# RISK AND CAPITAL MANAGEMENT

# DISCLOSURES

June 2024

*These disclosures have been prepared in accordance with the Public Disclosure Module ("PD"), Section PD-1.3: Disclosures in Annual Reports and PD-3.1.6 Semi-annual Disclosures, CBB Rule Book, Volume II for Islamic Banks. This document should be read in conjunction with the condensed consolidated interim financial information for the six months period ended 30 June 2024 and the qualitative disclosures in the annual report for the year ended 31 December 2023. Information already included in the condensed consolidated financial information is not repeated.*

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# 1 Executive Summary

This report contains a description of the Bank's risk management and capital adequacy practices and processes, including detailed information on the capital adequacy process. The report is prepared in accordance with Pillar III disclosure requirements prescribed by the Central Bank of Bahrain, herein referred to as "CBB". CBB's Basel III capital rules and guidelines became effective on 1st January 2015 as the common framework for the implementation of the Basel Committee on Banking Supervision's (Basel Committee) Basel III capital adequacy framework for banks incorporated in the Kingdom of Bahrain.

The disclosures in this report are in addition to or in some cases, serve to clarify the disclosures set out in the condensed consolidated interim financial information for the period ended 30 June 2024, presented in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). To avoid any duplication, information required under PD module but already disclosed in other sections of half yearly Report has not been reproduced. These disclosures should be read in conjunction with the Group's condensed consolidated interim financial information for the period ended 30 June 2024.

As at 30 June 2024, the Group's total capital ratio stood at a healthy ratio of 18.06%.

The Bank's Tier I and total capital adequacy ratios comply with the minimum capital requirements under the CBB's Basel III / IFSB for Islamic financial institutions framework.

The Group's total risk weighted assets as at 30 June 2024 amounted to USD 5,988,032 thousand. Credit risk accounted for 88.93% , operational risk 8.54%, and market risk 2.53% of the total risk weighted assets, respectively. Tier I and total regulatory capital were USD 1,013,541 thousand and USD 1,081,272 thousand respectively, as at 30 June 2024.

At 30 June 2024, Group's CET1 and T1 capital adequacy ratios were at 16.76% and 16.93%.

# 2 Introduction

The Basel III framework consists of three mutually reinforcing pillars:

i. Pillar I: Minimum capital requirements for credit risk, market risk and operational risk.
ii. Pillar II: Supervisory review of capital adequacy including Internal Capital Adequacy Assessment process (ICAAP)
iii. Pillar III: Market discipline including rules for disclosure of risk management and capital adequacy.

## 2.1 Pillar I

Pillar I prescribes the basis for the calculation of the regulatory capital adequacy ratio. Pillar I defines the regulatory minimum capital requirements for each bank to cover the credit risk, market risk and operational risk inherent in its business model. It also defines the methodology for measurement of these risks and the various elements of qualifying capital. The capital adequacy ratio is calculated by dividing the regulatory capital base by the total Risk Weighted Assets (RWAs).

The resultant ratio is to be maintained above a predetermined and communicated level. The CBB also requires banks incorporated in Bahrain to maintain a 12.5% minimum Total Adequacy Ratio including the above Capital Conservation Buffer (CCB) requirement of 2.5%.

In the event that the capital adequacy ratio falls below 12.5%(consolidated), additional prudential reporting requirements apply, and a formal action plan setting out the measures to be taken to restore the ratio above the target level is to be formulated and submitted to the CBB. Consequently, the CBB requires GFH to maintain a minimum capital adequacy ratio of 12.5% (consolidated).

The table below summarizes the Pillar I risks, and the approaches used by the Bank to calculate the RWAs in accordance with the CBB's Basel II capital adequacy framework.

| Risk Type | Approach used by GFH |
|---|---|
| Credit risk | Standardised Approach |
| Market risk | Standardised Approach |
| Operational risk | Basic Indicator Approach |

## 2.2 Pillar II

Pillar II deals with the Supervisory Review and Evaluation Process (SREP). It also addresses the Internal Capital Adequacy Assessment Process (ICAAP) to be followed by Banks to assess the overall capital requirements to cover all relevant risks (including those covered under Pillar I).

