GFH Financial Group BSC

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2023

Commercial registration	: 44136 (registered with Central Bank of Bahrain as an Islamic wholesale Bank)
Registered Office	: Bahrain Financial Harbour Office: 2901, 29th Floor Building 1398, East Tower Block: 346, Road: 4626 Manama, Kingdom of Bahrain Telephone +973 17538538
Directors	: Ghazi Faisal Ebrahim Alhajeri, *Chairman* Edris Mohammed Rafi Alrafi, *Vice Chairman* Hisham Ahmed Alrayes Rashid Nasser Al Kaabi Ali Murad Fawaz Talal Al Tamimi Darwish Al Ketbi Yusuf Abdulla Taqi
Chief Executive Officer	: Hisham Ahmed Alrayes
Auditors	: KPMG Fakhro

GFH FINANCIAL GROUP BSC

CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2023

CONTENTS **Page**

Chairman's Report

Dear Shareholders,

On behalf of the Board of Directors of GFH Financial Group, I am pleased to present the Group's Directors' Report for the fiscal year ended 31 December 2023. The report demonstrates the strong progress made on transforming GFH into a diversified regional financial group, a journey we began nearly a decade ago.

2023 has been another remarkable year of growth and profitability for the Group despite the unpredictable market conditions and regional geopolitical tensions. This is a testament to the Group's commitment, dedication, and focus. The Group has been agile and innovative in its approach and has constantly refined its operating model in order to adapt to external market conditions and effectively navigate market disruption.

Unwavering Strategic Focus

Our robust strategy has provided us with the stability needed to continue expanding our global footprint in support of top and bottom-line growth, whilst also remaining resilient.

We continue to put the interests of our investors and shareholders at the heart of our decision making process and remain committed to sustainable progress across our business including our investment banking, commercial banking, proprietary investments and treasury businesses in order to deliver additional value to all our stakeholders.

Continued Business Growth

Aligning with macroeconomic trends, we focused on expanding our portfolio of income generating assets in the GCC, where growth is expected to outperform most other global markets in 2024 due in part to higher oil prices and government spending on national development plans. Markets including Saudi Arabia, UAE, and Bahrain offer significant opportunities. We consider these as core markets for future growth, where we can continue to capitalize on our on-the-ground presence and deep market knowledge.

As well as focusing on the GCC, we continued to broaden our investment portfolio in key global markets. The Group has made significant portfolio investments, in addition to acquiring strategic stakes in leading asset managers, which will offer additional platforms to access highly promising opportunities. Today our assets span across the GCC, UK, Europe and the US. Throughout the year, our portfolio continued to perform robustly, benefiting from our focus on defensive, recession-proof sectors that have been effective in creating value for investors and shareholders.

The launch of GFH Partners, our specialist dedicated global real estate investment arm, represents a landmark milestone in our overall transformation journey. GFH Partners currently has US$6 billion in assets in its core markets, which include leading specialist asset managers in key sectors such as logistics, student living, and medical offices in the US and Europe.

Strong Financial Performance

Our dedication, focus, and robust business strategy, sustained strong financial performance for 2023. We reported enhanced profits and significantly increased income. The Group's total consolidated revenue was US$369.53 million compared with US$ 297.8 million in 2022, reflecting a year-on-year increase of 24.1%. The Group reported a consolidated net profit of US$105.2 million in 2023 compared to US$97.7 million from the previous year, reflecting an increase of 7.7%, and a net profit attributable to shareholders of US$102.9 million compared with US$90.3 million for the previous year, an increase of 13.9%.

The Group's total assets for the year grew from US$9.76 billion in 2022 to US$11.12 billion in 2023, an increase of 13.9%. The Group's Total Assets and Funds Under Management (AUM) increased from US$17.0 billion in 2022 to US$21.0 billion in 2023, marking a year-on-year increase of 23.5%. The Group also ended the year with a Capital Adequacy Ratio of 20.98% and a Return on Equity (ROE) ratio of 10.1%.

In the twelve months ended December 2023, the Group successfully raised more than US$5.56 billion across its investment banking and treasury business lines.

Credit Ratings Reaffirmations

Further positive reflections of our performance were provided by credit rating agencies. Fitch Ratings affirmed our Long- and Short-Term Issuer Default Ratings (IDR) at 'B' and confirmed its outlook on Long-Term IDR as Stable. Capital Intelligence Ratings also affirmed GFH Financial Group's Long-Term Foreign Currency Rating (LT FCR) and Short-Term Foreign Currency Rating (ST FCR) at 'BB-' and 'B', respectively, with Outlook on the LT FCR remaining Stable.

These ratings reaffirmations underscore our resilient business model, future-proof strategy, and strong financial performance. We are proud of the confidence ratings agencies and shareholders have consistently shown in GFH.

Sustainability and Community Commitments

We are proud of the tangible outcomes of our ESG commitments, which drive further sustainable growth and positive social impact. GFH is an integral part of Bahrain's development and community, sponsoring and supporting important projects and high-profile sporting events.

Globally, GFH is also an important voice at internationally significant gatherings focused on impact and change. We recently joined the Future Investment Initiative Institute as a Strategic Partner, and the World Economic Forum as an Associate Partner, contributing to crucial discussions on shaping the future. This global status reflects our position as a major international player as well as a leading regional financial institution.

Dividend Recommendation

As a result of our robust performance, the Board has recommended a total cash dividend of 6.2% on par value for our shareholders.

Future Outlook

As we move ahead, we will continue to prudently grow our portfolio of investments and strategic assets across our key markets of focus in the region and internationally. Having ended the year with positive momentum, we look forward to delivering greater value for our investors and shareholders in 2024 and beyond.

Acknowledgments

On behalf of the Board of Directors, we are immensely grateful for the leadership of His Majesty King Hamad bin Isa Al Khalifa and His Royal Highness Prince Salman bin Hamad Al Khalifa, the Crown Prince, Deputy Supreme Commander and Prime Minister, who have provided a stable environment for Bahrain's financial sector to thrive.

I also express our appreciation for the Central Bank of Bahrain and the Government of the Kingdom of Bahrain for facilitating a robust regulatory environment that enables financial institutions such as ours to innovate and grow.

Further, I sincerely thank our investors and shareholders for their continued confidence in our Group and operational model.

Finally, the Board is tremendously proud of the entire GFH team for delivering such strong performance in 2023 and remains confident in their ability to execute our strategy in 2024.

In line with the requirements of Article 188 of the Commercial Company Law, we are pleased to attach the remuneration of members of the Board of Directors and the Executive Management for the fiscal year ending 31 December 2023.

First: Remuneration of the Board of Directors:

Name	Fixed remunerations				Variable remunerations				End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
	Remunerations of the chairman and BOD	Total allowance for attending Board and committee meetings	Others	Total	Remunerations of the chairman and BOD	Incentive plans	Others**	Total			
First: Independent Directors:											
Ghazi Faisal Ebrahim Alhajeri	113,100	100,000	-	213,100						213,100	-
Fawaz Al Tamimi	75,400	50,000	-	125,400	-	-	-	-	-	125,400	-
Ali Murad	94,250	50,000	-	144,250	-	-	-	-	-	144,250	-
Edris Mohd Rafi Mohd Saeed Alrafi	94,250	50,000	-	144,250	-	-	-	-	-	144,250	-
Darwish AlKetbi	75,400	50,000	-	125,400	-	-	-	-	-	125,400	-
Yousif Abdulla Taqi	94,250	50,000	-	144,250	-	-	-	-	-	144,250	-
Second: Non-Executive Directors:											
Rashed Alkaabi	75,400	50,000	-	125,400	-	-	-	-	-	125,400	-
Third: Executive Directors (3):											
Hisham Alrayes	94,250	50,000	-	144,250	-	-	-	-	-	144,250	-
Total	**716,300**	**450,000**	**-**	**1,166,300**	**-**	**-**	**-**	**-**	**-**	**1,166,300**	**-**

Notes:

1. *All amounts in Bahraini Dinars.*
2. *The Bank does not have any variable remuneration payments, end of service benefits, or expense allowances paid to its directors.*
3. *Salaries and other benefits in their capacity as employee is reported in second table below.*

Board remuneration represents allocation of proposed remuneration for 2023 subject to approval of the Annual General Meeting.

Second: Executive Management Remuneration Details for Top 6 Executives:

Executive management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/ in kind remuneration for 2023	Aggregate Amount
Remunerations of top 6 executives, including CEO* and CFO**	1,222,432	1,074,148	1,611,223	3,907,803

All amounts in Bahraini Dinars.

* The highest authority in the executive management of the company, the name may vary: (CEO, President, General Manager (GM), Managing Director...etc.
** The company's highest financial officer (CFO, Finance Director, ...etc)

Notes:

1. A significant portion of executive management remuneration are subject to deferral over a minimum period of 3 years as per regulations of the Central Bank of Bahrain. In addition to the paid benefits reported above, the Bank also operates a long-term share incentive scheme award that allows employees to participate in a share-ownership plan. The Bank allocates shares awards that vest over a period of 6 years under normal terms and are subject to future performance conditions. The non-cash accounting charge recognized for 2023 amounted to BD 377 thousand determined in accordance with the requirements of IFRS 2. Refer to the Remuneration related and share-based payment disclosures in the Annual Report for a better understanding of the Bank's variable remuneration framework components.

2. Remuneration information above exclude any Board remuneration earned by executive management from their role in the board of investee companies or other subsidiaries.

Thank you,

Ghazi Faisal Ebrahim AlHajeri
Chairman
GFH Financial Group

Hisham Ahmed Al Rayes
CEO and Board Director
GFH Financial Group

11 February 2024
1 Shaban 1445 AH

SHARIA SUPERVISORY BOARD REPORT TO THE SHAREHOLDERS
Report on the activities of GFH Financial Group B.S.C.
for the financial year ending 31 December 2023

Prayers and Peace Upon the Last Apostle and Messenger, Our prophet Mohammed, His comrades and Relatives.

The Sharia Supervisory Board of GFH Financial Group has reviewed the Bank's investment activates and compared them with the previously issued fatawa and rulings during the financial year 31st December 2023.

Respective Responsibility of Sharia Supervisory Board

The Sharia Supervisory Board believes that as a general principle and practice, the Bank Management is responsible for ensuring that it conducts its business in accordance with Islamic Sharia rules and principles. The Sharia Supervisory Board responsibility is to express an independent opinion on the basis of its control and review of the Bank's operations and to prepare this report.

Basis of opinion

Based on Sharia Supervisory Board fatwas and decisions, AAOIFI standards and Sharia Audit plan, the Sharia Supervisory Board through its periodic meetings reviewed the Sharia Audit function reports and examined the compliance of documents and transactions in regard to Islamic Sharia rules and principles, in coordination with Sharia Implementation & Coordination function. Furthermore, the Bank's management explained and clarified the contents of Consolidated Balance Sheet, Consolidated Income Statement, Consolidated statement of Zakah and Charity fund, and attached notes for the financial year ended on 31st December 2023 to our satisfaction.

Opinion

The Sharia Supervisory Board believes that,

1. The contracts, transactions and dealings entered into by the Bank are in compliance with Islamic Sharia rules and principles.
2. The distribution of profit and allocation of losses on investments was in line with the basis and principles approved by the Sharia Supervisory Board and in accordance to the Islamic Sharia rules and principles
3. Any earnings resulted from sources or means prohibited by the Islamic Sharia rules and principles, have been directed to the Charity account.
4. Zakah was calculated according to the Islamic Sharia rules and principles, by the net assets method. It is to be noted that the responsibility of paying Zakah lies on the Shareholders of the Bank.
5. The Bank was committed to comply with Islamic Sharia rules and principles, the Sharia Supervisory Board fatawa and guidelines, Sharia related policies and procedures, AAOIFI's Sharia standards, and Sharia directives issued by the CBB.

We extend our sincere thanks to all the regulatory authorities in the Kingdom of Bahrain and abroad for their support in the procedural matters. Praise be to Allah, Lord of the worlds. Prayer on Prophet Mohammed (Peace Be Upon Him), all his family and Companions.

Sheikh Nedham Yaqoubi

Sheikh Abdulla Al Menai

Sheikh Abdulaziz Al Qassar

Sheikh Fareed Hadi

KPMG Fakhro
Audit
12th Floor, Fakhro Tower,
P.O. Box 710, Manama,
Kingdom of Bahrain

Telephone +973 17224807
Telefax +973 17227443
Website: www.kpmg.com/bh
CR No. 6220 - 2

Independent auditors' report

To the Shareholders of

GFH Financial Group B.S.C.
PO Box 10006
Manama
Kingdom of Bahrain

Opinion

We have audited the accompanying consolidated financial statements of GFH Financial Group 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 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.

© 2024 KPMG Fakhro, a Bahrain partnership registered with the Ministry of Industry and Commerce (MOIC), Kingdom of Bahrain and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Key Audit Matters (continued)

Impairment allowance on Financing contracts

(Refer accounting policy in Note 4(h) and (q), use of estimates and judgments in Note 5 and management of credit risk in Note 35 (a))

The key audit matter	How the matter was addressed in our audit
We focused on this area because: Of the significance of financing contracts representing 14% 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.	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 the key systems, applications and controls associated with the ECL calculation processes. Key aspects of our controls testing involved the following: • Testing controls over the transfer of data between underlying source systems and 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; and • 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;

Key Audit Matters (continued)

The key audit matter	How the matter was addressed in our audit
	• 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; and • 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 the source data. Assessing the adequacy of provisions against individually impaired financing contracts (stage 3) in accordance with the applicable FAS. ***Use of specialists*** For the relevant portfolios examined, we have involved KPMG specialists to assist us in assessing IT system controls and challenging key management assumptions used in estimating expected credit losses. Key aspects of their involvement included the following: • We involved our Information Technology Audit specialists to test the relevant General IT and Applications Controls over key systems used for data extraction as part of the ECL calculation process. • We involved our Financial Risk Management (FRM) specialists to assist us in: a. Evaluating the appropriateness of the Groups' ECL methodologies (including the staging criteria used); b. On a test basis, re-performing the calculation of certain components of the ECL model (including the staging criteria); c. Evaluating the appropriateness of the Group's methodology for determining the economic scenarios used and the probability weights applied to them; and d. Evaluating the overall reasonableness of the management forward- looking estimates by comparing it to external market data and our understanding of the underlying sector and macroeconomic trends.

	Disclosures We assessed the adequacy of the Group's disclosures in relation to use of significant estimates and judgement and credit quality of financing contracts by reference to the requirements of relevant accounting standards.

Valuation of unquoted equity investments

(Refer accounting policy in Note 4g(iv) and Note 33 relating to fair value of level 3 financial instruments.

The key audit matter	How the matter was addressed in our audit
We considered this as a key audit area we focused on because the valuation of unquoted equity securities held at fair value (level 3) requires the application of valuation techniques which often involve the exercise of significant judgment by the Group and the use of significant unobservable inputs and assumptions.	Our procedures included: • we involved our own valuation specialists to assist us in: • evaluating the appropriateness of the valuation methodologies used by comparing with observed industry practice; and • evaluating the reasonableness of key input and assumptions used by using our knowledge of the industries in which the investees operate and industry norms. • comparing the key underlying financial data and inputs used in the valuation to external sources, investee company financial and management information, as applicable. **Disclosures** Evaluating the adequacy of the Group's disclosures related to valuation of unquoted equity instruments 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 Chairman's 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 consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Board of Directors for the Consolidated Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

Report on Other Regulatory Requirements

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

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

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

KPMG Fakhro
Partner Registration Number 137
13 February 2024

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2023

US$ 000's

	Note	31 December 2023	31 December 2022
ASSETS			
Cash and bank balances	6	376,884	858,239
Treasury portfolio	7	5,135,032	4,210,020
Financing contracts	8	1,537,314	1,435,238
Investment in real estate	9	1,371,932	1,287,085
Proprietary investments	10	1,044,727	1,005,053
Co-investments	11	254,610	142,051
Receivables and other assets	12	787,640	589,869
Property and equipment	13	274,721	232,736
Assets held for sale	37	338,619	-
Total assets		**11,121,479**	9,760,291
LIABILITIES			
Clients' funds		206,222	123,300
Placements from financial institutions		2,323,217	3,790,870
Placements from non-financial institutions and individuals	14	960,050	1,064,258
Customer current accounts		203,697	131,234
Term financing	15	2,124,307	1,942,198
Other liabilities	16	548,056	423,363
Liabilities held for sale	37	230,562	-
Total liabilities		**6,596,111**	7,475,223
Equity of investment account holders	17	**3,451,006**	1,213,674
OWNERS' EQUITY			
Share capital	18	1,015,637	1,015,637
Treasury shares		(125,525)	(105,598)
Statutory reserve		47,518	36,995
Investment fair value reserve		(46,103)	(53,195)
Cash flow hedge reserve		(2,135)	-
Other reserve		(13,612)	-
Retained earnings	38	105,831	95,831
Share grant reserve	19	7,930	6,930
Total equity attributable to shareholders of Bank		**989,541**	996,600
Non-controlling interests		84,821	74,794
Total owners' equity		**1,074,362**	1,071,394
Total liabilities, equity of investment account holders and owners' equity		**11,121,479**	9,760,291

