)	922	(301)	-
<i>Transfer to lifetime ECL credit-impaired</i>	(56)	(13)	69	-
<i>Net transfers</i>	906	(270)	(636)	-
<i>Net re-measurement of loss allowance</i>	(2,261)	1,952	2,226	1,917
<i>Write-offs</i>	-	-	(3,534)	(3,534)
<i>Settlements</i>	-	-	(1,951)	(1,951)
<i>Balance at 31 December 2022</i>	5,594	4,362	14,188	24,144

Break down of ECL by category of assets in the statement of financial position and off-balance sheet commitments:

	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3 + POCI)	Total 2022
	BD '000	BD '000	BD '000	BD '000
<i>Balances and placements with banks and financial institutions</i>	1	-	-	1
<i>Investment in sukuk (note 8)</i>	206	-	1,318	1,524
<i>Financing contracts (note 9)</i>	5,330	4,361	12,864	22,555
<i>Commitments and financial guarantees (note 18)</i>	57	1	6	64
	5,594	4,362	14,188	24,144

Impaired financial assets

Impaired financial assets are those for which the Group determines that it is probable that it will be unable to collect all or part of the principal and profit due according to the contractual terms of the exposure and these fall under risk grades 8, 9 and 10. For other financial assets impairment is assessed on an individual basis for each exposure by considering various factors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2023**

37. *FINANCIAL RISK MANAGEMENT (CONTINUED)**CREDIT RISK (CONTINUED)***Past due but not impaired exposures**

The exposure pertains to financing contracts where contractual profit or principal payments are past due but the Group believes that impairment is not appropriate on the basis of subsequent collections, the level of security / collateral available and / or the stage of collection of amounts owed to the Group.

Renegotiated facilities

During the year, facilities of BD 31,733 thousand (2022: BD 2,559 thousand) were renegotiated, out of which BD 18,076 thousand (2022: BD 920 thousand) are classified as neither past due nor impaired as of 31 December 2023. The renegotiated terms usually require settlement of profits accrued till date on the facility and/or part payment of the principal and/or obtaining of additional collateral coverage. The renegotiated facilities are subject to revised credit assessments and independent review by the RMD. Of the total past due facilities of BD 107,870 thousand (2022: BD 126,815 thousand) only instalments of BD 6,294 thousand (2022: BD 78,729 thousand) are past due as at 31 December 2023.

Allowances for impairment

The Group makes provisions for impairment on individual assets classified under grades 8,9 and 10. This is done on the basis of the present value of projected future cash flows from the assets themselves and consideration of the value of the collateral securities available. On a collective basis, the Group has provided for impairment losses based on management's judgment of the extent of losses incurred but not identified based on the current economic and credit conditions.

Write-off policy

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group expects no significant recovery from the amount written 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. During the year, the Group has written off financing facilities amounting to BD 90 thousand (2022: BD 4,129 thousand) which were fully impaired. The Group has recovered BD 3,199 thousand from a financing facility written off in previous years (2022: BD 1,808 thousand).

Collaterals

The Group holds collateral against financing contracts in the form of mortgage/ pledge over property, listed securities, other assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely. Collateral generally is not held against exposure to other banks and financial institutions. An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below. This includes the value of financial guarantees from banks, but not corporate and personal guarantees as the values thereof are not readily quantifiable. The collateral values considered for disclosure are restricted to the extent of the outstanding exposures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

37. **FINANCIAL RISK MANAGEMENT (CONTINUED)**
CREDIT RISK (CONTINUED)
Collaterals (continued)

	As at 31 December 2023			As at 31 December 2022		
	Financing assets BD '000	Ijarah assets BD '000	Total BD '000	Financing assets BD '000	Ijarah assets BD '000	Total BD '000
<u>Against impaired</u>						
Property	4,301	8,187	12,488	4,301	3,721	8,022
Other	744	-	744	744	-	744
<u>Against past due but not impaired</u>						
Property	59,231	13,843	73,074	59,231	35,176	94,407
Other	5,239	-	5,239	5,239	-	5,239
<u>Against neither past due nor impaired</u>						
Property	131,127	140,890	272,017	131,127	125,066	256,193
Other	8,482	-	8,482	8,482	-	8,482
Total	209,124	162,920	372,044	209,124	163,963	373,087

The average collateral coverage ratio on secured facilities is 147.47% at 31 December 2023 (31 December 2022: 149.71%).