The ICAAP enables the Bank to review the capital impact of assessed Pillar I and Pillar II risks as well as to examine new risk dimensions coming out of existing and new businesses / products. It acts as a mechanism for the evaluation of the long-term strategic growth plans and the short-term annual business plans based on projected risk profile and capital under both expected and adverse scenarios.

The Bank has decided to adopt a Pillar I + Pillar II approach for capital estimation as recommended under CBB guidelines and Basel framework. Under this approach, the banking institutions calculate the Pillar I capital or minimum regulatory capital requirements in accordance to CBB's CAR guidelines under the Basel III framework. Secondly, additional capital or pillar II capital requirement is calculated separately based on an "add-on" approach, where the additional capital requirements are added onto the calculated Pillar I capital requirements, to arrive at the Bank's internal capital requirements.

GFH conducts stress testing of its portfolio as part of the ICAAP process. GFH's objective of stress testing for its ICAAP is to ensure that the Bank can meet its capital requirements at all times in a forward-looking manner, including throughout a reasonably severe economic recession or other scenarios specific to the Bank's portfolio and risk profile. The results of the stress tests assist the Bank in ascertaining whether it has sufficient capital in periods of stress.

### 2.3 Pillar III

In the CBB's Basel framework, the Pillar III prescribes how, when, and at what level information should be publicly disclosed about an institution's risk management, governance and capital adequacy practices. The disclosures comprise detailed qualitative and quantitative information. The purpose of the Pillar III disclosure requirements is to complement the first two Pillars and the associated supervisory review process. The disclosures are designed to enable stakeholders and market participants to assess an institution's risk appetite and risk exposures and to encourage all banks, via market pressures, to move towards more advanced forms of risk management.

The current regulations require partial disclosure consisting mainly of quantitative analysis during half year reporting and fuller disclosure during year end to coincide with the financial year-end reporting.

## 3 Overall risk and capital management

### 3.1 Risk management framework

GFH perceives strong risk management capabilities to be the foundation in delivering results to customers, investors and shareholders. The Bank will continue to enhance its existing framework and adopt international best practices of risk management, corporate governance and the highest level of market discipline.

The primary objectives of the risk management framework of the Bank are to:

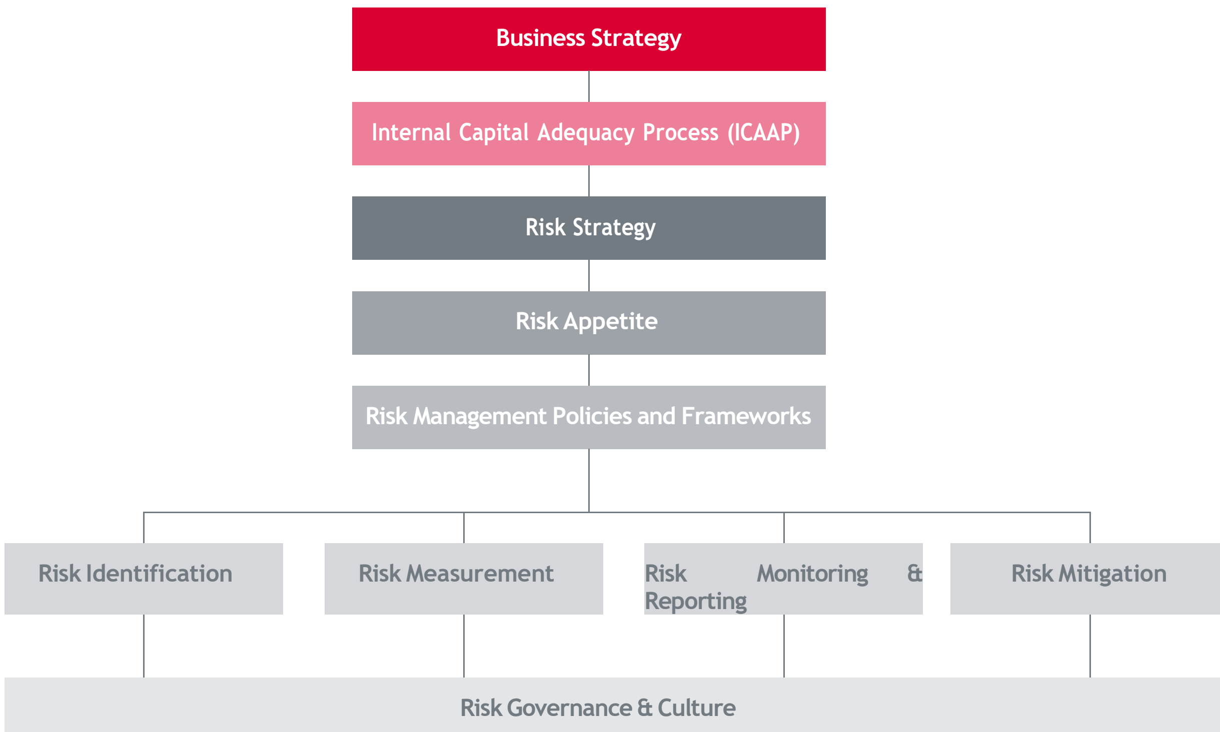
- Identify & manage risks inherent in the Bank's activities in line with the risk appetite of the Bank;
- Strengthen the Bank's risk management practices to reflect the industry best practices;
- Align internal capital requirements with risk materiality; and
- Assign the teams in mitigating the existing & emerging risks in the business