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

Ghazi Faisal Ebrahim Alhajeri
Chairman

Hisham Alrayes
Chief Executive Officer & Board member

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2023

US$ 000's

	Note	2023	2022
Investment banking income			
Deal related income		182,719	86,967
Asset management		18,652	33,536
		201,371	120,503
Commercial banking income			
Income from financing		106,691	94,751
Treasury and investment income		94,254	61,021
Fee and other income		27,210	9,211
Less: Return to investment account holders	17	(57,183)	(38,051)
Less: Finance expense		(91,973)	(47,960)
		78,999	78,972
Treasury and Proprietary Investments			
Finance and treasury portfolio income, net		209,372	94,665
Direct investment income, net		37,142	53,559
Income from co-investments, net		10,993	24,626
Share of profit from equity-accounted investees		34,536	27,694
Income from sale of assets		7,959	13,388
Leasing and operating income		15,793	7,753
Other income, net		15,089	19,910
Finance expenses - Repo and FI		(241,727)	(143,308)
		89,157	98,287
Total income		**369,527**	297,762
Other operating expenses	21 & 22	181,373	147,947
Finance expense - Term financing and others		62,468	48,798
Impairment allowances	23	20,459	3,310
Total expenses		**264,300**	200,055
Profit for the year		**105,227**	97,707
Attributable to:			
Shareholders of the Bank		102,863	90,253
Non-controlling interests		2,364	7,454
		105,227	97,707
Earnings per share			
Basic and diluted earnings per share (US cents)		**2.95**	2.65

Ghazi Faisal Ebrahim Alhajeri
Chairman

Hisham Alrayes
Chief Executive Officer & Board member

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

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

US$ 000's

	Attributable to shareholders of the Bank										
31 December 2023	**Share capital**	**Treasury shares**	**Statutory reserve**	**Cashflow hedge reserve**	**Other reserve ***	**Investment fair value reserve**	**Retained earnings**	**Share grant reserve**	**Total**	**Non-Controlling Interests (NCI) ****	**Total owners' equity**
Balance at 1 January 2023 (as previously reported)	1,015,637	(105,598)	36,995	-	-	(53,195)	95,831	6,930	996,600	74,794	1,071,394
Prior year adjustment (note 38)	-	-	-	-	-	-	(22,753)	-	(22,753)	-	(22,753)
Balance as at 1 January 2023 (re-stated)	**1,015,637**	**(105,598)**	**36,995**	**-**	**-**	**(53,195)**	**73,078**	**6,930**	**973,847**	**74,794**	**1,048,641**
Profit for the year	-	-	-	-	-	-	102,863	-	102,863	2,364	105,227
Fair value changes during the year	-	-	-	(2,135)	(13,612)	7,092	-	-	(8,655)	(542)	(9,197)
Total recognised income and expense	**-**	**-**	**-**	**(2,135)**	**(13,612)**	**7,092**	**102,863**	**-**	**94,208**	**1,822**	**96,030**
Issue of shares under incentive scheme	-	-	-	-	-	-	-	1,000	1,000	-	1,000
Transfer to zakah and charity fund	-	-	-	-	-	-	(1,000)	-	(1,000)	-	(1,000)
Dividends declared for 2022	-	-	-	-	-	-	(56,261)	-	(56,261)	-	(56,261)
Transfer to statutory reserve	-	-	10,523	-	-	-	(10,523)	-	-	-	-
Purchase of treasury shares	-	(48,178)	-	-	-	-	-	-	(48,178)	-	(48,178)
Sale of treasury shares	-	28,251	-	-	-	-	(2,326)	-	25,925	-	25,925
Additional NCI without a change in control	-	-	-	-	-	-	-	-	-	12,165	12,165
Reduction in NCI due to loss of control	-	-	-	-	-	-	-	-	-	(3,960)	(3,960)
Balance at 31 December 2023	**1,015,637**	**(125,525)**	**47,518**	**(2,135)**	**(13,612)**	**(46,103)**	**105,831**	**7,930**	**989,541**	**84,821**	**1,074,362**

* Represents share of changes in reserves of equity accounted investee

** Includes non-controlling interest of US $ 16,470 (2022: US Nil) classified under held for sale (note 37).

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

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

US$ 000's

	Attributable to shareholders of the Bank									
31 December 2022	Share capital	Treasury shares	Statutory reserve	Investment fair value reserve	Foreign currency translation reserve	Retained earnings	Share grant reserve	Total	Non-Controlling Interests (NCI)	Total owners' equity
Balance at 1 January 2022	1,000,637	(48,497)	27,970	(28,561)	(70,266)	81,811	-	963,094	205,027	1,168,121
Profit for the year	-	-	-	-	-	90,253	-	90,253	7,454	97,707
Transfer on reclassification from FVTE to amortised cost	-	-	-	41,320	-	-	-	41,320	-	41,320
Fair value changes during the year	-	-	-	(63,312)	-	-	-	(63,312)	(2,462)	(65,774)
Transfer to income statement on disposal of sukuk	-	-	-	(2,642)	-	-	-	(2,642)	-	(2,642)
Total recognised income and expense	-	-	-	(24,634)	-	90,253	-	65,619	4,992	70,611
Bonus shares issued	15,000	-	-	-	-	(15,000)	-	-	-	-
Dividend declared	-	-	-	-	-	(45,000)	-	(45,000)	-	(45,000)
Purchase of treasury shares	-	(79,141)	-	-	-	-	-	(79,141)	-	(79,141)
Sale of treasury shares	-	22,040	-	-	-	(5,725)	-	16,315	-	16,315
Transfer to zakah and charity fund	-	-	-	-	-	(1,483)	-	(1,483)	-	(1,483)
Transferred to income statement on deconsolidation of subsidiaries	-	-	-	-	70,266	-	-	70,266	-	70,266
Transfer to statutory reserve			9,025			(9,025)		-		-
Increased in NCI	-	-	-	-	-	-	-	-	6,492	6,492
Adjusted on deconsolidation of subsidiaries	-	-	-	-	-	-	-	-	(141,717)	(141,717)
Issue of shares under incentive scheme	-	-	-	-	-	-	6,930	6,930	-	6,930
Balance at 31 December 2022	1,015,637	(105,598)	36,995	(53,195)	-	95,831	6,930	996,600	74,794	1,071,394

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2023 US$ 000's

	31 December 2023	31 December 2022
OPERATING ACTIVITIES		
Profit for the year	105,227	97,707
Adjustments for:		
Treasury and proprietary investments	(89,156)	(98,287)
Foreign exchange gain	(1,199)	(4,853)
Finance expense	62,468	48,798
Impairment allowances	20,459	3,310
Depreciation and amortisation	11,244	5,841
	109,043	52,516
Changes in:		
Placements with financial institutions (original maturities of more than 3 months)	404,308	(475,696)
Financing contracts	(37,473)	(169,271)
Receivables and other assets	(174,768)	(177,000)
CBB Reserve and restricted bank balance	(6,758)	(12,676)
Clients' funds	82,922	(93,462)
Customer Current accounts	72,463	(1,812)
Placements from financial institutions	(1,467,653)	1,520,053
Placements from non-financial institutions and individuals	(104,208)	290,646
Equity of investment account holders	2,237,332	(144,670)
Other liabilities	(148,170)	(113,660)
Net cash generated used operating activities	**967,038**	674,968
INVESTING ACTIVITIES		
Payments for purchase of equipment, net	(5,546)	(1,818)
(Purchase) / sale of proprietary and co-investments, net	(84,638)	30,441
Cash paid on acquisition of subsidiary, net	(5,654)	(7,112)
Cash transferred on deconsolidation of a subsidiary	(5,997)	(80,119)
Purchase of treasury portfolio, net	(196,717)	(467,860)
Profit received on treasury portfolio and other income	200,877	111,054
Proceeds from sale of investment in real estate	37,182	19,209
Dividends received from proprietary and co-investments	80,886	55,235
Payment for development of real estate asset	(12,026)	(65,809)
Net cash from / (used) in investing activities	**8,367**	(406,779)
FINANCING ACTIVITIES		
Term financing, net	198,820	215,998
Finance expense paid	(449,236)	(204,649)
Dividends paid	(58,400)	(44,818)
Purchase of treasury shares, net	(19,926)	(38,000)
Net cash used financing activities	**(328,742)**	(71,469)
Net increase in cash and cash equivalents during the year	**646,663**	196,720
Cash and cash equivalents at 1 January*	1,041,064	844,344
Cash and cash equivalents at 31 December	**1,687,727**	1,041,064
Cash and cash equivalents comprise:*		
Cash and balances with banks (excluding CBB Reserve balance and restricted cash)	300,736	787,479
Placements with financial institutions (original maturities of 3 months or less)	1,386,991	253,585
	1,687,727	1,041,064

** net of expected credit loss of US$ 27 thousand (31 December 2022: US$ 11 thousand)*

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

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

31 December 2023	**Balance at 1 January 2023**			**Movements during the year**						**Balance at 31 December 2023**		
Company	No. of units (000)	Average value per share US$	Total US$ 000's	Investment/ (withdrawal) US$ 000's	Revaluation US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Group's fees as an agent US$ 000's	Administration expenses US$ 000's	No. of units (000)	Average value per share US$	Total US$ 000's
Mena Real Estate Company KSCC	150	0.33	50	-	-	-	-	-	-	150	0.33	50
Al Basha'er Fund	12	7.87	94	-	-	-	-	-	-	12	7.87	94
Safana Investment (RIA 1)	1,247	2.65	3,305	-	(75)	-	-	-	-	1,219	2.65	3,230
Shaden Real Estate Investment WLL (RIA 5)	269	2.65	713	-	119	-	-	-	-	314	2.65	832
			4,162	**-**	**44**	**-**	**-**	**-**	**-**			**4,206**

31 December 2022	Balance at 1 January 2022			Movements during the year						Balance at 31 December 2022		
Company	No. of units (000)	Average value per share US$	Total US$ 000's	Investment/ (withdrawal) US$ 000's	Revaluation US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Group's fees as an agent US$ 000's	Administration expenses US$ 000's	No. of units (000)	Average value per share US$	Total US$ 000's
Mena Real Estate Company KSCC	150	0.33	50	-	-	-	-	-	-	150	0.33	50
Al Basha'er Fund	12	7.87	94	-	-	-	-	-	-	12	7.87	94
Safana Investment (RIA 1)	1,247	2.65	3,305	-	-	-	-	-	-	1,247	2.65	3,305
Shaden Real Estate Investment WLL (RIA 5)	269	2.65	713	-	-	-	-	-	-	269	2.65	713
			4,162	-	-	-	-	-	-			4,162

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND
for the year ended 31 December 2023 US$ 000's

	2023	2022
Sources of zakah and charity fund		
Contributions by the Group	2,471	2,531
Non-Sharia income (note 28)	278	88
Total sources	**2,749**	2,619
Uses of zakah and charity fund		
Contributions to charitable organisations	(2,120)	(1,903)
Total uses	**(2,120)**	(1,903)
Surplus of sources over uses	629	716
Undistributed zakah and charity fund at beginning of the year	5,924	5,208
Undistributed zakah and charity fund at 31 December (note 16)	**6,553**	5,924
Represented by:		
Zakah payable	1,647	753
Charity fund	4,906	5,171
	6,553	5,924

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

1 REPORTING ENTITY

GFH Financial Group BSC ("the Bank") was incorporated as Gulf Finance House BSC in 1999 in the Kingdom of Bahrain under Commercial Registration No. 44136 and operates under an Islamic Wholesale Investment Banking license issued by the Central Bank of Bahrain ("CBB"). The Bank's shares are listed on the Bahrain, Kuwait, Dubai and Abu Dhabi Financial Market Stock Exchanges. The Bank's sukuk certificates are listed on London Stock Exchange.

The Bank's activities are regulated by the CBB and supervised by a Shari'a Supervisory Board. The principal activities of the Bank include investment advisory services and investment transactions which comply with Islamic rules and principles determined by the Bank's Shari'a Supervisory Board.

The consolidated financial statements for the year comprise the results of the Bank and its material subsidiaries (together referred to as "the Group"). The significant subsidiaries of the Bank which consolidated in these financial statements are:

<table>
<tr><th>Investee name</th><th>Country of incorporation</th><th>Effective ownership interests as at 31 December 2023</th><th>Activities</th></tr>
<tr><td>GFH Partners Ltd
(formally known as GFH Capital Limited)</td><td>United Arab Emirates</td><td>100%</td><td>Investment management</td></tr>
<tr><td>GFH Capital S.A.</td><td>Saudi Arabia</td><td>100%</td><td>Investment management</td></tr>
<tr><td>Khaleeji Bank BSC ('KHB')</td><td rowspan="3">Kingdom of Bahrain</td><td>85.14%</td><td>Islamic retail bank</td></tr>
<tr><td>GBCORP B.S.C (c)</td><td>62.91%</td><td>Investment firs (Islamic principles)</td></tr>
<tr><td>Al Areen Hotels W.L.L.</td><td>100%</td><td>Hospitality management services</td></tr>
</table>

The Bank has other SPE holding companies and subsidiaries, which are set up to supplement the activities of the Bank and its principal subsidiaries and hold assets and non-core operations which are not material to the group.

2 STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with the Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") and in conformity with Commercial Companies Law. In line with the requirement of AAOIFI and the Rulebook issued by CBB, for matters that are not covered by FAS, the Group uses guidance from the relevant IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

3 BASIS OF MEASUREMENT

The consolidated financial statements are prepared on the historical cost basis except for the measurement at fair value of investment securities.

The Group classifies its expenses in the consolidated income statement by the nature of expense method. The consolidated financial statements are presented in United States Dollars (US$), which is also the functional currency of the Group's operations. All financial information presented in US$ has been rounded to the nearest thousands, except when otherwise indicated.

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. Estimates and underlying assumptions are reviewed on an ongoing 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 5.

The below paragraphs and tables describe the Group's significant lines of business and sources of revenue they are associated with.

Activities:

The Group's primary activities include:

a) to provide investment opportunities and manage assets on behalf of its clients as an agent,

b) to provide commercial banking services,

c) to undertake targeted development and sale of infrastructure and real estate projects for enhanced returns, and

d) to co-invest with clients and hold strategic proprietary assets as a principal. In addition, the Group also manages its treasury portfolio with the objective of earning higher returns from capital and money market opportunities.

3 BASIS OF MEASUREMENT (continued)

Segments:
To undertake the above activities, the Group has organised itself in the following operating segments units:

Investment banking	Investment banking segment focuses on private equity and asset management activities. Private equity activities include acquisition of interests in unlisted businesses at average prices with potential for growth. The Group acts as both a principal and an intermediary by acquiring, managing and realizing investments in investment assets for institutional and high net worth clients. The asset management unit is responsible for identifying and managing investments in income yielding real estate and leased assets in the target markets. Investment banking activities focuses on acquiring, managing and realizing investments to achieve and exceed benchmark returns. Investment banking activities produce fee-based, activity-based and asset-based income for the Group. Assets under this segment include investment banking receivables.
Commercial banking	This includes all sharia compliant corporate banking and retail banking activities of the Group provided through the Group's subsidiary, Khaleeji Bank BSC. The subsidiary also manages its own treasury and proprietary investment book within this operating segment.
Proprietary and treasury	All common costs and activities that are undertaken at the Group level, including treasury and residual proprietary and co-investment assets, is considered as part of the Proprietary and treasury activities of the Group.

Each of the above operating segments, except commercial banking which is a separate subsidiary, has its own dedicated team of professionals and are supported by a common placement team and support units.

The strategic business units offer different products and services and are managed separately because they require different strategies for management and resource allocation within the Group. For each of the strategic business units, the Group's Board of Directors (chief operating decision makers) review internal management reports on a quarterly basis.

The performance of each operating segment is measured based on segment results and are reviewed by the management committee and the Board of Directors on a quarterly basis. Segment results is used to measure performance as management believes that such information is most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing, if any is determined on an arm's length basis.

The Group classifies directly attributable revenue and cost relating to transactions originating from respective segments as segment revenue and segment expenses respectively. Indirect costs is allocated based on cost drivers/factors that can be identified with the segment and/ or the related activities. The internal management reports are designed to reflect revenue and cost for respective segments which are measured against the budgeted figures. The unallocated revenues, expenses, assets and liabilities related to entity-wide corporate activities and treasury activities at the Group level. Expenses are not allocated to the business segment.

3 *BASIS OF MEASUREMENT (continued)*

Sources of revenue:

The Group primarily earns its revenue from the following sources and presents its statement of income accordingly:

Activity/ Source	**Products**	**Types of revenue**
Investment banking	Deal-by-deal offerings of private equity, income yielding asset opportunities	*Deal related income*, earned by the Group from structuring and sale of assets. *Fee based income*, in the nature of management fees, performance fee, acquisition fee and exit fee which are contractual in nature
Commercial banking	Islamic Shari'ah compliant corporate, institutional and retail banking financing and cash management products and services	Financing income, fees and investment income (net of direct funding costs)
Proprietary investments	Proprietary investments comprise the Group's strategic investment exposure. This also includes equity -accounted investees where the Bank has significant influence	Includes dividends, gain / (loss) on sale and remeasurement of proprietary investments and share of profit / (loss) of equity accounted investees Income from restructuring of liabilities and funding arrangements are also considered as income from proprietary investments
Co-investment	Represent the Group's co-investment along with its clients in the products promoted by the Group	Dividends and gain / (loss) on co-investments of the Bank
Sale of assets	Proprietary holdings of real estate for direct sale, development and sale, and/ or rental yields. This also includes the group's holding or participation in leisure and hospitality assets.	Development and sale income arises from development and real estate projects of the Group based on percentage of completion (POC) method. Leasing and operating income, from rental and other ancillary income from investment in real estate and other assets.
Treasury operations	Represents the Bank's liquidity management operations, including its fund raising and deployment activities to earn a commercial profit margin.	Income arising from the deployment of the Bank's excess liquidity, through but not limited to short term placements with bank and financial institutions, money market instruments, capital market and other related treasury investments.