For analysis of concentration of total assets and liabilities refer note 35.

Further, for financing contracts, the Group monitors concentrations of credit risk by sector and by geographic location.

An analysis of concentrations of credit risk at the reporting date is shown below:

Concentration by Sector	As at 31 December 2023			As at 31 December 2022		
	Financing assets BD '000	Ijarah assets BD '000	Total BD '000	Financing assets BD '000	Ijarah assets BD '000	Total BD '000
Banking and finance	2,853	-	2,853	3,637	-	3,637
Real estate	39,339	180,286	219,625	41,112	159,222	200,334
Construction	57,514	-	57,514	65,108	-	65,108
Trading	60,220	-	60,220	48,680	-	48,680
Manufacturing	10,427	-	10,427	12,805	-	12,805
Consumer	39,420	-	39,420	43,405	-	43,405
Others	131,846	26,382	158,228	106,388	24,503	130,891
Total carrying amount	341,619	206,668	548,287	321,135	183,725	504,860

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023**

37. FINANCIAL RISK MANAGEMENT (CONTINUED)
CREDIT RISK (CONTINUED)
*Collaterals (continued)***Settlement risk**

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a company to honour its obligations to deliver cash, securities or other assets as contractually agreed.

Settlement limits form part of the credit approval / limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from RMD.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial assets.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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

Financial Control Department (FCD) collates data from treasury and other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. FCD communicates the information to the treasury who manages the Group's portfolio of short-term liquid assets, largely made up of short-term placements with other banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored by FCD. The Group has in place a Liquidity Contingency Plan, the elements of which are periodically tested. Tools for implementation of regular stress testing under various scenarios are in place. All liquidity policies and procedures are subject to review by ALCO and approval by appropriate authorities. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO members.

Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For computation of this, net liquid assets are considered as including cash and bank balances and placements with financial Institutions and investments in sukuk net of sukuk pledged against term financing from financial institutions less placements from financial institution, and deposits comprise current accounts, placements from non-financial institutions and individuals, and equity of investment accountholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2023****37. FINANCIAL RISK MANAGEMENT (CONTINUED)****LIQUIDITY RISK (CONTINUED)**

Details of the reported Group ratio of net liquid assets to deposits and customers current accounts at the reporting date and during the reporting period were as follows:

	2023	2022
	%	%
At 31 December	32.70%	54.0%
Average for the period	42.15%	43.8%
Maximum for the period	49.16%	54.0%
Minimum for the period	32.70%	36.7%

For maturity profile of assets and liabilities refer note 34.

The Central Bank of Bahrain introduced Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) during 2019.

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

LCR is computed as a ratio of Stock of HQLA over the Net cash outflows over the next 30 calendar days. As at 31 December 2023, the Bank is required to maintain LCR greater than 100% as per the CBB. As of 31 December 2023, the Bank had LCR ratio of 340.37% (31 December 2022: 137.64%).