The risk strategy is articulated through the limit structures and targets for individual risks. These limits are based on the Bank's business plans, its risk appetite and guided by regulatory requirements and guidance in this regard. The risk limits reflect the level of risk that GFH is prepared to take in order to achieve its objectives. The Bank reviews and realigns its risk limits as per the evolving business plan of the Bank with changing economic and market scenarios. The Bank also assesses its tolerance for specific risk categories and its strategy to manage these risks. The limits outline the Bank's risk exposures and defines its tolerance levels towards accepting or rejecting these risks. Tolerance levels are reflected in the limits defined by the Bank for each risk area.

**Building Blocks of Risk Management Framework:**

The Board of Directors has overall responsibility for establishing risk culture and ensuring that an effective risk management framework is in place.

The diagram below represents the Bank's overall risk management framework and its components:

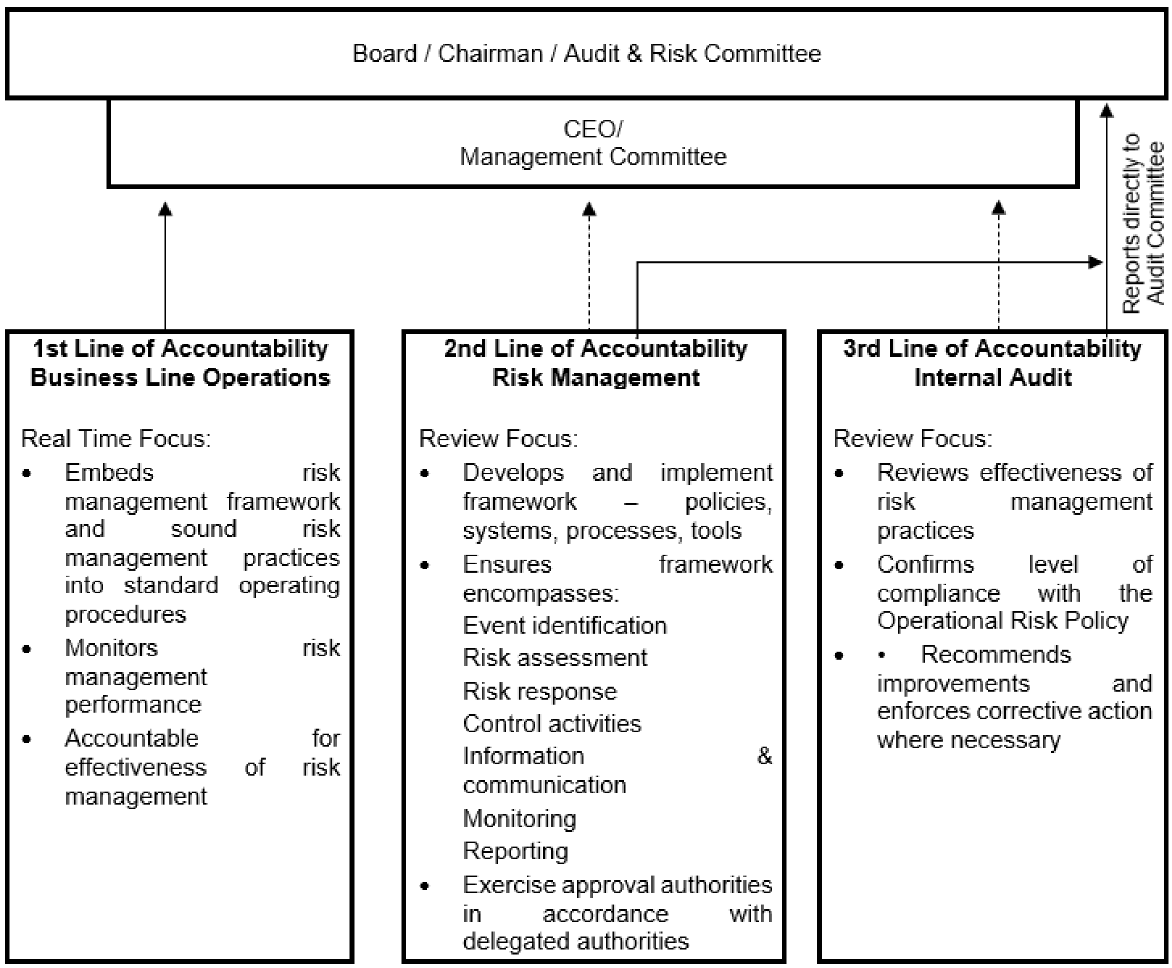



The risk management framework of the Bank encapsulates the spirit of the following key principles for Risk Management as articulated by Basel and CBB:

- Active Board and senior management oversight and control;
- Independent Risk Management function;
- Board driven sound risk management culture and ownership;
- Appropriate policy, procedures and limits;
- Risk recognition and assessment;
- Control activities and segregation of duties;
- Information and communication;
- Monitoring Risk Management activities and correcting deficiencies;
- Comprehensive and timely identification, measurement, mitigation, controlling, monitoring and reporting of risks;
- Appropriate MIS at a business and Bank-wide level; and
- Comprehensive internal controls.

**Three Lines of Accountability:**

To ensure effective governance across all processes and functions, GFH has adopted a 'Three Lines of Accountability' approach, as illustrated below. The structure clearly reflects the requisite independence between the three functions.