4 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been applied consistently to all periods presented in the consolidated financial statements and have been consistently applied by the Group.

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

The following new standards and amendments to standards are effective for financial years beginning on or after 1 January 2023 with an option to early adopt. However, the Group has not early adopted any of these standards.

(i) FAS 39 Financial Reporting for Zakah

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

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

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

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

The Group does not have any obligation to pay Zakah as per its constitutional documents but only pays Zakah on undistributed profits as an agent on behalf of its shareholders. The Group has adopted this standard and has provided the necessary additional disclosures in its annual financial statements (refer notes 27).

(ii) FAS 41 Interim financial reporting

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

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

(iii) FAS 44 Determining Control of Assets and Business

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

4 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

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

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

(b) *New standards,* amendments, and interpretations issued but not yet effective

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

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

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

Some of the significant revisions to the standard are as follows:
a) Revised conceptual framework is now integral part of the AAOIFI FAS's;
b) Definition of Quassi equity is introduced;
c) Definitions have been modified and improved;
d) Concept of comprehensive income has been introduced;
e) Institutions other than Banking institutions are allowed to classify assets and liabilities as current and non-current;
f) Disclosure of Zakah and Charity have been relocated to the notes;
g) True and fair override has been introduced;
h) Treatment for change in accounting policies, change in estimates and correction of errors has been introduced;
i) Disclosures of related parties, subsequent events and going concern have been improved;
j) Improvement in reporting for foreign currency, segment reporting;
k) Presentation and disclosure requirements have been divided into three parts. First part is applicable to all institutions, second part is applicable only to banks and similar IFI's and third part prescribes the authoritative status, effective date an amendments to other AAOIFI FAS's; and
l) The illustrative financial statements are not part of this standard and will be issued separately.

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

This standard shall be 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.

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

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

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

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

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

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

(c) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interest in the acquiree; plus
- if the business combination achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the consolidated income statement.

The consideration transferred does not include amounts related to settlement of pre-existing relationships. Such amounts are generally recognised in the consolidated income statement. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not re-measured and settlement is accounted within equity. Otherwise subsequent changes in the fair value of the contingent consideration are recognised in the consolidated income statement.

(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.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation (continued)

(iii) **Non-controlling interests (NCI)**

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. If less than 100% of a subsidiary is acquired, then the Group elects on a transaction-by-transaction basis to measure non-controlling interests either at:

- Fair value at the date of acquisition, which means that goodwill, or the gain on a bargain purchase, includes a portion attributable to ordinary non-controlling interests; or
- the holders' proportionate interest in the recognised amount of the identifiable net assets of the acquire, which means that goodwill recognised, or the gain on a bargain purchase, relates only to the controlling interest acquired.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iv) Special purpose entities

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or investment transaction and usually voting rights are relevant for the operating of such entities. An investor that has decision-making power over an investee and exposure to variability of returns determines whether it acts as a principal or as an agent to determine whether there is a linkage between power and returns. 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

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 these entities are usually not included in these consolidated financial statements. Information about the Group's fiduciary assets under management is set out in note 25. For the purpose of reporting assets under management, the gross value of assets managed are considered.

(v) Loss of control

When the Group losses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity. Any surplus or deficit arising on the loss of control is recognised in consolidated income statement. Any interest retained in the former subsidiary, is measured at fair value when control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for investment securities depending on the level of influence retained.

(vi) Equity accounted investees

This comprise investment in associates and joint ventures. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exits when the Group holds between 20% and 50% of the voting power of another entity. A joint venture is an arrangement in which the Group has joint control, where the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Associates and Joint venters are accounted for under equity method. These are initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investees after the date of acquisition. Distributions received from an investees 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 investees arising from changes in the investee's equity. When the

Group's share of losses exceeds its interest in an equity-accounted investees, 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 equity-accounted investees. Equity accounting is discontinued when an associate is classified as held-for-sale.

(vii) Transactions eliminated on consolidation and equity accounting

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency translation gains or losses) from intra-group transactions with subsidiaries are eliminated in preparing the consolidated financial statements. Intra-group gains on transactions between the Group and its equity-accounted investees 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 equity- accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Assets held-for-sale

Classification

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use within twelve months. A subsidiary acquired exclusively with a view to resale is classified as disposal group held-for-sale and income and expense from its operations are presented as part of discontinued operation.

Measurement

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro-rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale or held-for-distribution and subsequent gains and losses on re-measurement are recognised in profit or loss. Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

If the criteria for classification as held for sale are no longer met, the entity shall cease to classify the asset (or disposal group) as held for sale and shall measure the asset at the lower of its carrying amount before the asset (or disposal group) was classified as held-for-sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held-for-sale and its recoverable amount at the date of the subsequent decision not to sell.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Foreign currency transactions

(i) Functional and presentation currency

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

(ii) Transactions and balances

Transactions in foreign currencies are translated into the functional currency using the spot exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at the reporting date.

Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date 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.

(iii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition are translated into US$ at exchange rates at the reporting date. The income and expenses of foreign operations are translated into US$ at the exchange rates at the date of the transactions. Foreign currency differences are accumulated into foreign currency translation reserve in owners' equity, except to the extent the translation difference is allocated to NCI.

When foreign operation is disposed of in its entirety such that control is lost, cumulative amount in the translation reserve is reclassified to consolidated income statement as part of the gain or loss on disposal.

(f) Offsetting of financing instruments

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expense are presented on a net basis only when permitted under AAOIFI, or for gains and losses arising from a group of similar transactions.

(g) Investment securities

Investment securities are categorised as proprietary investments, co-investments and treasury portfolio. (refer note 3 for categorisation).

Investment securities comprise debt type and equity type instruments but exclude investment in subsidiaries and equity-accounted investees (note 4 (c) (ii) and (vi)).

(i) Categorization and classification

The classification and measurement approach for investments in sukuk, shares and similar instruments that reflects the business model in which such investments are managed and the underlying cash flow characteristics. Under the standard, each investment is to be categorized as either investment in:

i) equity-type instruments

ii) debt-type instruments, including:
- *monetary debt-type instruments; and*
- *non-monetary debt-type instruments.*

iii) other investment instruments

Unless irrevocable initial recognition choices as per the standard are exercised, an institution shall classify investments as subsequently measured at either of:

- amortised cost;
- fair value through equity (FVTE) or
- fair value through income statement (FVTIS), on the basis of both:

➢ *the Group's business model for managing the investments; and*

➢ *the expected cash flow characteristics of the investment in line with the nature of the underlying Islamic finance contracts.*

4 *SIGNIFICANT ACCOUNTING POLICIES (continued)*
(g) *Investment securities (continued)*

(ii) Recognition and de-recognition

Investment securities are recognised at the trade date i.e. the date that the Group commits 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 plus, except for investment securities carried at FVTIS, transaction costs that are directly attributable to its acquisition or issue.

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 consolidated 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 owners equity and presented in a separate investment fair value reserve in equity.

The fair value gains / (losses) are recognised taking into consideration the split between portions related to owners' equity and equity of investment account holders. 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 owners' equity is transferred to the income statement.

Investments at FVTE where the entity is unable to determine a reliable measure of fair value on a continuing basis, such as investments that do not have a quoted market price or there are no other appropriate methods from which to derive reliable fair values, are stated at cost less impairment allowances.

(iv) Measurement principles

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 uncollectibility. 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.

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. When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

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.

If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), discounted cash flow analyses, price / earnings multiples and other valuation models with accepted economic methodologies for pricing financial 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.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Investment securities (continued)

(iv) Measurement principles (continued)

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.

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.

(h) Financing contracts

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

(i) Assets acquired for leasing

Assets acquired for leasing (Ijarah Muntahia Bittamleek) comprise finance lease assets which are stated at cost less accumulated depreciation and any impairment in value. 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 on a straight-line basis at rates that systematically reduce the cost of the leased assets over the period of the lease. The Group assesses at each reporting date whether there is objective evidence that the assets acquired for leasing are impaired. Impairment losses are measured as the difference between the carrying amount of the asset (including lease rental receivables) and the estimated recoverable amount. Impairment losses, if any, are recognised in the consolidated income statement.

(j) Placements with and from financial and other institutions

These comprise placements made with/ from financial and other institutions under shari'a compliant contracts. Placements are usually short term in nature and are stated at their amortised cost.

(k) Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise cash on hand, bank balances and placements with financial institutions) with original maturities of three months or less when acquired that are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Bank balances that are restricted and not available for day-to-day operations of the Group are not included in cash and cash equivalents.

(l) Derivatives held for risk management purposes and hedge accounting.

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. All derivatives are measured at fair value in the statement of financial position.

The Group designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Derivatives held for risk management purposes and hedge accounting (continued)

Policy applicable generally to hedging relationships

On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both on inception of the hedging relationship and on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a identified. For a cash flow hedge of a forecast transaction, the Group makes an assessment of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

The Group normally designates a portion of the cash flows of a financial instrument for cash flow or fair value changes attributable to a benchmark profit rate risk, if the portion is separately identifiable and reliably measurable.

i. Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss. The change in fair value of the hedged item attributable to the hedged risk is recognised in profit or loss. If the hedged item would otherwise be measured at cost or amortised cost, then its carrying amount is adjusted accordingly.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively.

Any adjustment up to the point of discontinuation to a hedged item for which the effective profit method is used is amortised to profit or loss as an adjustment to the recalculated effective profit rate of the item over its remaining life. On hedge discontinuation, any hedging adjustment made previously to a hedged financial instrument for which the effective profit method is used is amortised to profit or loss by adjusting the effective profit rate of the hedged item from the date on which amortisation begins. If the hedged item is derecognised, then the adjustment is recognised immediately in profit or loss when the item is derecognised.

ii. Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in equity and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in the hedging reserve is reclassified from equity to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of profit or loss and equity.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. If the hedged cash flows are no longer expected to occur, then the Group immediately reclassifies the amount in the hedging reserve from equity to profit or loss. For terminated hedging relationships, if the hedged cash flows are still expected to occur, then the amount accumulated in the hedging reserve is not reclassified until the hedged cash flows affect profit or loss; if the hedged cash flows are expected to affect profit or loss in multiple reporting periods, then the Group reclassifies the amount in the hedging reserve from equity to profit or loss on a straight-line basis.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Derivatives held for risk management purposes and hedge accounting (continued)

Other non-trading derivatives

Other non-trading derivatives are recognised on balance sheet at fair value. If a derivative is not held for trading, and is not designated in a qualifying hedging relationship, then all changes in its fair value are recognised immediately in profit or loss as a component of net income from other financial instruments at FVTIS.

(m) Investment property

Investment property comprise land plots and buildings. Investment property is property held to earn rental income or for capital appreciation or both but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes. Investment property is measured initially at cost, including directly attributable expenses. Subsequent to initial recognition, investment property is carried at cost less accumulated depreciation and accumulated impairment allowances (if any). Land is not depreciated, and building is depreciated over the period of 30 to 45 years.

A property is transferred to investment property when, there is change in use, evidenced by:
end of owner-occupation, for a transfer from owner-occupied property to investment property; or
commencement of an operating ijara to another party, for a transfer from a development property to investment property.

Further, an investment property is transferred to development property when, there is a change in use, evidenced by:
commencement of own use, for a transfer from investment property to owner-occupied property;
commencement of development with a view to sale, for a transfer from investment in real estate to development property.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the period in which the property is derecognised.

(n) Development properties

Development properties are properties held for sale or development and sale in the ordinary course of business. Development properties are measured at the lower of cost and net realisable value.

(o) Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projection if the recognition criteria are met. All other repair and maintenance costs are recognised in the consolidated income statement as incurred.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight line method over their estimated useful lives, and is generally recognised in the consolidated income statement.

The estimated useful lives of property and equipment of the industrial business assets are as follows:

Buildings and infrastructure on lease hold	30 – 50 years
Computers	3 – 5 years
Furniture and fixtures	5 – 8 years
Motor vehicles	4 – 5 years

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Property and equipment (continued)

the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amounts, being the higher of the fair value less costs to sell and their value in use.

An item of property and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognised in the consolidated statement of income in the year of derecognition.

The assets' residual values, useful lives and methods of depreciation are reviewed annually and adjusted prospectively if appropriate.

(p) Intangible assets

Goodwill

Goodwill that arises on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

Other Intangible assets

Intangible assets acquired separately are initially measured at cost. The cost of intangible assets acquired in a business combination are their fair values as at the date of acquisition. Subsequently, intangible assets are recognised at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the consolidated income statement in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life of ten years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income in the expenses category consistent with the function if intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Intangible assets with indefinite useful life consists of a license to construct and operate a cement plant in the Kingdom of Bahrain.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of income when the asset is derecognised.

(q) Impairment of exposures subject to credit risk

The Group recognises loss allowances for the expected credit losses "ECLs" on:

- Bank balances.
- Placements with financial institutions.
- Financing contracts;
- Lease rental receivables;
- Investments in Sukuk (debt-type instruments carried at amortised cost);
- Other receivables; and
- Undrawn financing commitments and financial guarantee contracts issued.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Impairment of exposures subject to credit risk (continued)

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.

The Group assumes that the credit risk on exposure subject to credit risk increased significantly if it is more than 30 days past due. The Group considers an exposure subject to credit risk 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 exposure is more than 90 days 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. 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 that are subject to credit risk on initial recognition and that do not have a significant increase in credit risk since initial recognition or that have low credit risk. 12-month ECL is the expected credit losses that result 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.

Stage 2: Lifetime ECL - not credit impaired

Stage 2 includes exposures that are 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').

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Impairment of exposures subject to credit risk (continued)

Stage 3: Lifetime ECL - credit impaired

Stage 3 includes exposures that are 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.

Measurement of ECLs

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

- Exposures subject to credit risk 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);
- Exposures subject to credit risk 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
- ECLs are discounted at the effective profit rate of the exposure subject to credit risk.

Credit-impaired exposures

At each reporting date, the Group assesses whether exposures subject to credit risk are credit impaired. An exposure subject to credit risk is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that 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 more than 90 days past due;
- the restructuring of a financing facility or advance by the Bank on terms that the Bank 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 exposures subject to credit risk are deducted from the gross carrying amount of the assets.

(r) 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.

(s) Impairment of non-financial assets

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Impairment of non-financial assets (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 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. Separately recognised goodwill is not amortised and is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on separately recognised goodwill are not reversed.

(t) Clients' funds

These represents amounts received from customers for investments in SPEs or project companies formed as part of its investment management activities pending transfer to these entities. These funds are usually disbursed on capital calls from these entities based on its activities and requirements and are payable on demand. Such funds held by the Group are carried at amortised cost.

(u) Current accounts

Balances in current (non-investment) accounts are recognised when received by the Group. The transactions 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.

(v) Term financing

Term financing represents facilities from financial institutions, and financing raised through Sukuk. Term financing are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective profit rate method. Financing cost, dividends and losses relating to the term financing are recognised in the consolidated income statement as finance expense. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

(w) 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 to settle the liability, when a payment under the guarantee has become probable. The Group has issued financial guarantees to support its development projects (note 34).

(x) Dividends

Dividends to shareholders is recognised as liabilities in the period in which they are declared.

(y) Share capital and reserves

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Equity instruments of the group comprise ordinary shares and equity component of share-based payments and convertible instruments. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

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 on the Group's consolidated income statement on the sale of treasury shares.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)
(y) Share capital and reserves (continued)

Statutory reserve
The Commercial Companies Law requires that 10 percent 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 percent of the paid up share capital. Appropriation to statutory reserve is made when approved by the shareholders.

(z) Equity of investment account holders
Equity of investment account holders are funds held by the Group in unrestricted investment accounts, which it can invest at its own discretion. The investment account holder 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 account holders. 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 account holders. 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.

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 Mudaraba 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 account holders, after allocating the Mudarib share, in order to cater against future losses for investment account holders. Creation of any of these reserves results in an increase in the liability towards the pool of unrestricted investment accounts.

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 Mudaraba contract or agency contract. The restricted investment accounts are exclusively restricted for investment in specified projects as directed by the investments account holders. Assets that are held in such capacity are not included as assets of the Group in the consolidated financial statements.

(aa)Revenue recognition
Revenue is measured at the fair value of consideration received or receivable. Revenue is recognised to the extent that it is probable that future economic benefits associated with the item of revenue will flow to the Group, the revenue can be measured with reliability and specific criteria have been met for each of the Group's activities as described below:

Banking business

Income from investment banking activities include deal related income and fee based income. Deal related income is earned by the Group from structuring and sale of assets at the time of placement of products. Fee based income, in the nature of management fees, performance fee, acquisition fee and exit fee, is recognised when the associated service is provided and income is earned.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) Revenue recognition (continued)

Deal related income are embedded in the gains made from the placement of deals to investors and the portion of the gains relating to each performance obligations is recognized over the investment period. The Group has reviewed and analyzed the terms of the contracts that it has entered into with its investors arising from the placement of its investments and has identified its performance obligations arising from its contracts with investors and its expected continuing involvement with such products. Based on this review, the Group has determined the following two types of performance obligations that the Group is expected to satisfy: (i) by the Group during the year from purchase to the placement of the investment with investors, including deal identification, evaluation, funding, underwriting, maintaining a placement infrastructure, preparing the marketing materials for each deal etc; and (ii) services provided, either on a continuous or adhoc basis, over the period of the investment. As part of its revenue recognition assessment, the Group allocates the gains from deal placements to each of the above distinct performance obligations. The Group completes all of its performance obligations described in (i) above before placing an investment with its investors. Accordingly, the fee relating to this performance obligation is recognized upfront upon placement of the investment with investors. This portion of the placement fee is included under "Deal related income". A portion of placement gains received upfront for the performance obligation described in (ii) above is deferred and recognized over time, as part of Fees based income, over the expected period of managing the investments.