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

NSFR as a percentage is calculated as "Available stable funding" divided by "Required stable funding". As at 31 December 2023, the Bank is required to maintain NSFR ratio greater than 100%. As of 31 December 2023, the Bank had NSFR ratio of 102.13% (31 December 2022: 107.81%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

LIQUIDITY RISK (CONTINUED)

The Consolidated NSFR calculated as per the requirements of the CBB rulebook, as of 31 December 2023 is as follows:

	Unweighted values (i.e. before applying relevant factors)				Total weighted value BD '000
	No specified maturity BD '000	Less than 6 months BD '000	More than 6 months and less than one year BD '000	Over one year BD '000	
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	155,230	-	-	8,546	163,776
Other Capital Instruments	-	-	-	-	-
Retail deposits and deposits from small business customers:					
Stable deposits	-	60,115	13,753	1,420	71,594
Less Stable deposits	-	194,817	64,094	14,904	247,924
Wholesale funding:					
Operational deposits	-	-	-	-	-
Other wholesale funding	-	779,406	104,785	89,997	274,826
Other liabilities:					
NSFR derivative liabilities	-	-	-	-	-
All other liabilities not included in the above categories	-	23,956	-	-	-
Total ASF	155,230	1,058,293	182,632	114,867	758,121

Required Stable Funding (RSF):

Total NSFR high-quality liquid assets (HQLA)

Performing financing and sukuk/securities:

Performing financing to financial institutions secured by level 1 HQLA

Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing

financing to financial institutions

Performing financing to non-financial corporate clients, financing to retail and small business customers, and

financing to sovereigns, central banks and PSEs, of which:

- With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines

Performing residential mortgages, of which:

- With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines

Securities / sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities

All other assets not included in the above categories

OBS items

Total RSF

NSFR%

468,412	-	-	-	21,884
-	-	-	-	-
-	158,759	-	-	23,814
-	88,517	28,980	299,779	307,226
-	-	-	30,031	19,520
-	-	-	-	-
-	-	-	80,436	52,283
115,256	41,752	-	84,889	213,193
101,383	-	-	-	101,383
59,798	-	-	-	2,990
744,849	289,028	28,980	490,615	739,355
				102.54%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

37. **FINANCIAL RISK MANAGEMENT (CONTINUED)**

LIQUIDITY RISK (CONTINUED)

The Consolidated NSFR calculated as per the requirements of the CBB rulebook, as of 31 December 2022 is as follows:

	Unweighted values (i.e. before applying relevant factors)				Total weighted value BD '000
	No specified maturity BD '000	Less than 6 months BD '000	More than 6 months and less than one year BD '000	Over one year BD '000	
<u>Available Stable Funding (ASF):</u>					
Capital:					
Regulatory Capital	157,608	-	-	9,958	167,566
Other Capital Instruments	-	-	-	-	-
Retail deposits and deposits from small business customers:					
Stable deposits	-	59,644	5,689	9,832	71,898
Less Stable deposits	-	152,486	31,360	60,229	225,690
Wholesale funding:					
Operational deposits	-	-	-	-	-
Other wholesale funding	-	700,308	99,927	123,928	290,305
Other liabilities:					
NSFR derivative liabilities	-	-	-	-	-
All other liabilities not included in the above categories	-	25,581	-	-	-
Total ASF	157,608	938,019	136,977	203,947	755,459

<u>Required Stable Funding (RSF):</u>					
Total NSFR high-quality liquid assets (HQLA)	445,706	-	-	-	21,892
Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions	-	157,709	-	-	23,656
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:					
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	86,291	32,278	294,940	305,247
Performing residential mortgages	-	-	-	23,679	15,391
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	87,769	57,050
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	112,550	32,663	-	99,182	213,186
All other assets not included in the above categories	77,003	-	-	-	77,003
OBS items	53,790	-	-	-	2,689
Total RSF	689,048	276,664	32,278	481,890	700,724
NSFR%					107.81%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2023****37. FINANCIAL RISK MANAGEMENT (CONTINUED)****MARKET RISK**

Market risk is the risk that changes in market prices, such as profit rate, equity prices, foreign exchange rates and credit spreads will affect the Group's income, future cash flows or the value of its holdings of financial instruments. Market risk comprises three types of risk: currency risk, profit rate risk and other price risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Exposure to profit rate risk–non–trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market profit rates. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for re-pricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by the Group's Risk Management Department in its day-to-day monitoring activities.