**Risk Heat Map:**

As part of risk identification, measurement and analysis, RMD uses a two-dimensional heat map to visualize the risks identified based on the likelihood/probability and impact. It allows the department to track the risks, prioritize the risks and develop an action or a mitigation plan accordingly. In addition, it helps in identifying what risks are material and imposes a threat to the Bank.


**Risk Appetite Framework:**

Risk appetite is defined as “the amount and type of risk that GFH is willing to take to meet their strategic objectives.’ It identifies key parameters to monitor the risks and put limits for each of these risks in order to monitor them effectively. To implement the Risk Appetite Framework, GFH identifies various types of risk under which it operates and the key factors/thresholds to measure these risks. GFH then identifies its current risk profile and its capacity to take risks. An acceptable risk appetite is then set up for each of the risks and very endeavor should be made to grow the business within the risk appetite framework. In the Risk Appetite Framework the Bank identifies how these risks are managed prudently to keep them under control and wherever possible to reduce exposure to these risks.

## 3.2 Risk governance structure

The Risk Governance structure of the Bank is depicted by the following diagram:

**Risk Governance Structure of GFH**

<table>
<tr><td>Level 1</td><td>Board of Directors<br>Sharia Supervisory Board</td><td rowspan="5">Internal Audit</td></tr>
<tr><td>Level 2</td><td>Board Committees<br>• Board Nomination, Remuneration and Governance Committee (NRGC)<br>• Board Investment Committee<br>• Board Audit and Risk Committee (ARC)</td></tr>
<tr><td>Level 3</td><td>Senior Management Committees<br>• Management Committee (MANCOM)<br>• Management Investment Committee<br>• Assets Liability Management Committee (ALCO)<br>• Valuation Committee<br>• Wakala Committee<br>• Policies & Procedure Committee</td></tr>
<tr><td>Level 4</td><td>Risk Management Department<br>• Credit and Investment Risk<br>• Market Risk<br>• Liquidity Risk<br>• Operational Risk<br>• Information Security<br>• Internal Control</td></tr>
<tr><td>Level 5</td><td>Desktop level procedures, systems and control in day-to-day business</td></tr>
</table>