Asset Management fee is recognized as per contractual terms when services are rendered over the period of the contract. Acquisition fee and exit fee are recognized when earned on completion of the underlying transactions. Performance fees are only recognized once it is highly probable that there would be no significant reversal of any accumulated revenue in the future. Estimates are needed to assess the risk that achieved earnings may be reversed before realization due to the risk of lower future overall performance of the underlying investments.

Income from placements with / from financial institutions are recognised on a time-apportioned basis over the period of the related contract using the effective profit rate.

Dividend income from investment securities is recognised when the right to receive is established. This is usually the ex-dividend date for equity securities.

Finance income / expenses are recognised using the amortised cost method at the effective profit rate of the financial asset / liability.

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.

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 Bank's share in **Musharaka financing** transaction that commence and end during a single financial period is recognised in the income statement at the time of liquidation (closure of the contract). Where the Musharaka 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 Musharaka agreement.

Income from assets acquired for leasing (Ijarah Muntahia Bittamleek) are recognised proportionately over the lease term.

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) Revenue recognition (continued)

Non-banking business

Revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

Revenue is recognised when the goods are provided to the customer, which was taken to be the point in time at which the customer accepted the goods and the related risks and rewards of ownership transferred. Revenue was recognised at that point provided that the revenue and cost could be measured reliably, the recovery of the consideration was probable and there was no continuing managerial involvement with the goods.

(bb) Earnings prohibited by Shari'a

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Group uses these funds for charitable means.

(cc) Zakah

Zakah is calculated on the Zakah base of the Group in accordance with FAS 39 issued by AAOIFI using the net assets method. Zakah is paid by the Group based on the consolidated figures of statutory reserve, general reserve and retained earning balances at the beginning of the year. The remaining Zakah is payable by individual shareholders. Payment of Zakah on equity of investment account holders and other accounts is the responsibility of investment account holders.

(dd) Employees benefits

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

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 under, and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. Contributions by the Bank are recognised as an expense in consolidated income statement when they are due.

Expatriate and certain Bahraini employees on fixed contracts are entitled to leaving indemnities payable, 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 a "defined benefit scheme" and any increase or decrease in the benefit obligation is recognised in the consolidated income statement.

The Group also operates a voluntary employee 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 consolidated income statement when they are due.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(dd) Employees benefits (continued)

Share-based employee incentive scheme

The Bank operates a share-based incentive scheme for its employees (the "Scheme") whereby employee are granted the Bank's shares as compensation on achievement of certain non-market based performance conditions and service conditions (the 'vesting conditions'). The grant date fair value of equity instruments granted to employees is recognised as an employee expense, with a corresponding increase in equity over the period in which the employees become unconditionally entitled to the share awards.

Non-vesting conditions are taken into account when estimating the fair value of the equity instrument but are not considered for the purpose of estimating the number of equity instruments that will vest. Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value but are considered for the purpose of estimating the number of equity instruments that will vest. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of share awards that do meet the related service and non-market performance conditions at the vesting date. Amount recognised as expense are not trued-up for failure to satisfy a market condition.

(ee) 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.

(ff) 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.

(gg) 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.

(hh) Investment account holder protection scheme

Funds held with the Group in unrestricted investment accounts and current accounts of its retail banking subsidiary are covered by the Deposit Protection Scheme (the Scheme) established by the Central Bank of Bahrain regulation in accordance with Resolution No (34) of 2010.

(ii) Income tax

The Group is exposed to taxation by virtue of operations of subsidiaries. Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be realised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Currently, the Group does not have any material current or deferred tax exposure that requires recognition in the consolidated financial statements.

(jj) *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.

At the commencement date, the Group shall recognises 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.

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 Group will exercise that option; and/ or
- Termination options if it is reasonably certain that the Bank will not exercise that option.

The Group carries out impairment assessment 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.

ii) Net ijarah liability

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

The gross Ijarah liability shall be 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).

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(jj) Ijarah (continued)

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

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; and
- Re-measuring the carrying amount in the event of reassessment or modifications to Ijarah contract, or 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 Group, are recognised by the Group 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.

Recognition exemptions and simplified accounting for the lessee

The Group does 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 is applied on a whole class of underlying assets if they have similar characteristics and operational utility. However, low-value Ijarah exemption is applied on an individual asset/ Ijarah transaction, and not on group/ combination basis.

5 JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that effect 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.

(a) 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 4(q) and note 35(a).

(i) 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 investments carried at fair value through income statement or investments carried at fair value through equity or investments carried at amortised cost. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification (note 4g(i)).

(ii) Special purpose entities

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

(iii) Impairment of equity investments at fair value through equity – (refer to note 4 (g) (iii)

(b) Estimations

(i) Impairment of exposures subject to credit risk carried at amortised cost

Determining inputs into ECL measurement model including incorporation of forward-looking information is set out in note 4(q) and note 35(a).

(ii) Measurement of fair value of unquoted equity investments

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

5 *JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (continued)*

Valuation of equity investments are measured at fair value through equity which involves judgment and is normally based on one of the following:

- Valuation by independent external value for underlying properties / projects;
- Recent arms-length market transaction;
- Current fair value of another contract that is substantially similar;
- Present value of expected cash flows at current rates applicable for items with similar terms and risk characteristics; or
- Application of other valuation models.

(iii) Impairment of investment property

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, UAE and Morocco. 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.

(iv) Impairment of other non-financial assets and cash generating units

Investment in associates and recognised goodwill are subject to an impairment based on indicators of performance and market conditions. Cash generating units include the Group's investments in certain subsidiaries and equity-accounted investees and investment property that generate cash flows that are largely independent from other assets and activities of the Group. The basis of impairment assessment for such cash generating units is described in accounting policy note 4 (s). For equity-accounted investees with indicators of impairment, the recoverable amounts is determined based on higher of fair value less costs to sell (FVLCTS); and value in use.

The recoverable amount for the equity-accounted investees was determined using a combination of income and market approaches of valuations. The objective of valuation techniques is to determine whether the recoverable amount is greater than the carrying amount.

(v) Estimating net realisable value of development property

Development property is stated at lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated selling expenses. The board of directors of the Group has forecasted the cost of completion of development property and has engaged independent valuers to estimate the residual value of the development property based on estimated market selling prices for similar properties. Net realisable value estimates are made at a specific point in time, based on market conditions and information about the expected use of development property. These estimates involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events. 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 development property.

for the year ended 31 December 2023 US$ 000's

6 CASH AND BANK BALANCES

	31 December 2023	31 December 2022
Cash	8,193	9,098
Balances with banks	185,857	714,968
Balances with Central Bank of Bahrain:		
- Current account	107,524	65,751
- Reserve account*	75,310	68,422
	376,884	858,239

*The reserve account with the Central Bank of Bahrain are not available for day-to-day operational purposes. The cash and bank balances are net of ECL of US$ 27 thousand (2022: US$ 11 thousand).

7 TREASURY PORTFOLIO

	31 December 2023	31 December 2022
Placements with financial institutions	1,458,368	729,311
Profit rate swap and foreign currency forwards (a)	2,195	2,675
Equity type investments		
At fair value through equity		
- Quoted sukuk (b)	33,326	32,966
At fair value through income statement		
- Structured notes (a)	404,839	371,978
- Quoted fund (a)	27,099	-
Debt type investments		
At fair value through equity		
- Quoted sukuk (b)	784,300	846,205
At amortised cost		
- Quoted sukuk *	2,447,489	2,240,354
- Unquoted sukuk	3,494	3,494
Less: Impairment allowances (note 23)	(26,078)	(16,963)
	5,135,032	**4,210,020**

* Short-term and medium-term facilities of US$ 1,857,388 thousand (31 December 2022: US$ 1,653,875 thousand) are secured by quoted sukuk of US$ 2,762,506 thousand (31 December 2022: US$ 2,506,041 thousand), structured notes of US$ 404,839 thousand (31 December 2022: US$ 371,928 thousand). Additionally this amount is net of restatement of US$ 7,482 thousands (refer note 38).

for the year ended 31 December 2023 US$ 000's

7 TREASURY PORTFOLIO (continued)

a) Investments - At fair value through income statement

	2023	2022
At 1 January	374,653	445,183
Additions	102,857	52,602
Disposals	(86,547)	(74,734)
Fair value changes, net	43,170	(48,398)
At 31 December	**434,133**	374,653

b) Investments - At fair value through equity

	2023	2022
At 1 January	879,171	1,656,088
Additions	9,951	319,192
Disposals / Transfers	(69,273)	(123,495)
Amortization	(1,346)	(7,192)
Reclassification to amortized cost	-	(935,514)
Restatement Impact (note 38)	(15,271)	-
Fair value changes	14,394	(29,908)
At 31 December	**817,626**	879,171

8 FINANCING CONTRACTS

	31 December 2023	31 December 2022
Murabaha	1,029,324	982,170
Wakala	-	239
Mudharaba	20,564	17,336
Ijarah assets	559,409	499,865
	1,609,297	1,499,610
Less: Impairment allowances	(71,983)	(64,372)
	1,537,314	1,435,238

Murabaha financing receivables are net of deferred profits of US$ 41,727 thousand (2022: US$ 50,133 thousand).

31 December 2023	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financing contracts (gross)	1,192,748	284,047	132,502	1,609,297
Expected credit loss	(8,091)	(23,360)	(40,532)	(71,983)
Financing contracts (net)	**1,184,657**	**260,687**	**91,970**	**1,537,314**

31 December 2022	Stage 1	Stage 2	Stage 3	Total
Financing contracts (gross)	1,286,549	143,496	69,565	1,499,610
Expected credit loss	(18,046)	(11,990)	(34,336)	(64,372)
Financing contracts (net)	1,268,503	131,506	35,229	1,435,238

for the year ended 31 December 2023 US$ 000's

8 FINANCING CONTRACTS (continued)

The movement on impairment allowances is as follows:

Impairment allowances	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January 2023	18,046	11,990	34,336	64,372
Net transfers	(3,576)	3,130	446	-
Net charge for the year (note 23)	(6,379)	8,240	8,349	10,210
Write-off	-	-	(2,599)	(2,599)
At 31 December 2023	**8,091**	**23,360**	**40,532**	**71,983**

Impairment allowances	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2022	19,995	7,109	44,345	71,449
Net transfers	2,403	(1,411)	(992)	-
Net charge for the year (note 23)	(4,352)	6,292	4,995	6,935
Write-off	-	-	(14,012)	(14,012)
At 31 December 2022	18,046	11,990	34,336	64,372

9 INVESTMENT IN REAL ESTATE

	31 December 2023	31 December 2022
Investment Property		
- Land	483,685	556,215
- Building	141,471	194,050
	625,156	750,265
Development Property		
- Land	165,565	147,393
- Building	581,211	389,427
	746,776	536,820
	1,371,932	1,287,085

(i) Investment property

Investment property includes land plots and buildings in GCC, Europe and North Africa. Investment property of carrying amount of US$ Nil million (2022: US$ 39.9 million) is pledged against Wakala facilities and Ijarah facility (note 15).

The fair value of the Group's investment property at 31 December 2023 was US$ 746,496 thousand (31 December 2022: US$ 931,291 thousand) based on a valuation carried out by an independent external property valuers who have recent experience in the location and category of the asset being valued. These are level 3 valuations in fair value hierarchy.

	2023	2022
At 1 January	750,265	592,834
Additions during the year	69,737	195,008
Depreciation	(3,271)	(2,805)
Disposals / transfers	(191,575)	(34,772)
At 31 December	**625,156**	750,265

for the year ended 31 December 2023 US$ 000's

9 *INVESTMENTS IN REAL ESTATE (continued)*

(ii) Development properties

This represent properties under development for sale.

	2023	2022
At 1 January	536,820	1,312,764
Additions	227,823	70,849
Disposals / transfers	(17,867)	(846,793)
At 31 December	**746,776**	536,820

10 PROPRIETARY INVESTMENTS

	31 December 2023	31 December 2022
Equity type investments		
At fair value through income statement (i)		
- Unquoted securities	2,942	9,480
- Listed securities	14,252	-
	17,194	9,480
At fair value through equity		
- Equity type Sukuk	827,012	836,251
- Unquoted equity securities *(iii)*	64,045	55,893
	891,057	892,144
Equity-accounted investees *(iv)*	137,390	103,471
Impairment allowance	(914)	(42)
	1,044,727	1,005,053

(i) Equity type investments – At fair value through income statement

	2023	2022
At 1 January	9,480	10,000
Disposals,net	(6,538)	(520)
At 31 December	**2,942**	9,480

(ii) Listed equity securities at fair value through equity

	2023	2022
At 1 January	-	13
Additions	16,619	-
Fair value	(2,367)	(13)
At 31 December	**14,252**	**-**

for the year ended 31 December 2023 US$ 000's

10 PROPRIETARY INVESTMENTS (continued)

(iii) Unquoted equity securities fair value through equity

	2023	2022
At 1 January	55,893	91,425
Additions	9,319	6,050
Disposal / Transfers	(1,167)	(41,582)
At 31 December	**64,045**	55,893

(iv) Equity-accounted investees

Equity-accounted investees represents investments in the following material entities:

Name	**Country of incorporation**	**% Holding 2023**	**% Holding 2022**	**Nature of business**
Capital Real Estate Projects Company B.S.C. (c)	Kingdom of Bahrain	30%	30%	Real estate holding and development
Enshaa Development Real Estate B.S.C. (c)	Kingdom of Bahrain	33.33%	33.33%	Holding plot of land in Kingdom of Bahrain.
Infracorp B.S.C. (c)	Kingdom of Bahrain	40%	40%	Management of Real Estate
LPOD and Domina*	Kingdom of Bahrain	28.14%	-	Real estate holding and development

	2023	2022
At 1 January	103,471	69,003
Additions	37,024	80,000
Disposals	-	(57,437)
Other reserves of equity accounted investee	(13,612)	-0
Share of profit for the year, net	10,507	11,905
At 31 December 2023	**137,390**	103,471

Summarised financial information of entities that have been equity-accounted investments not adjusted for the percentage ownership held by the Group (based on most recent management accounts):

Infracorp B.S.C. (c)	**2023**	2022
Total assets	**1,645,707**	1,687,534
Total liabilities	**402,983**	418,012
Equity type sukuk	**900,000**	900,000
Total revenues	**216,075**	130,360
Total profit (attributable to shareholders)	**45,466**	33,190

Other equity-accounted investees	**2023**	2022
Total assets	**211,202**	286,223
Total liabilities	**63,172**	20,647
Total revenues	**5,955**	12,097
Total loss	**(4,223)**	(4,630)

for the year ended 31 December 2023 US$ 000's

11 CO-INVESTMENTS

	31 December 2023	31 December 2022
At fair value through equity		
- Unquoted equity securities	247,048	131,553
At fair value through income statement		
- Unquoted equity securities	9,168	10,498
Provision	(1,606)	-
	254,610	142,051

	2023	2022
At 1 January	142,051	171,877
Additions	116,214	58,751
Disposals	(915)	(92,195)
Impairment allowance	(1,606)	-
Fair value change	(1,134)	3,618
At 31 December	**254,610**	142,051

12 RECEIVABLES AND OTHER ASSETS

	31 December 2023	31 December 2022
Investment banking receivables	307,597	193,923
Receivable from equity-accounted investee	72,923	62,000
Financing to projects, net	12,241	26,744
Receivable on sale of development properties	16,376	16,341
Advances and deposits	62,416	61,613
Employee receivables	7,443	5,067
Profit on sukuk receivable	17,409	18,766
Lease rentals receivable	4,025	6,117
Prepayments and other receivables	295,158	208,614
Less: impairment allowance net (note 23)	(7,948)	(9,316)
	787,640	589,869

13 PROPERTY AND EQUIPMENT

	31 December 2023	31 December 2022
Land	73,291	86,839
Buildings and other leased assets	158,541	80,709
Others including furniture, vehicles and equipment	42,889	65,188
	274,721	232,736

Depreciation on property and equipment during the year was US$ 8,132 thousand (2022: US$ 3,036 thousand).

for the year ended 31 December 2023 US$ 000's

14 PLACEMENTS FROM NON-FINANCIAL INSITUTIONS AND INDIVIDUALS

These comprise placements in the form of murabaha and wakala contracts with financial, non-financial institutions, and individuals part of the Group's treasury activities. This includes US$ 84.3 million (2022: US$ 84.3 million) from a non-financial entity which is currently subject to regulatory sanctions.