A summary of the Group's profit rate gap position at 31 December 2023 is as follows:

31 December 2023	Up to 3 months	3 - 6 months	6 months - 1 year	1 - 3 years	More than 3 years	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Assets						
Placements with financial institutions	124,189	-	-	-	-	124,189
Investment in sukuk	34,515	58,297	15,223	222,090	192,621	522,746
Financing contracts	39,626	9,750	67,046	93,843	338,022	548,287
Total profit rate sensitive assets	198,330	68,047	82,269	315,933	530,642	1,195,222
Liabilities and investment accounts						
Placements from financial institutions	178,654	40,214	12,697	6,207	-	237,773
Placements from non-financial institutions and individuals	-	-	-	264,362	-	264,362
Term financing from financial institutions	59,555	26,711	106,271	13,981	-	206,518
Customers' current accounts	1,071	-	-	-	-	1,071
Equity of investment accountholders	379,480	54,162	65,422	36,585	13	535,662
Total profit rate sensitive liabilities and investment accounts	618,760	121,087	184,391	321,134	13	1,245,386
Off Balance Sheet	(385,566)	(46,116)	(89,381)	(1,517)	530,681	8,101
Profit rate gap						
Cumulative profit rate gap	(385,566)	(431,682)	(521,062)	(522,580)	8,101	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2023**37. *FINANCIAL RISK MANAGEMENT (CONTINUED)**MARKET RISK (CONTINUED)**Exposure to profit rate risk–non–trading portfolios (continued)*

31 December 2022	Up to 3 months	3 - 6 months	6 months - 1 year	1 - 3 years	More than 3 years	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Assets						
Placements with financial institutions	62,630	-	-	-	-	62,630
Investment in sukuk	-	-	2,570	286,600	234,161	523,331
Financing contracts	51,933	7,081	16,886	50,794	378,168	504,861
Total profit rate sensitive assets	114,563	7,081	19,456	337,394	612,328	1,090,822
Liabilities and investment accounts						
Placements from financial institutions	191,762	16,599	19,443	12,276	-	240,080
Placements from non-financial institutions and individuals	41,756	14,378	64,931	94,299	-	215,364
Term financing from financial institutions	-	-	-	130,955	-	130,955
Customers' current accounts	1,480	-	-	-	-	1,480
Equity of investment accountholders	463,903	42,767	53,023	45,439	1	605,133
Total profit rate sensitive liabilities and investment accounts	698,901	73,744	137,397	282,969	1	1,193,012
Profit rate gap	(584,338)	(66,663)	(117,941)	54,425	612,327	(102,190)
Cumulative profit rate gap	(584,338)	(651,001)	(768,942)	(714,517)	(102,190)	

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise across all yield curves and a 50 bp rise or fall of all yield curves.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2023****37. FINANCIAL RISK MANAGEMENT (CONTINUED)****MARKET RISK (CONTINUED)***Exposure to profit rate risk–non–trading portfolios (continued)*

An analysis of the Group's sensitivity to an increase or decrease in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position position) is as follows:

	100bp increase/ decrease BD '000	50bp increase/ decrease BD '000
At 31 December 2023	± 81	± 40
At 31 December 2022	± 484	± 242

Overall non-trading profit rate risk positions are managed by Treasury department, which uses short term investment securities, placement with banks and placement from banks to manage the overall position arising from the Group's non-trading activities.

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

The Group is in the process of implementing a tool to enable it to implement the recommendations of the ALCO committee, the CBB, ISDA IIFM regarding the new conventions for profit rates accrual for new expenses and for legacy contracts inline with the market practice as the process is done now manually.

Exposure to foreign exchange risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group had the following significant net exposures denominated in foreign currency as of 31 December.