Our Board of Directors has overall responsibility for establishing our risk culture and ensuring that an effective risk management framework is in place. The Board of Directors approves and periodically reviews our risk management policies and strategies. The Board Audit & Risk Committee (‘ARC’) is responsible for providing an independent assurance to the Board about the effectiveness of risk management, internal controls, the accounting policies, financial reporting and disclosure practices of the Bank by organizing and managing the internal and external audits and examination of the entire spectrum of the Bank’s activities and reporting the findings of such audits and examination to the Board.

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 Chief Risk Officer reports to Board Audit & Risk Committee and administratively to the CEO.

**Risk Management Responsibilities:**

The RMD plays a pivotal role in monitoring the risks associated with various activities of the Bank. The principal responsibilities of the department are:

- Monitoring and reporting the Bank's risks against the Board approved risk appetite.
- Developing and reviewing risk management policies in accordance with the risk management guidelines issued by the CBB, Basel Guidelines, IFSB and international best practices.
- Implementation of risk policies and ensuring that risk policies and practices are adequately built in Business Unit's departmental policies.
- Identifying and recommending risk analysis tools and techniques as required under guidelines issued by Basel, CBB and IFSB and in accordance with best business practices.
- Reviewing the adequacy of the risk limits and providing feedback to the relevant authorities.
- Preparing quarterly risk reports and other risk items and MIS reports for review by various Board and Senior Management level committees.
- Supports the business units in identification and day-to-day management of risks.
- Developing systems and resources to review the key risk exposures of the Bank and communicating the planned/ executed corrective actions to various Board and Senior Management level Committees.
- Adherence to regulatory risk reporting requirements and monitor the same.

## 3.3 Capital management

The Bank's policy is to maintain a strong capital base and meet the capital requirements imposed by the regulator (CBB), so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also monitored and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The allocation of capital is primarily driven by regulatory requirements. The Bank seeks to maximise return on capital while satisfying all the regulatory requirements.

The Bank has put in place a comprehensive Internal Capital Adequacy Assessment Process (ICAAP) that includes Board and senior management oversight, monitoring, reporting and internal control reviews, to identify and measure the various risks that are not covered under Pillar I risks and to regularly assess the overall capital adequacy considering the risks and the Bank's planned business strategies. The non-Pillar I risks covered under the ICAAP process include concentration risk, liquidity risk, profit rate risk in the banking book and other miscellaneous risks.

The Group does not have a trading book. The Group aims to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. The Central Bank of Bahrain (CBB) sets and monitors capital requirements for the Bank and the Group.. In implementing current capital requirements CBB requires the Bank and the Group to maintain a prescribed ratio of total capital to total risk-weighted assets.

The Bank's regulatory capital is analyzed 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**

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

The regulations prescribe higher risk weights for certain exposures that exceed 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.

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.

## 3.4 Risk types

The Bank is exposed to various types of risk.

| | |
|---|---|
| **Risks in Pillar I** | • Credit risk<br>• Market risk<br>• Operational risk |
| **Risks in Pillar II** | • Liquidity risk<br>• Investment Risk<br>• Concentration risk<br>• Profit rate risk in banking book<br>• Reputational risk<br>• Other risks – including strategic risk, pillar 1 residual risks etc. |

The details of components of risks and how they are managed are discussed in the following sections of this document.

## 3.5 Monitoring and reporting

The RMD, together with the Internal Audit, 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 monitoring and reporting frequency depends on the severity and volatility of the risk factor as set out in the respective policies. Risk reports are regularly presented to the Senior Management committees, ARC and Board as per the reporting requirements set in the risk policies. In addition, RMD submits a quarterly Risk Overview Report (ROR) to the Board Audit & Risk Committee. The ROR describes the potential issues for a wide range of risk categories and classifies the risks. The ROR also provides management comments as to how risk factors are being addressed and mitigated by the Bank. The Bank has established an adequate system for monitoring and reporting risk exposures and capital adequacy requirements. These reports aim to provide the Senior Management and Board level committees with an up-to-date view of the risk profile of the Bank.