15 TERM FINANCING

	31 December 2023	31 December 2022
Murabaha financing	1,880,910	1,680,940
Sukuk	241,777	242,076
Ijarah financing	-	17,603
Other borrowings	1,620	1,579
	2,124,307	1,942,198

	31 December 2023	31 December 2022
Current portion	757,075	987,320
Non-current portion	1,367,232	954,878
	2,124,307	1,942,198

Murabaha financing comprise:
Short-term and medium-term facilities of US$ 1,857,388 thousand (31 December 2022: US$ 1,653,875 thousand) are secured by quoted sukuk of US$ 2,762,506 thousand (31 December 2022: US$ 2,506,041 thousand) and structured notes of US$ 404,839 thousand (31 December 2022: US$ 301,853 thousand).

Sukuk
During 2020, the Group raised US$ 500,000 thousand through issuance of unsecured sukuk certificates with a profit rate of 7.5% p.a. repayable by 2025 till date. The Group has repurchased cumulative sukuk of US$ 265,610 thousand. The outstanding sukuk also includes accrued profit of US$ 8,743 thousand.

for the year ended 31 December 2023 US$ 000's

16 OTHER LIABILITIES

	31 December 2023	31 December 2022
Employee related accruals	15,764	15,544
Board member allowances and accruals	1,500	1,500
Unclaimed dividends	2,312	4,754
Mudaraba profit accrual	22,814	13,184
Provision for employees' leaving indemnities	5,127	4,125
Zakah and Charity fund	6,553	5,924
Advance received from customers	2,105	6,648
Accounts payable	236,443	127,878
Deal related payables	192,288	138,657
Other accrued expenses and payables	63,150	105,149
	548,056	423,363

17 EQUITY OF INVESTMENT ACCOUNT HOLDERS (EIAH)

	31 December 2023	31 December 2022
Placements and borrowings from financial institutions – Wakala	2,312,153	25,458
Mudaraba	1,138,853	1,188,216
	3,451,006	1,213,674

The funds received from investment account holders have been commingled and jointly invested with the Group in the following asset classes as at 31 December:

	31 December 2023	31 December 2022
Balances with banks	2,030,152	274,502
CBB reserve account	75,310	68,422
Placements with financial institutions	-	166,130
Debt type instruments – sukuk	222,448	456,310
Financing contracts	1,004,809	248,310
Investment securities	71,334	-
Investment in real estate	45,618	-
Other Assets	1,335	-
	3,451,006	1,213,674

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

for the year ended 31 December 2023 US$ 000's

17 EQUITY OF INVESTMENT ACCOUNT HOLDERS (EIAH) (continued)

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 Mudaraba accounts.

The investors' share of the return on jointly invested assets and distribution to investment account holders were as follows:

	2023	2022
Returns from jointly invested assets	(75,236)	(79,210)
Banks share as Mudarib	18,053	41,159
Return to investment account holders	**(57,183)**	(38,051)

The above returns as the Mudarib are forming part of Income from commercial banking in the statement of income. 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 mudarba contract and wakala 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.

for the year ended 31 December 2023 US$ 000's

18 SHARE CAPITAL

	31 December 2023	31 December 2022
Authorised:		
9,433,962,264 shares of US$ 0.265 each (2022: 9,433,962,264 shares of US$ 0.265 each)	**2,500,000**	2,500,000
Issued and fully paid up:		
3,832,593,838 shares of US$ 0.265 each (2022: 3,832,593,838 shares of US$ 0.265 each)	**1,015,637**	1,015,637

The movement in the share capital during the year is as follows:

	2023	2022
At 1 January	1,015,637	1,000,637
Issue of bonus shares	-	15,000
At 31 December	**1,015,637**	1,015,637

As at 31 December 2023, the Bank held 353,456,810 (31 December 2022: 341,150,768) treasury shares..

Additional information on shareholding pattern

(i) The Bank has only one class of equity shares and the holders of these shares have equal voting rights.

(ii) 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%	2,344,580,087	8,632	61.17%
1% up to less than 5%	1,239,114,234	17	32.33%
5% to less than 10%	248,899,517	1	6.50%
Total	**3,832,593,838**	**8,650**	**100%**

31 December 2022 Categories*	Number of shares	Number of Shareholders	% of total outstanding shares
Less than 1%	2,260,705,577	8,304	58.98%
1% up to less than 5%	1,023,998,191	14	26.72%
5% to less than 10%	547,890,070	2	14.30%
Total	3,832,593,838	8,320	100%

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

Appropriations and changes in capital structure

Appropriations, if any, are made when approved by the shareholders.

for the year ended 31 December 2023 US$ 000's

18 SHARE CAPITAL (continued)

Proposed appropriations

The Board of Directors proposes the following appropriations for 2023 subject to shareholders' and regulatory approval:

- Cash dividend of 6.2% of the paid-up share capital net of treasury shares;
- To allocate an amount of US$ 2,000,000 to charity activities and civil society organizations;
- Transfer of US$ 10,522,700 to statutory reserve; and;
- Board remuneration of US$ 1,900,000

19 SHARE GRANT RESERVE

The Bank operates a share-based incentive scheme for its employees (the "Scheme") whereby employee are granted the Bank's shares as compensation on achievement of certain non-market based performance conditions and service conditions (the 'vesting conditions'). The grant date fair value of equity instruments granted to employees is recognised as an employee expense, with a corresponding increase in equity over the period in which the employees become unconditionally entitled to the share awards. During the year the Bank has recognized US$ 1,000 thousands.

20 OTHER INCOME

Other income includes write back of liabilities no longer required of US$ 4.35 million (2022: US$ 10.31 million) after settlement arrangements were concluded for some of the non-banking subsidiaries and income of non-financial subsidiaries of US$ 9 million (2022: US$ 9.6 million).

21 STAFF COST

	2023	2022
Salaries and benefits	74,009	60,232
Social insurance and end of service benefits	2,728	3,253
Share-based payments	1,000	6,930
	77,737	70,415

21 *STAFF COST (continued)*

As per the Group's Variable Incentive Policy, a portion of the annual performance bonus is issued in the form of share awards to its senior management employees. These awards include deferred incentives in the form of shares, share purchase plans and long-term incentive plans with different conditions. The terms of the award, including the type of plan, extent of funding, pricing and deferral period is determined for each year by the Board Nomination, Remuneration and Governance Committee of the Bank.

Performance year	**Nature of award**	**Staff coverage**	**Summary of deferral and vesting conditions**
Annual Awards	Employee Share Purchase Plan & Deferred Annual Bonus (DAB)	Covered persons in business and control functions who exceed total compensation thresholds as per CBB Remuneration Regulations and Bank's Variable Remuneration policy.	A portioned of the annual incentive is issued in form of shares / awards and released rateably over the 3 year deferral period. The issue price is determined based on a defined adjustment to market price on the date of the award. No future performance conditions or service conditions associated with the DAB shares. DAB Shares are entitled for dividends, if any, but released over the deferral period.
2020 – 2022	Long term incentive plan (LTIP) share awards	Select Senior Management	Under the future performance awards structure of the Bank, an LTIP scheme was introduced where the employees are compensated in form of shares on achievement of certain pre-determined performance conditions. The LTIP sets performance and service conditions and has a rateable vesting schedule over a period of 3 - 6 years. Accelerated vesting may occur on exceeding performance conditions leading to true up of share-based payment charges. The issue price is determined based on a defined adjustment to market price on the date of the award. The LTIP shares include leverage features and are entitled to dividends, if any, released along with the vested shares.

	2023		2022	
	No. of Shares	US$ 000's	No. of Shares	US$ 000's
Opening balance	203,507,210	28,657	184,325,599	17,082
Awarded during the year	43,845,042	16,950	145,490,734	22,532
Bonus shares			4,461,209	-
Forfeiture and other adjustments	(1,300,687)		-	-
Transfer to employees / settlement	(96,976,385)	(12,398)	(130,770,332)	(10,957)
Closing balance	**149,075,180**	**33,209**	203,507,210	28,657

In case of the employee share purchase plans including LTIP, the US$ amounts reported in the table above represents the gross vesting charge of the respective schemes as determined under IFRS 2 – *Share-based payments* at the date of the award and not the value of the shares. The release of these shares are subject to future retention, performance and service conditions. The number of shares included in the table above refer to the total employee participation in the various plans that remain unvested and undelivered as at the reporting date.

for the year ended 31 December 2023 US$ 000's

22 OTHER OPERATING EXPENSES

	2023	2022
Investment advisory expenses	18,895	18,571
Rent	5,629	2,925
Professional and consultancy fees	12,510	13,213
Legal expenses	2,593	2,183
Depreciation	11,244	5,841
Expenses relating to non-banking subsidiaries	5,850	11,570
Other operating expenses	46,915	23,229
	103,636	77,532

23 IMPAIRMENT ALLOWANCES

	2023	2022
Bank balances	16	(13)
Treasury portfolio (note 7)	9,115	2,836
Financing contracts (note 8)	10,210	6,935
Co-investments (note 11)	1,606	-
Proprietary investments (note 10)	872	(82)
Other receivables (note 12)	(1,368)	(6,320)
Commitments and financial guarantees	8	(46)
	20,459	3,310

for the year ended 31 December 2023 US$ 000's

24 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 entities over which the Group exercises significant influence, major shareholders, directors and executive management of the Group. A significant portion of the Group's management fees are from entities over which the Group exercises influence (assets under management). Although these entities are considered related parties, the Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. The transactions with these entities are based on agreed terms.

The significant related party transactions during the year and balances as at year end included in these consolidated financial statements are as follows:

	Related parties				
2023	**Associates / Joint venture**	**Key management personnel**	**Significant shareholders / entities in which directors are interested**	**Assets under management including special purpose and other entities**	**Total**
Assets					
Cash and bank balances					
Treasury portfolio				70,546	**70,546**
Financing contracts	-	11,202	85,055	19,489	**115,746**
Proprietary investment	827,161	-	7,686	13,667	**848,514**
Co investment	-	-	-	243,393	**243,393**
Receivables and other assets	190,505	6,731	1,507	330,038	**528,781**
Liabilities					
Current account	2,971	16	29,233	19,122	**51,342**
Placements from financial, non-financial institutions and individuals	-	5,602	8,622	-	**14,224**
Payables and accruals	96,115	7,196	-	198,943	**302,254**
Equity of investment account holders	**2,485**	**5,027**	**44,145**	**14,422**	**66,079**

for the year ended 31 December 2023 US$ 000's

24 RELATED PARTY TRANSACTIONS (continued)

	Related parties				
2023	**Associates / Joint venture**	**Key management personnel**	**Significant shareholders / entities in which directors are interested**	**Assets under management including special purpose and other entities**	**Total**
Income					
Income from investment banking	-	-	-	182,173	**182,173**
Income from commercial banking					
- *Income from financing*	-	790	8,536	-	**9,326**
- *Less: Return to investment account holders*	(37)	(249)	(14,257)	(16)	**(14,559)**
- *Less: Finance expense*	-	(271)	(11,655)	-	**(11,926)**
Treasury and other income	35,069	-	-	6,333	**41,402**
Expenses					
Operating expenses	-	(1,180)	-	(151)	**(1,331)**
Staff Cost	-	(18,206)	-	-	**(18,206)**
Finance Cost	-	-	-	(3,188)	**(3,188)**

for the year ended 31 December 2023 US$ 000's

24 RELATED PARTY TRANSACTIONS (continued)

	Related parties				
2022	Associates / Joint venture	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management including special purpose and other entities	Total
Assets					
Cash and bank balances	-	-	-	12,777	12,777
Treasury portfolio				70,656	70,656
Financing contracts	-	8,411	38,181	18,201	64,793
Proprietary investment	836,251	-	6,058	-	842,309
Co investment	-	-	-	142,665	142,665
Receivables and other assets	62,045	5,326	721	198,231	266,323
Liabilities					
Current account	1,918	183	2,003	13,973	18,077
Placements from financial, non-financial institutions and individuals	-	3,379	22,697	24,077	50,153
Payables and accruals	36,009	1,565	-	139,529	177,103
Equity of investment account holders	3,239	2,875	33,328	148,114	187,556

	Related parties				
2022	**Associates / Joint venture**	**Key management personnel**	**Significant shareholders / entities in which directors are interested**	**Assets under management including special purpose and other entities**	**Total**
Income					
Income from investment banking	-	-	-	124,244	124,244
Income from commercial banking	-	-	-	-	-
-*Income from financing*	-	525	1,263	-	1,788
-*Fee and other income*	-	-	-	-	-
-*Less: Return to investment account holders*	27	101	8,631	11	8,770
- *Less: Finance expense*	-	-	-	-	-
Income from proprietary and co-investments	27,246	-	1,932	25,154	54,332
Treasury and other income	8	-	-	797	805
Expenses					
Operating expenses					
Staff Cost	-	(8,116)*	-	-	(8,116)
Finance Cost	-	(6)	(3,989)	-	(3,995)

***** The amount presented excluded bonus to key management personnel for 2022 as allocation has not been finalized at the date of approval of these consolidated financial statements.

for the year ended 31 December 2023 US$ 000's

24 RELATED PARTY TRANSACTIONS (continued)

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

During the year, there were no direct participation of directors in investments promoted by the Group.

The key management personnel compensation is as follows:

	2023	2022
Board members' remuneration, fees and allowance	2,944	2,981
Salaries, other short-term benefits and expenses	17,811	15,203
Post-employment benefits	1,028	289

25 ASSETS UNDER MANAGEMENT AND CUSTODIAL ASSETS

i. The Group provides corporate administration, investment management and advisory services to its project companies, which involve the Group 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 US$ 10,028 million (31 December 2022: US$ 7,845 million). During the year, the Group had charged management fees and performance fee amounting to US$ 18,652 thousand (31 December 2022: US$ 33,536 thousand).

ii. Custodial assets comprise assets of the discretionary portfolio management ('DPM') accounts amounting to US$ 3,351,184 thousand, of which US$ 1,040,768 thousand related to the Bank's investment products.

26 EARNINGS PER SHARE

Basic 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.

The weighted average number of ordinary equity shares for the comparative periods presented are adjusted for the issue of shares during the year without corresponding change in resources.

	2023	2022
In thousands of shares		
Weighted average number of shares for basic and diluted earnings	**3,493,154**	3,426,503

Diluted earnings per share
Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Potential ordinary shares are considered to be dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase the loss per share.

27 ZAKAH AND SOCIAL RESPONSIBILITY

Zakah is directly borne by the shareholders on distributed profits and investors in restricted investment accounts. The Bank 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 Bank on the basis of the method prescribed (net assets method) by the Bank's Shari'a Supervisory Board and notified to shareholders annually.

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

28 EARNINGS PROHIBITED BY SHARI'A

The Group is committed to avoid recognising any income generated from non-sharia sources. Accordingly, all non-sharia income is credited to a charity account where the Group uses these funds for charitable means. Movements in non-sharia funds are shown in the statement of sources and uses of charity funds. The Group receives interest from deposits placed with the CBB and other incidental or required deposits. These earnings are utilised exclusively for charitable purposes and amount to US$ 278 thousand (2022: US$ 88 thousand).

29 SHARI'A SUPERVISORY BOARD

The Group's Shari'a Supervisory Board comprise four 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.

for the year ended 31 December 2023 US$ 000's

30 MATURITY PROFILE

The table below shows the maturity profile of the Group's assets and unrecognised commitments on the basis of their contractual maturity. Where such contractual maturity is not available, the Group has considered expected realisation / settlement profile for assets and liabilities respectively. For undiscounted contractual maturity of financial liabilities, refer note 36.