	2023 BD Equivalent BD '000	2022 BD Equivalent BD '000
US Dollars*	1,009,408	125,247
Other GCC Currencies *	(231,527)	(120,045)
Euros	(705)	(892)
Australian Dollars	5,504	4,510
Kuwaiti Dinars	3,774	3,113
Sterling Pounds	(836)	(526)
Indian Rupee	15	8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2023****37. FINANCIAL RISK MANAGEMENT (CONTINUED)****MARKET RISK (CONTINUED)**

(*) The exposure in US dollars and other GCC currencies does not create any foreign exchange risk for the Group since Bahrain Dinars and other GCC currencies except for Kuwaiti Dinars are effectively pegged to the US Dollars.

The management of foreign exchange risk against net exposure limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various foreign exchange scenarios. Standard scenarios that are considered on a monthly basis include a 5% plus/minus increase in exchange rates, for currencies other than US Dollars, other GCC currencies.

An analysis of the Group's sensitivity to an increase or decrease in foreign exchange rates (assuming all other variables, primarily profit rates, remain constant) is as follows:

	2023 BD Equivalent BD '000	2022 BD Equivalent BD '000
Euros	±35	±45
Australian Dollars	±275	±226
Kuwaiti Dinars	±189	±156
Sterling Pounds	±42	±26
Indian Rupees	±1	-

Exposure to other price risks–non–trading portfolios

Credit spread risk on debt securities is subject to regular monitoring by RMD, but is not currently significant in relation to the overall financial position of the Group.

The Group's unquoted equity securities carried at cost are exposed to risk of changes in equity values. Refer to note 27 for significant estimates and judgments in relation to impairment assessment of unquoted equity investments carried at cost. The Group manages exposure to other price risks by actively monitoring the performance of the equity securities. The performance assessment is performed on a quarterly basis and is reported to the Board Investment and Credit Committee

OPERATIONAL RISK

Operational risk is the risk of loss arising from systems and control failures, fraud and human errors, which can result in financial and reputation loss, and legal and regulatory consequences. The Group manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, including internal audit and compliance. The Risk Management Department is in charge of identifying, monitoring and managing operational risk in the Group. The Group already has an approved policy for doing this and all required organisational and physical infrastructure are in place.

The Group has completed conducting Risk Control Self-Assessment (RCSA) of Operational risk for the departments of the Group to identify the important Key Risk Areas, Key Risk Indicators and Key Risk Triggers. The RCSA process is a continuous process and will be conducted at regular frequencies across the Group. It will be an annual process to review all the KRI's. A software for monitoring these triggers and recording actual and near miss losses is already in place. The medium-term objective of the Group is to generate statistically reliable data to upgrade to more sophisticated modes of Operational Risk Control both to manage the risk better and to reduce capital commitment.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023****37. FINANCIAL RISK MANAGEMENT (CONTINUED)**

CAPITAL MANAGEMENT

The Central Bank of Bahrain (CBB) sets and monitors capital requirements for the Group as a whole. In implementing current capital requirements CBB requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets. The capital adequacy regulations of CBB is based on the principles of Basel III of the IFSB guidelines.

The Group's regulatory capital is analysed into two tiers:

▪ *Tier 1 capital: includes CET1 and AT1.*

CET1 comprise of ordinary share capital that meet the classification as common shares for regulatory purposes, disclosed reserves including share premium, general reserves, legal / statutory reserve, common shares issued by consolidated banking subsidiaries of the Bank and held by third parties, retained earnings after regulatory adjustments relating to goodwill and items that are included in equity which are treated differently for capital adequacy purposes.

AT1 comprise instruments comprise the Mudharaba Sukuk issued by the Bank which meet the criteria of AT1 and is perpetual with a loss absorbing / conversion feature.