## 3.6 Group Structure

The condensed consolidated interim financial information for the period comprises of the financial information of the Bank and its subsidiaries (together referred to as “the Group”) as at 30 June 2024. The Group’s financial statements are prepared and published on a full consolidation basis, with all material subsidiaries being consolidated in accordance with AAOIFI. Please refer to Note 3 in the condensed consolidated interim financial information for more details on the accounting policies for investments, including subsidiaries and associates of the Bank.

The principal subsidiaries and associates as at 30 June 2024 and their treatment for capital adequacy purposes are as follows:

| Entity Name | Entity classification as per CBB Rules & Guidelines | Treatment of the Bank | |
|---|---|---|---|
| | | Consolidated basis | Solo basis |
| Khaleeji Bank B.S.C ("Khaleeji") | Banking subsidiary | Full consolidation | Full deduction from capital |
| GFH Equities B.S.C (c) (Previously known as GBCORP B.S.C (c))) | Financial entity | Full consolidation | Full deduction from capital |
| GFH Sukuk Limited | Financial entity | Full consolidation | No impact as no direct investment by the Bank and the entity is a securitisation vehicle. |
| GFH Partners Ltd# | Financial entity | Full consolidation | Full deduction from capital |
| GFH Capital Limited KSA | Financial entity | Full consolidation | Full deduction from capital |
| Delmon Lost Paradise Project Company 1 WLL | Commercial entities | Risk weighting (look through approach) approved by the CBB on 12 June 2019. | |
| Delmon Lost Paradise Project Company 2 WLL | | | |
| Harbour North 1 Real Estate WLL | | | |
| Harbour North 2A Real Estate WLL | | | |
| Harbour North 2B Real Estate WLL | | | |
| Harbour North 3 Real Estate WLL | | | |
| Harbour Row 4 Real Estate WLL | | | |
| Britus International School for Special Education W.L.L | Commercial entity | Risk weighting of investment exposure | |
| GBCORP Tower Real Estate WLL | Commercial entity | Risk weighting of investment exposure | |
| Harbour House Row Towers W.L.L | Commercial entity | Risk weighting of investment exposure | |
| Al Areen Project companies | Commercial entity | Risk weighting of investment exposure | |
| TEI Holdings | Commercial entity | Risk weighting of investment exposure | |
| Al Areen Hotels W.L.L. | Commercial entity | Risk weighting of investment exposure | |

**The above list does not include subsidiaries and other SPE holding companies of the Bank set up to supplement the activities of the Bank..*

*#Roebuck A M LLP ("RAM"), SQ Topco II LLC and Big Sky Asset Management LLC has been transferred to GFH Partners Ltd of the Bank and are consolidated at GFH Partners Ltd.*

| Associates * | Entity classification as per CBB Rules & Guidelines | Treatment by the Bank for Consolidated and Solo basis |
|---|---|---|
| Al Areen Leisure & Tourism The Lost Paradise of Dilmun Waterpark ("LPOD") and Domina | Commercial entity | Risk weighting of investment exposure |
| Infracorp BSC (c) ** | | |
| Enshaa Development Real Estate BSC (c) | | |
| Capital Real Estate Projects BSC (c) | | |

** Does not include investments that were fully impaired and that do not have an impact on Form PIRI.*
*** Risk weighting of investment exposure in accordance with the CBB approval dated 15 February 2024 for Infracorp*

Investments in subsidiaries and associates are subject to large exposure and connected counter party limits and guidelines set by the CBB. Significant investment in banking subsidiaries and financial entities that exceed the threshold for deduction from capital, the excess should be deducted from the capital of the Group.

"During the year, the Bank had large exposures with Infracorp BSC (c), an investment in associate recognized by the Bank during the same period. The Bank sought approval for the exemption to the large limit of 15% and from risk weighting the excess exposure at 800%.