31 December 2023	**Up to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Total**
Assets						
Cash and bank balances	343,314	8,660	22,976	1,934		**376,884**
Treasury portfolio	2,490,581	68,210	62,469	787,230	1,726,542	**5,135,032**
Financing contracts	182,611	48,429	185,568	315,080	805,626	**1,537,314**
Real estate investment	-	-		-	1,371,932	**1,371,932**
Proprietary investments	-	-		967,123	77,604	**1,044,727**
Co-investments	-	-		254,610	-	**254,610**
Receivables and prepayments	99,635	10,548	244,732	69,265	363,460	**787,640**
Property and equipment	-	-			274,721	**274,721**
Asset held for sale	338,619	-	-	-	-	**338,619**
Total assets	**3,454,760**	**135,847**	**515,745**	**2,395,242**	**4,619,885**	**11,121,479**
Liabilities						
Client's funds	145,221	-	61,001	-	-	**206,222**
Placements from financial institutions	1,512,670	302,464	311,295	160,780	36,008	**2,323,217**
Placements from non-financial institutions and individuals	209,240	86,071	243,599	121,703	299,437	**960,050**
Current account	11,517	25,408	-	13,902	152,870	**203,697**
Term financing	606,741	149,239	1,095	1,089,757	277,475	**2,124,307**
Payables and accruals	206,274	137,068	14,519	85,524	104,671	**548,056**
Liabilities held for sale	230,562	-	-	-	-	**230,562**
Total liabilities	**2,922,225**	**700,250**	**631,509**	**1,471,666**	**870,461**	**6,596,111**
Equity of investment account holders	**2,031,934**	**272,393**	**656,972**	**395,218**	**94,489**	**3,451,006**
Off-balance sheet items						
Commitments	92,478	18,366	33,483	59,232	138	**203,697**
Restricted investment accounts	-	-	-	4,208	-	**4,208**

for the year ended 31 December 2023 US$ 000's

30 MATURITY PROFILE (continued)

31 December 2022	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash and bank balances	826,393	7,374	13,552	10,920	-	858,239
Treasury portfolio	1,291,520	249,557	447,769	417,228	1,803,946	4,210,020
Financing contracts	156,765	56,091	164,272	291,676	766,434	1,435,238
Real estate investment	-	-	-	-	1,287,085	1,287,085
Proprietary investments	-	-	-	927,704	77,349	1,005,053
Co-investments	-	1,852	-	140,199	-	142,051
Receivables and prepayments	213,908	105,435	56,540	50,526	163,460	589,869
Property and equipment	-	-	-	-	232,736	232,736
Total assets	2,488,586	420,309	682,133	1,838,253	4,331,010	9,760,291
Liabilities						
Client's funds	87,488	-	35,812	-	-	123,300
Placements from financial institutions	2,361,964	516,253	639,419	210,554	62,680	3,790,870
Placements from non-financial institutions and individuals	159,739	121,865	251,034	423,025	108,595	1,064,258
Current account	5,497	16,623	-	54,557	54,557	131,234
Term financing	519,046	192,074	276,200	649,172	305,706	1,942,198
Payables and accruals	227,764	116,763	36,390	42,446	-	423,363
Total liabilities	3,361,498	963,578	1,238,855	1,379,754	531,538	7,475,223
Equity of investment account holders	99,588	35,406	86,546	288,470	703,664	1,213,674
Off-balance sheet items						
Commitments	56,565	4,098	48,923	95,664	234	205,484
Restricted investment accounts	-	-	-	4,162	-	4,162

for the year ended 31 December 2023 US$ 000's

31 CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS

(a) Industry sector

31 December 2023	Banks and financial institutions	Real estate	Others	Total
Assets				
Cash and bank balances	359,436	13,253	4,195	376,884
Treasury portfolio	4,071,499	207,677	855,856	5,135,032
Financing contracts	90,540	735,117	711,657	1,537,314
Real estate investments	-	1,371,932	-	1,371,932
Proprietary investment	720,208	153,916	170,603	1,044,727
Co-investment	143,140	111,470	-	254,610
Receivables and prepayments	40,528	125,420	621,692	787,640
Property and equipment	4,927	78,683	191,111	274,721
Asset held for sale	-	338,619	-	338,619
Total assets	**5,430,278**	**3,136,087**	**2,555,114**	**11,121,479**
Liabilities				
Client's funds	203,341	-	2,881	206,222
Placements from financial institutions	2,323,217	-	-	2,323,217
Placements from non-financial institutions and individuals	4,027	-	956,023	960,050
Customer accounts	934	9,899	192,864	203,697
Term financing	2,110,286	14,021	-	2,124,307
Payables and accruals	414,074	-	133,982	548,056
Liabilities held for sale	-	-	230,562	230,562
Total liabilities	**5,055,879**	**23,920**	**1,516,312**	**6,596,111**
Equity of Investment account holders	348,787	166,159	2,936,060	3,451,006
Off-balance sheet items				
Commitments	654	78,463	124,581	**203,698**
Restricted investment accounts		4,208		**4,208**
Notional amount of Derivative	558,500	-	-	**558,500**

for the year ended 31 December 2023 US$ 000's

31 Concentration of assets, liabilities and equity of investment account holders (continued)

a Industry sector (continued)

31 December 2022	Banks and financial institutions	Real estate	Others	Total
Assets				
Cash and bank balances	845,828	11,596	815	858,239
Treasury portfolio	3,134,903	73,182	1,001,935	4,210,020
Financing contracts	107,608	561,420	766,210	1,435,238
Real estate investments	-	1,287,085	-	1,287,085
Proprietary investment	757,834	229,337	17,882	1,005,053
Co-investment	130,833	11,218	-	142,051
Receivables and prepayments	139,696	97,951	352,222	589,869
Property and equipment	2,189	37,165	193,382	232,736
Total assets	5,118,891	2,308,954	2,332,446	9,760,291
Liabilities				
Client's funds	119,375	-	3,925	123,300
Placements from financial institutions	3,790,870	-	-	3,790,870
Placements from non-financial institutions and individuals	9,821	1,477	1,052,960	1,064,258
Customer accounts	4,138	18,735	108,361	131,234
Term financing	1,926,760	15,438	-	1,942,198
Payables and accruals	240,730	50,054	132,579	423,363
Total liabilities	6,091,694	85,704	1,297,825	7,475,223
Equity of Investment account holders	272,093	51,262	890,319	1,213,674
Off-balance sheet items				
Commitments	-	117,301	88,183	205,484
Restricted investment accounts	-	4,162	-	4,162
Notional amount of Derivative	58,500	-	-	58,500

for the year ended 31 December 2023 US$ 000's

31 Concentration of assets, liabilities and equity of investment account holders (continued)

b Geographic region

31 December 2023	GCC countries	MENA	Asia	North America	Others	Total
Assets						
Cash and bank balances	322,098	361	82	50,188	4,155	376,884
Treasury portfolio	3,239,875	445,603	-	269,765	1,179,789	5,135,032
Financing contracts	1,489,776	-	-	31,514	16,024	1,537,314
Real estate investment	1,362,718	-	7,430	-	1,784	1,371,932
Proprietary investment	1,035,609	-	-	1,976	7,142	1,044,727
Co-investments	167,221	-	505	28,077	58,807	254,610
Receivables and prepayments	622,346	22,552	3,520	131,310	7,912	787,640
Property and equipment	274,721	-	-	-	-	274,721
Assets held for sale	338,619	-	-	-	-	338,619
Total assets	**8,852,983**	**468,516**	**11,537**	**512,830**	**1,275,613**	**11,121,479**
Liabilities						
Client's funds	203,341	-	-	-	2,881	206,222
Placements from financial,	2,323,217	-	-	-	-	2,323,217
Placements non-financial institutions and individuals	733,239	226,487	-	-	324	960,050
Customer accounts	149,968	-	53,729	-	-	203,697
Financing liabilities	1,629,941	-	-	-	494,366	2,124,307
Payables and accruals	414,283	-	-	82,590	51,183	548,056
Liabilities held for sale	230,562	-	-	-	-	230,562
Total liabilities	**5,684,551**	**226,487**	**53,729**	**82,590**	**548,754**	**6,596,111**
Equity of investment account holders	3,360,289	2,329	4,218	-	84,170	**3,451,006**
Off-balance sheet items						
Commitments	154,550	-	-	49,147	-	**203,697**
Restricted investment accounts	4,067	-	-	141	-	**4,208**
Notional amount of Derivative	-	-	-	558,500	-	**558,500**

Concentration by location for assets is measured based on the location of the underlying operating assets, and not based on the location of the investment (which is generally based in tax efficient jurisdictions).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2022 US$ 000's

31 Concentration of assets, liabilities and equity of investment account holders (continued)
b Geography sector (continued)

31 December 2022	GCC countries	MENA	Asia	North America	Others	Total
Assets						
Cash and bank balances	691,915	361	40	74,484	91,439	858,239
Treasury portfolio	3,318,666	135,813	-	108,785	646,756	4,210,020
Financing contracts	1,379,761	39,526	-	12	15,939	1,435,238
Real estate investment	1,037,847	232,284	7,609	-	9,345	1,287,085
Proprietary investment	993,219	-	-	-	11,834	1,005,053
Co-investments	46,780	-	505	93,028	1,738	142,051
Receivables and prepayments	550,502	22,387	3,477	9,873	3,630	589,869
Property and equipment	224,358	-	-	8,244	134	232,736
Total assets	8,243,048	430,371	11,631	294,426	780,815	9,760,291
Liabilities						
Client's funds	119,375	-	-	-	3,925	123,300
Placements from financial,	3,790,870	-	-	-	-	3,790,870
Placements non-financial institutions and individuals	903,367	160,666	-	225	-	1,064,258
Customer accounts	131,019	-	215	-	-	131,234
Financing liabilities	773,566	-	-	447,647	720,985	1,942,198
Payables and accruals	257,100	6,010	-	141,637	18,616	423,363
Total liabilities	5,975,297	166,676	215	589,509	743,526	7,475,223
Equity of investment account holders	1,191,653	-	21,910	-	111	1,213,674
Off-balance sheet items					-	
Commitments	142,992	-	-	62,492	-	205,484
Restricted investment accounts	4,022	-	-	140	-	4,162
Notional amount of Derivative	-	-	-	58,500	-	58,500

Concentration by location for assets is measured based on the location of the underlying operating assets, and not based on the location of the investment (which is generally based in tax efficient jurisdictions).

32 OPERATING SEGMENTS

The Group has three distinct operating segments, Real Estate Development, Investment Banking and Commercial Banking, which are the Group's strategic business units. The strategic business units offer different products and services and are managed separately because they require different strategies for management and resource allocation within the Group. For each of the strategic business units, the Group's Board of Directors (chief operating decision makers) review internal management reports on a quarterly basis.

The following summary describes the operations in each of the Group's operating reportable segments:

- **Investment Banking:** The Banking segment of the Group is focused on private equity and asset management domains. The private equity activities include acquisition of interests in unlisted or listed businesses at prices lower than anticipated values. The asset management unit is responsible for identifying and managing investments in yielding real estate in the target markets of the GCC. The investment banking activities focuses on providing structuring capabilities in Islamic asset-backed and equity capital markets, Islamic financial advisory and mid-sized mergers and acquisition transactions.

- **Commercial Banking:** These include commercial and corporate banking, retail banking, wealth management, structured investment products and project financing facilities of the Group's commercial banking subsidiary.

- **Proprietary and treasury -** All common costs and activities treasury and residual investment assets, excluding those that are carried independently by the reportable segments which are included within the respective segment, are considered as part of the proprietary and treasury activities of the Group.

The performance of each operating segment is measured based on segment results and are reviewed by the management committee and the Board of Directors on a quarterly basis. Segment results is used to measure performance as management believes that such information is most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing, if any is determined on an arm's length basis.

The Group classifies directly attributable revenue and cost relating to transactions originating from respective segments as segment revenue and segment expenses respectively. Indirect costs is allocated based on cost drivers/factors that can be identified with the segment and/ or the related activities. The internal management reports are designed to reflect revenue and cost for respective segments which are measured against the budgeted figures. The unallocated revenues, expenses, assets and liabilities related to entity-wide corporate activities and treasury activities at the Group level. Segment revenue and expenses were net-off inter segment revenue and expenses.

The Group has primary operations in Bahrain and the Group does not have any significant independent overseas branches/divisions in the banking business. The geographic concentration of assets and liabilities is disclosed in note 31 (b) to the consolidated financial statements.

for the year ended 31 December 2023 US$ 000's

32 OPERATING SEGMENTS (continued)

Information regarding the results of each reportable segment is included below:

	Investment banking	Commercial banking	Proprietary and Treasury	Total
31 December 2023				
Segment revenue	201,371	67,793	100,363	**369,527**
Segment expenses	(145,620)	(51,106)	(47,115)	**(243,841)**
Impairment allowance	-	(3,896)	(16,563)	**(20,459)**
Segment result	**55,751**	**12,791**	**36,685**	**105,227**
Segment assets	278,056	3,985,192	6,858,231	**11,121,479**
Segment liabilities	208,859	2,146,851	4,240,401	**6,596,111**
Equity of investment account holders	-	1,420,854	2,030,152	**3,451,006**
Other segment information				
Equity accounted investees	-	8,656	128,734	**137,390**
Commitments	49,147	154,550	-	**203,697**

for the year ended 31 December 2023 US$ 000's

32 OPERATING SEGMENTS (continued)

	Investment banking	Commercial banking	Proprietary and Treasury	Total
31 December 2022				
Segment revenue	120,503	78,972	98,287	297,762
Segment expenses (including impairment allowances)	(69,675)	(50,538)	(76,532)	(196,745)
Impairment allowance	-	(4,770)	1,460	(3,310)
Segment result	50,828	23,664	23,215	97,707
Segment assets	201,828	3,785,535	5,772,928	9,760,291
Segment liabilities	171,359	1,761,879	5,541,985	7,475,223
Equity of investment account holders	-	1,189,016	24,658	1,213,674
Other segment information				
Equity accounted investees	-	5,303	98,168	103,471
Commitments	55,485	142,992	7,007	205,484

33 FAIR VALUE OF FINANCIAL INSTRUMENTS

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. This represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

As at 31 December 2023 and 31 December 2022, the fair value of bank balances, placements with financial institutions, other financial assets, investors' fund, placements from financial and other institutions and other financial liabilities are not expected to be materially different from their carrying values as these are short term in nature and are re-priced frequently to market rates, where applicable. Investment securities carried at fair value through income statement are carried at their fair values determined using quoted market prices and internal valuation models.

The fair value of quoted Sukuk carried at amortised cost (net of impairment allowances) of US$ 2,448,322 thousand (31 December 2022: US$ 2,240,360 thousand). There are no material changes in the fair values of the Sukuk's carried at amortised cost subsequent to the reporting date until the date of signing the consolidated financial statements for the year ended 31 December 2023.

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).

33 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

b) FAIR VALUE HIERARCHY (continued)

31 December 2023	**Level 1**	**Level 2**	**Level 3**	**Total**
	US$ 000's	US$ 000's	US$ 000's	US$ 000's
(i) Proprietary investments				
Investment securities carried at fair value through:				
- income statement	17,194	-	-	**17,194**
- equity	-	827,012	64,045	**891,057**
	17,194	827,012	**64,045**	**908,251**
(ii) Treasury portfolio				
Investment securities carried at fair value through:				
- income statement	-	434,133	-	**434,133**
- equity	817,626	-	-	**817,626**
	817,626	434,133	**-**	**1,251,759**
iii) Co-investments				
Investment securities carried at fair value through equity	-	-	247,048	247,048
Investment securities carried at fair value through income statement	-	-	9,168	9,168
	-	**-**	**256,216**	**256,216**
	834,820	**1,261,145**	**320,261**	**2,416,226**

31 December 2022	Level 1	Level 2	Level 3	Total
	US$ 000's	US$ 000's	US$ 000's	US$ 000's
(iii) Proprietary investments				
Investment securities carried at fair value through:				
- income statement	9,480	-	-	9,480
- equity	836,251	-	55,893	892,144
	845,731	-	55,893	901,624
(iv) Treasury portfolio				
Investment securities carried at fair value through:				
- income statement	-	374,653	-	374,653
- equity	879,171	-	-	879,171
	879,171	374,653	-	1,253,824
iii) *Co-investments*				
Investment securities carried at fair value through equity			131,553	131,553
Investment securities carried at fair value through income statement			10,498	10,498
			142,051	142,051
	1,724,902	374,653	197,944	2,297,499

for the year ended 31 December 2023 US$ 000's

33 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	2023	2022
At 1 January	197,944	263,302
Disposals at carrying value	(3,682)	(54,521)
Purchases	127,134	37,561
Fair value changes during the year	(1,135)	(48,398)
At 31 December	**320,261**	197,944

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

As on 31 December 2023:

Valuation technique used	**Key unobservable inputs**	**Fair value at 31 December 2023 US$ '000**	**Reasonable possible shift +/- (in average input)**	**Increase / (decrease) in valuation**
Market multiples approach	Comparable Companies trading Multiple and Discounted Cashflows	44,905	+/- 5%	2245 / (2,245)
Market multiples approach	Comparable Companies Method	1,700	+/- 5%	85 / (85)
Discounted cash flow	Terminal growth rate	64,475	+/- 5%	3224 / (3,224)
Discounted cash flow	Weighted average cost of capital	10,890	+/- 5%	544 / (544)
Weighted Average	Discounted Cashflows and NAV	18,543	+/- 5%	927 / (927)
Weighted Average	NAV and Comparable Transactions Multiple method	7,600	+/- 5%	380 / (380)
Adjusted Net Asset Value	NAV	172,148	+/- 5%	8,419 / (8,419)
		320,261		

As on 31 December 2022:

Valuation technique used	**Key unobservable inputs**	**Fair value at 31 December 2022**	**Reasonable possible shift +/- (in average input)**	**Increase / (decrease) in valuation**
Market multiples approach	Price to book	5,609	+/- 5%	280 / (280)
Market multiples approach	Enterprise value to EBITDA	6,151	+/- 5%	308 / (308)
Market multiples approach	Capitalised Earnings Method	2,814	+/- 5%	141 / (141)
Market multiples approach	Comparable Companies trading Multiple and Discounted Cashflows	16,505	+/- 5%	825 / (825)
Discounted cash flow	Terminal growth rate	15,003	+/- 5%	750 / (750)
Discounted cash flow	Weighted average cost of capital	69,085	+/- 5%	3,454 / (3,454)
Adjusted Net Asset Value		82,777	+/- 5%	4,139 / (4,139)
		197,944		

for the year ended 31 December 2023 US$ 000's

34 COMMITMENTS AND CONTINGENCIES

The commitments contracted in the normal course of business of the Group are as follows:

	31 December 2023	31 December 2022
Undrawn commitments to extend finance	113,873	100,422
Financial guarantees	40,677	49,044
Capital commitments for infrastructure development projects	49,147	55,485
Commitment to lend	-	533
	203,697	205,484

Performance obligations
During the ordinary course of business, the Group may enter into performance obligations in respect 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 as at 31 December 2023 due to the performance of any of its projects.

Litigations and claims
The Group has a number of claims and litigations filed against it in connection with projects promoted by the Bank in the past and with certain transactions. Further, claims against the Bank also have been filed by former employees. Based on the advice of the Bank's external legal counsel, the management is of the opinion that the Bank has strong grounds to successfully defend itself against these claims. Appropriate provision have been made in the books of accounts. No further disclosures regarding contingent liabilities arising from any such claims are being made by the Bank as the directors of the Bank believe that such disclosures may be prejudicial to the Bank's legal position.