▪ *Tier 2 capital*

This includes instruments issued by the Bank that meet the criteria for inclusion in Tier 2 capital, stock surplus resulting from issue of Tier 2 capital, instruments issued by consolidated banking subsidiaries of the Bank held by third parties that meet the criteria for inclusion in Tier 2, general provisions held against unidentified losses on financing and qualify for inclusion within Tier 2, asset revaluation reserve from revaluation of fixed assets and instruments purposes and regulatory adjustments applied in the calculation of Tier 2 capital.

The regulations prescribe higher risk weights for certain exposures that exceeds materiality thresholds. These regulatory adjustments required for certain items such as goodwill on mortgage service right, deferred tax assets, cash flow hedge reserve, gain on sale of related securitization transactions, defined benefit pension fund assets and liabilities, investment in own shares and reciprocal cross holdings in the capital of Banking and financial entities, investment in the capital of Banking and financial entities that are outside the scope of regulatory consolidation and where the Group does not own more than 10% of issued common shares capital of the entity and significant investments in the capital of banking and financial entities that are outside the scope of regulatory consolidation.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

37. *FINANCIAL RISK MANAGEMENT (CONTINUED)*

OPERATIONAL RISK (CONTINUED)

CAPITAL MANAGEMENT (continued)

To counter the effect of COVID 19, the CBB had allowed the aggregate of modification loss and incremental ECL of BD 10,083 thousand for the period from March to December 2020 to be added back to Tier 1 capital for the three years commencing 1 January 2023.

The Group's regulatory capital position at 31 December was as follows:

	31 December 2023 BD '000	31 December 2022 BD '000
Total risk weighted exposure	567,230	856,994
Tier 1 capital:		
- CET 1 capital prior to regulatory adjustments	108,008	110,385
- Less: regulatory adjustments	-	-
CET 1 after regulatory adjustments	108,008	110,385
AT1	47,222	47,222
Tier 2 capital:	6,036	9,703
Total regulatory capital	161,266	167,310
Total regulatory capital expressed as a percentage of total risk weighted assets	28.43%	19.52%
Liquidity coverage ratio	340.37%	137.64%
Net stable funding ratio	102.54%	107.81%
Leverage ratio	13.52%	15.41%

The Group has complied with all externally imposed capital requirements throughout the year.

Capital allocation

The allocation of capital between specific operations and activities is primarily driven by regulatory requirements. The Group's capital management policy seeks to maximise return on risk adjusted while satisfying all the regulatory requirements. The Group's policy on capital allocation is subject to regular review by the Board.

38. **COMMITMENTS AND CONTINGENCIES**

The commitments contracted in the normal course of business of the Group:

	2023 BD '000	2022 BD '000
Undrawn commitments to extend finance *	42,930	37,894
Financial guarantees	15,335	15,896
Lease commitments	-	1,310
	58,265	55,100

* The Group has a right to revoke the undrawn commitment to extend finance prior to expiry of its tenor.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023**

38. COMMITMENTS AND CONTINGENCIES (CONTINUED)

As of 31 December 2023 impairment allowance of BD 2 thousand (2022: BD 21 thousand) has been released on account of the credit risk on these for commitments and contingent liabilities.

Performance obligations

During the ordinary course of business, the Group may enter into performance obligations in respect of certain of its infrastructure development projects. It is the usual practice of the Group to pass these performance obligations, wherever possible, on to the companies that own the projects. In the opinion of the management, no liabilities are expected to materialise on the Group at 31 December 2023 due to the performance of any of its projects.

Litigations and claims

In the normal course of business, legal cases are filed by the Bank against its customers and against the Bank by its customers or investors. The Group's legal department engages with in-house legal counsel and external legal counsel depending on the nature of the cases. A periodic assessment is carried out to determine the likely outcome of these legal cases and is reported to the senior management and Board of directors.

39. SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through donations to charitable causes and organisations from its zakah and charity fund.

40. COMPARITIVES

Certain prior year amounts have been regrouped to conform the current year's presentation. Such regrouping did not affect previously reported profit for the year or owner's equity.