Accordingly, in a letter from CBB dated 15 February 2024, the request for exemption has been approved for a period of one year, subject to annual re-assessment."

Khaleeji Bank B.S.C ('Khaleeji'), a banking subsidiary of the Bank, is a locally incorporated commercial bank and the specific quantitative and qualitative disclosures pertaining to all the risks of Khaleeji have been disclosed in the Risk Management Disclosures of Khaleeji as at 30 June 2024, which can be accessed through the Public Disclosures of Khaleeji.

This document provides the risk and capital management disclosures of the Bank.

This document intends to combine the risk and capital management disclosures of the Bank and its involvement with its subsidiaries and associates. The quantitative disclosures in these documents provide further details of the exposures used for capital calculation purposes (where some entities are consolidated and some may be risk weighted) and accordingly will not match with the condensed consolidated interim financial information of the Group.

There are no restrictions for transfer of capital other than those applicable to licensed financial entities and process of commercial companies' law of respective jurisdictions.

# 4 Composition of Capital

## 4.1 3 steps approach to reconciliation between balance sheet in published financial statements and the composition of capital disclosure template

Statement of financial position under the regulatory scope of consolidation and reconciliation of published financial statements to regulatory reporting as at 30 June 2024.

The table below shows the link between the statement of financial position in the published financial statements (accounting statement of financial position) and the regulatory statement of financial position.

USD'000

| As at 30 June 2024 | Consolidated Statement of Financial Position as in published financial statements | Consolidated Statement of Financial Position as per Regulatory Reporting | Reference |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and bank balance | 290,253 | 281,887 | |
| *Of which Expected Credit Losses (ECL) resulting from adoption of FAS 30* | *(26)* | *(26)* | A |
| Treasury portfolio | 4,768,073 | 4,765,111 | |
| *Of which Expected Credit Losses (ECL) as per FAS 30* | *(24,735)* | *(15,783)* | A |
| Financing assets | 1,795,753 | 1,795,753 | |
| *Of which Expected Credit Losses (ECL) as per FAS 30* | *(66,800)* | *(20,129)* | A |
| Real estate investments | 1,244,496 | 1,182,908 | |
| Proprietary investments | 1,183,067 | 1,403,226 | |
| *Of which Expected Credit Losses (ECL) as per FAS 30* | *(1,966)* | *(1,980)* | A |
| *Of which non-significant investments in financial entities* | *1* | *1* | B |
| *Of which significant investments in the common stock of financial entity* | *838* | *838* | C |
| Co-investments | 278,371 | 278,371 | |
| *Of which Expected Credit Losses (ECL) as per FAS 30* | *(1,606)* | *(1,606)* | A |
| Receivables and prepayments | 1,046,358 | 957,788 | |
| *Of which Expected Credit Losses (ECL) as per FAS 30* | *(23,017)* | *(14,808)* | A |
| Property and equipment | 282,243 | 43,647 | |
| **Total Assets** | **10,888,614** | **10,708,691** | |

USD'000

| As at 30 June 2024 | Consolidated Statement of Financial Position as in published financial statements | Consolidated Statement of Financial Position as per Regulatory Reporting | Reference |
|---|---|---|---|
| **LIABILITIES** | | | |
| Clients' fund | 148,596 | 148,596 | |
| Placements from financial institutions | 1,939,146 | 1,939,146 | |
| Placements from non-financial institutions and individuals | 1,183,290 | 1,183,290 | |
| Customer current accounts | 474,507 | 474,507 | |
| Term financing | 1,981,348 | 1,978,764 | |
| Other liabilities | 404,165 | 331,722 | |
| **Total liabilities** | **6,131,052** | **6,056,025** | |
| **Equity of investment account holders** | **3,606,931** | **3,606,931** | |
| **OWNERS' EQUITY** | | | |
| Share capital | 1,015,637 | 1,015,637 | D |
| Treasury shares | (85,705) | (85,705) | D |
| Statutory reserve | 47,518 | 47,518 | E |
| Fair value reserve | (39,270) | (39,270) | F |
| Other reserved related to associate | (16,020) | - | |
| Retained earnings | 41,821 | 41,821 | G |
| Share grant reserve | 5,440 | 5,440 | H |
| Total equity attributable to shareholders of the Bank | **969,421** | **985,441** | |
| Non-controlling interests | 181,210 | 60,294 | |
| *Of which Total minority interest in banking subsidiaries given recognition in CET1 capital* | - | *60,294* | I |
| **Total owners' equity** | **1,150,631** | **1,045,735** | |
| **Total liabilities, equity of investment account holders and owners' equity** | **10,888,614** | **10,708,691** | |

The table below shows the total assets and shareholders' equity of the Bank's subsidiaries as at 30 June 2024 which are not consolidated for capital adequacy calculation purposes.