35 FINANCIAL RISK MANAGEMENT

Overview
Financial assets of the Group comprise bank balances, placements with financial and other institutions, investment securities and other receivable balances. Financial liabilities of the Group comprise investors' funds, placements from financial and other institutions, term financing and other payable balances. Accounting policies for financial assets and liabilities are set out in note 4.

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

- credit risk;
- liquidity risk;
- market risks; and
- operational risk

This note presents information about the Group's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. The material subsidiaries consolidated in these financial statements have independent risk management frameworks which is monitored by the respective Board of Directors of the subsidiaries. Accordingly, such risk management policies, procedures and practices are not included in these consolidated financial statements.

Risk management framework
The key element of our risk management philosophy is for the Risk Management Department ('RMD') to provide independent monitoring and control while working closely with the business units which ultimately own the risks. The Head of Risk Management reports to the Board Audit and Risk Committee.

35 FINANCIAL RISK MANAGEMENT (continued)

The Board of Directors has overall responsibility for establishing our risk culture and ensuring that an effective risk management framework is in place. The Board has delegated its authority to the Board Audit and Risk Committee (ARC), which is responsible for implementing risk management policies, guidelines and limits and ensuring that monitoring processes are in place. The RMD, together with the Internal Audit and Compliance Departments, provide independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board of Directors.

The RMD submits a quarterly Risk Overview Report along with a detailed Liquidity Risk Report to the Board of Directors. The Risk Overview Report describes the potential issues for a wide range of risk factors and classifies the risk factors from low to high. The Liquidity Risk Report measure the Group's liquidity risk profile against policy guidelines and regulatory benchmarks. An additional report is prepared by the respective investment units that give updated status and impairment assessment of each investment, a description of significant developments on projects or issues as well as an update on the strategy and exit plan for each project.

a) 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, placements with financial institutions, Financing contracts and other receivables from project companies. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country, sector risk and sector concentration risk, related party exposure, etc.).

The Group had updated its inputs and assumptions for computation of ECL (refer note 4 p).

Management of investment and credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Board Investment Committee (BIC). This committee establishes operating guidelines and reviews and endorses the Management Investment and Credit Committee recommendations for investment strategies, products and services. Its actions are in accordance with the investment policies adopted by the Board of Directors.

The RMD is responsible for oversight of the Group's credit risk, including:

- Ensuring that the Group has in place investment and credit policies, covering credit assessment, risk reporting, documentary and legal procedures, whilst the Compliance Department is responsible for ensuring compliance with regulatory and statutory requirements.
- Overseeing the establishment of the authorisation structure for the approval and renewal of investment and credit facilities. Authorisation limits are governed by the Board approved Delegated Authority Limits (DAL) Matrix.
- Reviewing and assessing credit risk. Risk Management department assesses all investment and credit exposures in excess of designated limits, prior to investments / facilities being committed. Renewals and reviews of investments / facilities are subject to the same review process.

35 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

- Ongoing review of credit exposures. The credit review of the commercial banking exposure is managed and governed by the Board of Directors of KHCB and is consistent with the practices appropriate for retail banks. The risk assessment approach is used by the Parent Bank in determining where impairment provisions may be required against specific investment / credit exposures at its board. The current risk assessment process classifies credit exposures into two broad categories "Unimpaired" and "Impaired", reflecting risk of default and the availability of collateral or other credit risk mitigation. Risk is assessed on an individual basis for each investment / receivable and is reviewed at least once a year. The Group does not perform a collective assessment of impairment for its credit exposures as the credit characteristics of each exposure is considered to be different. Risk profile of exposures are subject to regular reviews.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of investment / credit risk.

The Risk Management Department works alongside the Investment Department at all stages of the deal cycle, from pre-investment due diligence to exit, and provides an independent review of every transaction. A fair evaluation of investments takes place periodically with inputs from the Investment department. Quarterly updates of investments are presented to the Board of Directors or their respective committees. Regular audits of business units and Group credit processes are undertaken by Internal Audit.

for the year ended 31 December 2023 US$ 000's

35 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Exposures subject to credit risk

31 December 2023	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances with banks and placements with financial institutions				
Grade 1 -6 Low-Fair Risk	1,834,947	361		1,835,308
Gross carrying amount	1,834,947	361		1,835,308
Less expected credit losses	(50)	(2)		(52)
Net carrying amount	**1,834,897**	**359**		**1,835,256**
Financing contracts				
Grade 8 -10 Impaired	-	-	126,743	126,743
Past due but not impaired				
Grade 1-6 Low-Fair Risk	51,387	129,006	-	180,393
Grade 7 Watch list	3,472	28,905	-	32,377
Past due comprises:				
Up to 30 days	51,422	51,310		102,732
30-60 days	2,681	62,491		65,172
60-90 days	756	67,610		68,366
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	1,143,064	98,987	-	1,242,051
Grade 7 Watch list	204	4,027	-	4,231
Gross carrying amount	1,198,127	284,425	126,743	1,609,295
Less expected credit losses	(5,002)	(25,798)	(41,183)	(71,983)
Net carrying amount	**1,193,125**	**258,627**	**85,560**	**1,537,312**

for the year ended 31 December 2023 US$ 000's

35 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

31 December 2023	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Investment in Sukuk				
Grade 8 -10 Impaired	-	-	3,496	3,496
Grade 1-6 Low-Fair Risk	2,936,026	329,087	-	3,265,113
Gross carrying amount	2,936,026	329,087	3,496	3,268,609
Less: expected credit losses	(4,317)	(18,265)	(3,496)	(26,078)
Net carrying amount	**2,931,709**	**310,822**	**-**	**3,242,531**
Commitments and financial guarantees				
Grade 8 -10 Impaired	-	-	-	-
Grade 1-6 Low-Fair Risk	198,705	5,072	16	203,792
Grade 7 Watch list	-	-	-	-
Gross carrying amount (note 35)	198,705	5,072	16	203,792
Less: expected credit losses	-	(95)	-	(95)
Net carrying amount	**198,705**	**4,977**	**16**	**203,697**
Total net carrying amount	**6,158,436**	**574,785**	**85,576**	**6,818,796**

for the year ended 31 December 2023 US$ 000's

35 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

31 December 2022	Stage 1	Stage 2	Stage 3	Total
Balances with banks and placements with financial institutions				
Grade 1 -6 Low-Fair Risk	1,587,198	361	-	1,587,559
	-	-	-	-
Gross carrying amount	1,587,198	361	-	1,587,559
Less expected credit losses	(27)	(2)	-	(29)
Net carrying amount	1,587,171	359	-	1,587,530
Financing facilities				
Grade 8 -10 Impaired	-	-	69,565	69,565
Past due but not impaired				
Grade 1-6 Low-Fair Risk	254,167	73,411	-	327,578
Grade 7 Watch list	194	37,319	-	37,513
<u>Past due comprises</u>:				
55Up to 30 days	106,111	50,417	-	156,528
30-60 days	25,652	8,430	-	34,082
60-90 days	122,600	51,883	-	174,483
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	1,002,997	39,393	-	1,042,390
Grade 7 Watch list	213	22,348	-	22,561
Gross carrying amount	1,257,573	172,471	69,565	1,499,609
Less expected credit losses	(18,047)	(12,810)	(33,514)	(64,371)
Net carrying amount	1,239,526	159,661	36,051	1,435,238

for the year ended 31 December 2023 US$ 000's

35 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

31 December 2022	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount	423,885	58,171	17,809	499,865
Less expected credit losses	2,205	2,655	7,851	12,711
Net carrying amount	421,680	55,516	9,958	487,154
Investment in Sukuk				
Grade 8 -10 Impaired	-	-	3,496	3,496
Grade 1-6 Low-Fair Risk	2,930,803	156,004	-	3,086,807
Gross carrying amount	2,930,803	156,004	3,496	3,090,303
Less: expected credit losses	4,940	8,796	3,496	17,232
Net carrying amount	2,925,863	147,208	-	3,073,071
Commitments and financial guarantees				
Grade 8 -10 Impaired				
Grade 1-6 Low-Fair Risk	204,189	939	16	205,144
Grade 7 Watch list	-	342	-	342
Gross carrying amount (note 35)	204,189	1,281	16	205,486
Less: expected credit losses	-	3	-	3
Net carrying amount	204,189	1,278	16	205,483
Total net carrying amount	5,956,746	308,508	36,067	6,301,321

Significant increase in credit risk

When determining whether the risk of default on an exposure subject to credit risk has increased significantly since initial recognition, the Bank 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 Bank'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:

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

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, 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 and borrower as well as by credit risk grading.

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

This analysis includes the identification and calibration of relationships between changes in default rates and 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.

Based on advice from the Group Market Risk Committee 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.

35 *FINANCIAL RISK MANAGEMENT (continued)*

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, commercial real estate etc.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower. For the purpose of calculating ECL for the year ended 31 December 2023, the Bank has applied the backstop of 74 days as against 30 days, in line with the CBB concessionary measures.

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 an exposure subject to credit risk 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);
- the borrower is more than 90 days past due on any material obligation to the Group; or
- 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.

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 Group Market Risk Committee 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.

35 *FINANCIAL RISK MANAGEMENT (continued)*

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 unemployment rates, profit rates and the GDP growth.

Modified exposures subject to credit risk

The contractual terms of an exposure subject to credit risk 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 de-recognition, 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 loans are subject to the forbearance policy.

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 4). A customer needs to demonstrate consistently good payment behaviour over a period of time (12 months) 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.

35 FINANCIAL RISK MANAGEMENT (continued)

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 exposure subject to credit risk.

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 based on the history of recovery rates of claims against defaulted counterparties. 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.

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

for the year ended 31 December 2023 US$ 000's

35 FINANCIAL RISK MANAGEMENT (continued)

2023	12month ECL (Stage1)	Lifetime ECL not credit impaired (Stage2)	Lifetime ECL Credit impaired (Stage3)	**Total 2023**
Balance at 1 January	33,243	20,785	36,855	90,883
Transfer to 12-month ECL	(1,554)	2,429	(875)	-
Transfer to lifetime ECL non-credit-impaired	(4,562)	4,711	(149)	-
Transfer to lifetime ECL credit-impaired	(2,313)	(602)	2,915	-
Write-off	-	-	(2,596)	(2,596)
Charge for the period	(6,577)	16,877	10,159	20,459
Balance at 31 December	**18,237**	**44,200**	**46,309**	**108,746**

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

2023	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	**Total 2023**
Balances with banks	18	21	-	39
Treasury portfolio	4,300	18,265	3,513	26,078
Financing contracts	4,788	25,804	41,390	71,982
Other financial receivables	7,945	13	-	7,958
Investment securities	912	-	1,606	2,518
Financing commitments and financial guarantees	274	97	(200)	171
Balance at 31 December	**18,237**	**44,200**	**46,309**	**108,746**

2022	12month ECL (Stage1)	Lifetime ECL not credit impaired (Stage2)	Lifetime ECL Credit impaired (Stage3)	Total 2022
Balance at 1 January	27,656	10,632	63,297	101,585
Transfer to 12-month ECL	3,128	(2,056)	(1,072)	-
Transfer to lifetime ECL non-credit-impaired	6,417	1,738	(8,155)	-
Transfer to lifetime ECL credit-impaired	(149)	(34)	183	-
Write-off	-	-	(14,012)	(14,012)
Charge for the period	(3,809)	10,505	(3,386)	3,310
Balance at 31 December	33,243	20,785	36,855	90,883

for the year ended 31 December 2023 US$ 000's

35 FINANCIAL RISK MANAGEMENT (continued)

2022	12month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total 2022
Balances with banks	11	2		13
Treasury portfolio	5,482	8,796	2,684	16,962
Financing contracts	18,130	11,911	34,332	64,373
Other financial receivables	9,240	76	-	9,316
Investment securities	42	-	-	42
Financing commitments and financial guarantees	338	-	(161)	177
Balance at 31 December 2022	33,243	20,785	36,855	90,883

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

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 Bank 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.

Non-accrual basis

The Group classifies financing facility/Sukuk as non-accrual status, if the facility/Sukuk is past due greater than 90 days or there is reasonable doubt about the collectability of the receivable amount. The profits on such facilities are not recognized in the income statement until there are repayments from the borrower or the exposure is upgraded to regular status.

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).

for the year ended 31 December 2023 US$ 000's

35 FINANCIAL RISK MANAGEMENT (continued)

Collaterals

The Group holds collateral against Financing contracts and receivables from assets acquired for leasing 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.

	31 December 2023			31 December 2022		
	Financing contracts	**Assets acquired for leasing (including lease rentals receivable)**	**Total**	Financing contracts	Assets acquired for leasing (including lease rentals receivable)	Total
Against impaired						
Property	11,408	21,716	**33,124**	47,292	50,594	97,886
Other	1,973	-	**1,973**	5,987		5,987
Against past due but not impaired						
Property	157,111	36,719	**193,830**	81,939	37,589	119,528
Other	13,897	-	**13,897**	1,053		1,053
Against neither past due nor impaired						
Property	347,817	373,714	**721,531**	1,038,080	804,483	1,842,563
Other	22,499	-	**22,499**	117,048		117,048
Total	**554,705**	**432,149**	**986,854**	1,291,399	892,666	2,184,065

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

Concentration risk

The geographical and industry wise distribution of assets and liabilities are set out in notes 31 (a) and (b).

Concentration risk arises when a number of counterparties are engaged in similar economic activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Group seeks to manage its concentration risk by establishing and constantly monitoring geographic and industry wise concentration limits.

for the year ended 31 December 2023 US$ 000's

An analysis of concentrations of credit risk of Financing contracts of the Group's business at the reporting date is shown below:

Concentration by Sector	**31 December 2023**			31 December 2022		
	Financing contracts	**Assets acquired for leasing**	**Total**	Financing contracts	Assets acquired for leasing	Total
Banking and finance	7,568	-	7,568	9,247		9,247
Real estate	187,324	478,212	665,536	292,944	415,849	708,793
Construction	152,557	-	152,557	138,886	-	138,886
Trading	159,735	-	159,735	133,706	-	133,706
Manufacturing	27,658	-	27,658	144,143	-	144,143
Others	454,282	69,979	524,261	229,158	71,305	300,463
Total carrying amount	**989,124**	**548,191**	**1,537,315**	948,084	487,154	1,435,238

b) Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

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.

Treasury receives information from 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. Treasury then aims to maintain a portfolio of short-term liquid assets, largely made up of short-term placements with financial and other institutions and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

35 FINANCIAL RISK MANAGEMENT (continued)

The liquidity requirements of business units are met through treasury to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements.

The daily liquidity position is monitored, and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Board of Directors. Daily reports cover the liquidity position of the Bank and is circulated to Management Committee (MANCOM). Moreover, quarterly reports are submitted to the Board of Directors on the liquidity position by RMD.

The table below shows the undiscounted cash flows on the Group's financial liabilities, including issued financial guarantee contracts, and unrecognised financing commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. The Group's expected cash flows on these instruments vary significantly from this analysis. Refer note 31 for the expected maturity profile of assets and liabilities.

for the year ended 31 December 2023 US$ 000's

35 FINANCIAL RISK MANAGEMENT (continued)

31 December 2023	**Gross undiscounted cash flows**						
	Up to 3 months	**3 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Total**	**Carrying amount**
Financial liabilities							
Clients' funds	145,221	-	61,001	-	-	206,222	206,222
Placements from financial institutions	1,512,670	302,464	311,295	160,780	36,008	2,323,217	2,323,217
Placements from non-financial institutions and individuals	209,243	86,071	243,599	121,703	299,434	960,050	960,050
Current accounts	11,517	25,408	-	13,902	152,870	203,697	203,697
Term financing	606,741	149,239	1,095	1,089,757	277,475	2,124,307	2,124,307
Payables and accruals	206,271	137,068	14,519	85,524	104,671	548,053	548,056
Liability held for sale	230,562	-	-	-	-	230,562	230,562
Total liabilities	**2,922,225**	**700,250**	**631,509**	**1,471,666**	**870,458**	**6,365,546**	**6,596,111**
Equity of investment account holders	2,775,736	272,393	656,972	395,218	94,489	4,194,808	**3,451,006**
Commitment and contingencies	92,593	18,366	33,483	59,232	138	203,812	-

To manage the liquidity risk arising from financial liabilities, the Group aims to hold liquid assets comprising cash and cash equivalents, investment in managed funds and treasury shares for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements. Further, the Group is focussed on developing a pipeline of steady revenues and has undertaken cost reduction exercises that would improve its operating cash flows.

31 December 2022	Gross undiscounted cash flows						
	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total	Carrying amount
Financial liabilities							
Clients' funds	87,488	-	35,812	-	-	123,300	123,300
Placements from financial institutions	2,361,964	516,253	639,419	210,554	62,680	3,790,870	3,790,870
Placements from non-financial institutions and individuals	159,739	121,865	251,034	423,025	108,595	1,064,258	1,064,258
Current accounts	5,497	16,623	-	54,557	54,557	131,234	131,234
Term financing	519,046	192,074	276,200	649,172	305,706	1,942,198	1,942,198
Payables and accruals	227,764	116,763	36,390	42,446	-	423,363	423,363
Total liabilities	3,361,498	963,578	1,238,855	1,379,754	531,538	7,475,223	7,475,223
Equity of investment account holders	843,389	35,406	86,546	288,470	703,664	1,957,475	1,213,674
Commitment and contingencies	56,679	4,098	48,923	95,664	234	205,598	205,484

for the year ended 31 December 2023 US$ 000's

35 FINANCIAL RISK MANAGEMENT (continued)

Measures of liquidity

Liquidity is managed at an entity level and is not a Group wide measure. The Bank follows certain internal measures of liquidity. These metrics are intended to better reflect the liquidity position from a cash flow perspective and provide a target for the Group. These are liquidity coverage ratio, net stable funding ratio and stock of liquid assets.

For this purpose, the liquidity coverage ratio is based on an internally defined management criteria which identifies the amount of liquid assets (including inter- bank placements) the Bank holds that can be used to offset the net cash outflows for 30, 60 and 90 days time horizon. The net stable funding ratio measures the amount of long-term, stable sources of funding employed by an institution relative to the liquidity profiles of the assets funded and the potential for contingent calls on funding liquidity arising from off-balance sheet commitments and obligations.

Details of the ratio of liquid assets to total assets at the reporting date and during the year were as follows:

	Liquid asset / Total asset	
	2023	2022
At 31 December	49.56%	51.93%
Average for the year	47.57%	48.04%
Maximum for the year	49.56%	51.93%
Minimum for the year	46.16%	45.65%

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 of 31 December 2023, the Bank had an consolidated average LCR ratio for the year is 233%.

	Average balance for the year	
	31 December 2023	31 December 2022
Stock of HQLA	444,865	272,429
Net cashflows	196,313	213,055
LCR %	233%	134%
Minimum required by CBB	100%	100%

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.

for the year ended 31 December 2023 US$ 000's

35 FINANCIAL RISK MANAGEMENT (continued)

NSFR as a percentage is calculated as "Available stable funding" divided by "Required stable funding". As of 31 December 2023, the Bank had an consolidated NSFR ratio of 148%.

As at 31 December 2023

No.	**Item**	**No Specified Maturity**	**Less than 6 months**	**More than 6 months and less than one year**	**Over one year**	**Total weighted value**
Available Stable Funding (ASF):						
1	Capital:					
2	Regulatory Capital	1,023,275	-	-	64,133	1,087,409
3	Other Capital Instruments	-	-	-	-	-
4	Retail deposits and deposits from small business customers:					
5	Stable deposits		159,304	36,446	3,763	189,725
6	Less stable deposits	-	1,964,119	518,381	503,663	2,737,913
7	Wholesale funding:					
8	Operational deposits					
9	Other Wholesale funding	-	4,157,571	544,672	1,438,472	5,452,622
10	Other liabilities:					
11	NSFR Shari'a-compliant hedging contract liabilities		-	-	-	
12	All other liabilities not included in the above categories	-	481,509	-	36,139	36,139
13	Total ASF					9,503,808
Required Stable Funding (RSF):						
14	Total NSFR high-quality liquid assets (HQLA)					97,918
15	Depsoits held at other financial institutions for opetational purposes					
16	Performing financing and sukuk/ securities:	-	1,841,985	-	791,830	949,354
17	Performing financial to financial institutions by level 1 HQLA	-	-	-	-	-

for the year ended 31 December 2023 US$ 000's

18	Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	19,610	934	1,041,445	895,500
19	Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	254,059	76,796	364,685	402,473
20	With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	-	-
21	Performing residential mortgages, of which:	-	-	-	-	-
22	With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	-	-
23	Securities/sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	1,048,701	25,995	578,308	1,115,656
24	Other assets:					
25	Physical traded commodities, including gold	-				-
26	Assets posted as initial margin for Shari'a-compliant hedging contracts contracts and contributions to default funds of CCPs		-	-	-	-
27	NSFR Shari'a-compliant hedging assets		-	-	-	2,195
28	NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted		-	-	-	-
29	All other assets not included in the above categories	2,908,175	-	-	-	2,908,175
30	OBS items		-	-	-	62,381
31	Total RSF		3,164,354	103,726	2,776,269	6,433,652
32	NSFR(%)					148%

for the year ended 31 December 2023 US$ 000's

36 FINANCIAL RISK MANAGEMENT (continued)

As at 31 December 2022

No.	Item	No Specified Maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Available Stable Funding (ASF):						
1	Capital:					
2	Regulatory Capital	1,004,974	-	-	53,171	1,058,145
3	Other Capital Instruments	-	-	-	-	-
4	Retail deposits and deposits from small business customers:					
5	Stable deposits	-	158,056	15,076	26,054	190,530
6	Less stable deposits	-	1,684,867	423,803	328,355	2,226,158
7	Wholesale funding:					
8	Operational deposits	-	-	-	-	-
9	Other Wholesale funding	-	3,548,055	931,464	1,303,542	2,656,368
10	Other liabilities:					
11	NSFR Shari'a-compliant hedging contract liabilities		-	-	-	
12	All other liabilities not included in the above categories	-	311,371	-	43,201	43,201
13	Total ASF					
Required Stable Funding (RSF):						
14	Total NSFR high-quality liquid assets (HQLA)	1,761,766				87,048
15	Deposits held at other financial institutions for operational purposes					
16	Performing financing and sukuk/ securities:		1,576,916		790,425	908,398
17	Performing financial to financial institutions by level 1 HQLA	-	-	-	-	-
18	Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	-	94,704	1,050,345	940,145

for the year ended 31 December 2023 US$ 000's

36 FINANCIAL RISK MANAGEMENT (continued)

No.	Item	No Specified Maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
19	Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	294,926	102,548	279,352	380,316
20	With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	-	-
21	Performing residential mortgages, of which:	-	-	-	-	-
22	With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	-	-
23	Securities/sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	945,435	388,631	426,531	1,093,564
24	Other assets:	-	-	-	-	-
25	Physical traded commodities, including gold	-				-
26	Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs		-	-	-	-
27	NSFR Shari'a-compliant hedging assets		-	-	-	-
28	NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted		-	-	-	-
29	All other assets not included in the above categories	2,090,285	-	-	-	2,090,285
30	OBS items		-	-	-	43,344
31	Total RSF		2,817,278	585,882	2,546,653	5,543,102
32	NSFR(%)					111%

c) Market risks

Market risk is the risk that changes in market prices, such as profit rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Group's income, future cash flows or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

As a matter of general policy, the Group shall not assume trading positions on its assets and liabilities, and hence the entire balance sheet is a non-trading portfolio. All foreign exchange risk within the Group is transferred to Treasury. The Group seeks to manage currency risk by continually monitoring exchange rates. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for repricing bands. Overall authority for market risk is vested in the Board Audit and Risk Committee ('BARC'). RMD is responsible for the development of detailed risk management policies (subject to review and approval of the BARC).

Exposure to profit rate risk

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. Majority of the Group's profit based asset and liabilities are short term in nature, except for certain long term liabilities which have been utilised to fund the Group's strategic investments in its associates.

for the year ended 31 December 2023 US$ 000's

35 FINANCIAL RISK MANAGEMENT (continued)

A summary of the Group's profit rate gap position on non-trading portfolios is as follows:

31 December 2023	**Up to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Total**
Assets						
Treasury portfolio	2,490,581	68,210	62,469	787,230	1,726,542	5,135,032
Financing contracts	183,833	48,429	185,568	315,080	804,404	1,537,314
Total assets	**2,674,414**	**116,639**	**248,037**	**1,102,310**	**2,530,946**	**6,672,346**
Liabilities						
Client's fund	145,221	-	61,001	-	-	206,222
Placements from financial institutions	1,512,670	302,464	311,295	160,780	36,008	2,323,217
Placements from non-financial institutions and individuals	209,240	86,071	243,599	121,703	299,437	960,050
Term financing	606,741	149,239	1,095	1,089,757	277,475	2,124,307
Total liabilities	**2,473,872**	**537,774**	**616,990**	**1,372,240**	**612,920**	**5,613,796**
Equity of investment account holders	**2,031,934**	**272,393**	**656,972**	**395,218**	**94,489**	**3,451,006**
Profit rate sensitivity gap	**(1,831,392)**	**(693,528)**	**(1,025,925)**	**(665,148)**	**1,823,537**	**(2,392,456)**

31 December 2022	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
Assets						
Treasury portfolio	1,291,520	249,557	447,769	417,228	1,803,946	4,210,020
Financing contracts	156,765	56,091	164,272	291,676	766,434	1,435,238
Total assets	1,448,285	305,648	612,041	708,904	2,570,380	5,645,258
Liabilities						
Client's fund	87,488	-	35,812	-	-	123,300
Placements from financial institutions	2,361,964	516,253	639,419	210,554	62,680	3,790,870
Placements from non-financial institutions and individuals	159,739	121,865	251,034	423,025	108,595	1,064,258
Term financing	519,046	192,074	276,200	649,172	305,706	1,942,198
Total liabilities	3,128,237	830,192	1,202,465	1,282,751	476,981	6,920,626
Equity of investment account holders	99,588	35,406	86,546	288,470	703,664	1,213,674
Profit rate sensitivity gap	(1,779,540)	(559,950)	(676,970)	(862,317)	1,389,735	(2,489,042)

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 include a 100 basis point (bp) parallel fall or rise in all yield curves worldwide. 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) is as follows:

for the year ended 31 December 2023 US$ 000's

35 FINANCIAL RISK MANAGEMENT (continued)

100 bps parallel increase / (decrease)	**2023**	2022
At 31 December	± 14,324	±24,890
Average for the year	± 15,798	±20,580
Maximum for the year	±20,633	±24,890
Minimum for the year	±7,971	±16,532

Overall, profit rate risk positions are managed by Treasury, which uses placements from / with financial institutions to manage the overall position arising from the Group's activities.

The effective average profit rates on the financial assets, liabilities and unrestricted investment accounts are as follows:

	2023	2022
Placements with financial institutions	3.80%	3.46%
Financing contracts	7.04%	6.89%
Debt type investments Sukuk	5.77%	6.18%
Placements from financial institutions, other entities and individuals	4.13%	4.53%
Term financing	5.81%	5.43%
Equity of investment account holders	4.64%	3.28%

Derivatives held for risk management.

(i) The following table describes the fair values of derivatives held for risk management purposes by type of risk exposure.

	2023 US$ '000		2022 US$ '000	
	Asset	Liability		
Profit rate				
Designated in fair value hedges	58,500	-	-	-
Designated in cash flow hedges	-	500,000	-	-
Total profit rate derivatives	**58,500**	**500,000**	**-**	**-**

(ii) The amounts relating to items designated as hedging instruments at 31 December 2023 were as follows.

	2023 US$ '000		
	Nominal amount	**Carrying amount**	
Profit rate		**Assets**	**Liabilities**
Profit rate swaps – debt type investments	58,500	2,195	-
Profit rate swaps – Murabaha financing	500,000	-	3,213
	558,500	**56,269**	**496,787**

for the year ended 31 December 2023 US$ 000's

18 SHARE CAPITAL (continued)

Proposed appropriations

The Board of Directors proposes the following appropriations for 2023 subject to shareholders' and regulatory approval:

- Cash dividend of 6.2% of the paid-up share capital net of treasury shares;
- To allocate an amount of US$ 2,000,000 to charity activities and civil society organizations;
- Transfer of US$ 10,522,700 to statutory reserve; and;
- Board remuneration of US$ 1,900,000,

19 SHARE GRANT RESERVE

The Bank operates a share-based incentive scheme for its employees (the "Scheme") whereby employee are granted the Bank's shares as compensation on achievement of certain non-market based performance conditions and service conditions (the 'vesting conditions'). The grant date fair value of equity instruments granted to employees is recognised as an employee expense, with a corresponding increase in equity over the period in which the employees become unconditionally entitled to the share awards. During the year the Bank has recognized US$ 1,000 thousands.

20 OTHER INCOME

Other income includes write back of liabilities no longer required of US$ 4.35 million (2022: US$ 10.31 million) after settlement arrangements were concluded for some of the non-banking subsidiaries and income of non-financial subsidiaries of US$ 9 million (2022: US$ 9.6 million).

21 STAFF COST

	2023	2022
Salaries and benefits	74,009	60,232
Social insurance and end of service benefits	2,728	3,253
Share-based payments	1,000	6,930
	77,737	70,415

for the year ended 31 December 2023 US$ 000's

35 FINANCIAL RISK MANAGEMENT (continued)

The amounts relating to items designated as hedging instruments at 31 December 2022 were US$ Nil.

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 Groups major exposure is in GCC currencies, which are primarily pegged to the US Dollar. The Group had the following significant net exposures denominated in foreign currency as of 31 December from its financial instruments:

	2023 US$ '000 Equivalent	2022 US$ '000 Equivalent
Sterling Pounds	24,759	5,720
Euro	(625)	9,569
Australian Dollars	-	11,963
Kuwaiti Dinar	10,735	7,922
Turkish Lira	30,000	-
Other GCC Currencies (*)	(4,340,584)	(3,510,244)

(*) These currencies are pegged to the US Dollar.

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 include a 5% plus / minus increase in exchange rates, other than GCC pegged currencies. An analysis of the Group's sensitivity to an increase or decrease in foreign exchange rates (assuming all other variables, primarily profit rates, remain constant) is as follows:

for the year ended 31 December 2023 US$ 000's

35 FINANCIAL RISK MANAGEMENT (continued)

	2023 US$ '000 Equivalent	2022 US$ '000 Equivalent
Sterling Pounds	±1,238	±286
Euros	±31	±478
Australian dollar	-	±598
Kuwaiti dinar	±537	±396
Turkish Lira	±1,500	-

Exposure to other market risks

Equity price risk on quoted investments is subject to regular monitoring by the Group. The price risk on managed funds is monitored using specified limits (stop loss limit, stop loss trigger and overall stop loss limit cap) set within the portfolio management contract for fund managers. The Group's equity type instruments carried at cost are exposed to risk of changes in equity values.

The significant estimates and judgements in relation to impairment assessment of fair value through equity investments carried at cost are included in note 5b(ii). The Group manages exposure to other price risks by actively monitoring the performance of the equity securities.

d) 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 facilitates the management of Operational Risk by way of assisting in the identification of, monitoring and managing of operational risk in the Group.

During 2023, the Group did not have any significant issues relating to operational risks.

36 CAPITAL MANAGEMENT

The Group's regulator 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 total regulatory capital base is net of prudential deductions for large exposures based on specific limits agreed with the regulator. 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. The Group does not have a trading book.

The Group aims to maintain strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

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

The Bank'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 of instruments that meet the criteria for inclusion in AT1, instruments issued by consolidated banking subsidiaries of the Bank held by third parties which meet the criteria of AT1, and regulatory adjustments applied in calculation of AT1.

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 regulatory adjustments are subject to limits prescribed by the CBB requirements, these deductions would be effective in a phased manner through transitional arrangements from 2015 to 2018. 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 Bank 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.

for the year ended 31 December 2023 US$ 000's

36 CAPITAL MANAGEMENT (continued)

To combined the effect of COVID-19, the CBB has allowed the aggregate of modification loss and incremental ECL provision for stage 1 and stage 2 for the period from March to December 2020 to be added back to Tier 1 capital for the two years ending 31 December 2020 and 31 December 2021 and to deduct this amount proportionately from Tier 1 capital on an annual basis for three years ended 31 December 2022, and ending 31 December 2023 and 31 December 2024.

The Bank's regulatory capital position was as follows:

	31 December 2023	31 December 2022
CET 1 Capital before regulatory adjustments	1,023,275	1,020,249
Less: regulatory adjustments	-	-
CET 1 Capital after regulatory adjustments	1,023,275	1,020,249
T 2 Capital adjustments	64,133	52,628
Regulatory Capital	**1,087,409**	1,072,877
Risk weighted exposure:		
Credit Risk Weighted Assets	4,585,950	6,799,081
Market Risk Weighted Assets	90,135	54,624
Operational Risk Weighted Assets	506,408	431,784
Total Regulatory Risk Weighted Assets	**5,182,493**	7,285,489
Investment risk reserve (30% only)	2	2
Profit equalization reserve (30% only)	3	3
Total Adjusted Risk Weighted Exposures	**5,182,488**	7,285,484
Capital Adequacy Ratio	**20.98%**	14.73%
Tier 1 Capital Adequacy Ratio	**19.74%**	14.00%
Minimum required by CBB	**12.50%**	12.50%

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 capital while satisfying all the regulatory requirements. The Group's policy on capital allocation is subject to regular review by the Board of Directors. The Group has complied with the externally imposed capital requirements set by the regulator for its consolidated capital adequacy ratio throughout the year.

for the year ended 31 December 2023 US$ 000's

37 ASSETS AND LIABILITIES HELD FOR SALE

	31 December 2023	31 December 2022
Assets	338,619	-
Liabilities	230,562	-
Non-controlling interests	16,470	-

Assets and related liabilities held-for-sale represents the assets and liabilities of certain real estate investment and project entities within the group. The Group has an active plan approved by the Board, to sell its stake in these entities, and accordingly, the asset, liabilities and non-controlling interests acquired are classified as held-for-sale in the consolidated statement of financial position.

38 PRIOR PERIOD ADJUSTMENT

During the year, the Bank rectified the cumulative impact of certain operational incidents identified in its treasury portfolio bookings that related to prior periods through the opening retained earnings. These amounts would be recognized in future years as finance income as part of the amortized cost accounting of the yield in the treasury portfolio. It was considered impracticable to perform profit attribution for prior periods due to these assets being part of the jointly financed asset pools and accordingly the cumulative impact has been recognized in opening retained earnings as of 1 January 2023.