USD'000

| Entity Name | Principal Activities | Total Assets* | Total Shareholders' equity * |
|---|---|---|---|
| GBCORP Tower Real Estate WLL | Own & lease real estate | 50,005 | 47,263 |
| Harbour House Row Towers W.L.L. | Own & lease real estate | 19,383 | 6,037 |
| Britus International School for Special Education W.L.L | Educational services | 2,848 | (5,940) |
| Al Areen Hotels W.L.L. | Hospitality Management | 209,661 | 118,640 |
| Al Areen Holding | Hospitality management services | 32,487 | 6,015 |
| TEI Holdings | Entertainment services | 43,455 | 20,521 |

**The numbers disclosed are before considering intercompany eliminations.*

## Composition of Regulatory Capital as at 30 June 2024

USD'000

| Composition of Regulatory Capital as at 30 June 2024 | | Component of Regulatory Capital Reported by Bank | Source based on reference letters of the statement of financial position under the regulatory scope of consolidation |
|---|---|---|---|
| **Common Equity Tier 1 capital: instruments and reserves** | | | |
| 1. | Directly issued qualifying common share capital plus related stock surplus; Net of investments in own shares (85,705) | 929,932 | D |
| 2. | Retained earnings | 41,821 | G |
| 3. | Accumulated other comprehensive income (and other reserves) | 13,688 | E+F+H |
| 4. | *Not applicable* | | |
| 5. | Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1) | 60,294 | I |
| **6.** | **Common Equity Tier 1 capital before regulatory adjustments** | **1,045,735** | |
| | | | |
| **Common Equity Tier 1 capital: regulatory adjustments** | | | |
| 7. | Prudential valuation adjustments | - | |
| 8. | Goodwill (net of related tax liability) | 14,792 | |
| 9. | Other intangibles other than mortgage-servicing rights (net of related tax liability) | 27,451 | |
| 10. | Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability) | - | |
| 11. | Cash-flow hedge reserve | - | |
| 12. | Shortfall of provisions to expected losses | - | |
| 13. | Securitisation gain on sale (as set out in paragraph 562 of Basel II framework) | - | |
| 14. | Not applicable | | |
| 15. | Defined-benefit pension fund net assets | - | |
| 16. | Investments in own shares | - | |
| 17. | Reciprocal cross-holdings in common equity | - | |
| 18. | Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold) | - | |

USD'000

| Composition of Regulatory Capital as at 30 June 2024 | | Component of Regulatory Capital Reported by Bank | Source based on reference letters of the statement of financial position under the regulatory scope of consolidation |
|---|---|---|---|
| 19. | Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold) | - | |
| 20. | Mortgage servicing rights (amount above 10% threshold) | - | |
| 21. | Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability) | - | |
| 22. | Amount exceeding the 15% threshold | - | |
| 23. | of which: significant investments in the common stock of financials | - | |
| 24. | of which: mortgage servicing rights | - | |
| 25. | of which: deferred tax assets arising from temporary differences | - | |
| 26. | CBB specific regulatory adjustments | - | |
| 27. | Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions | - | |
| **28.** | **Total regulatory adjustments to Common equity Tier 1** | **-** | |
| **29.** | **Common Equity Tier 1 capital (CET1)** | **1,003,492** | |
| | | | |
| **Additional Tier 1 capital: instruments** | | | |
| 30. | Directly issued qualifying Additional Tier 1 instruments plus related stock surplus | - | |
| 31. | of which: classified as equity under applicable accounting standards | - | |
| 32. | of which: classified as liabilities under applicable accounting standards | - | |
| 33. | *Directly issued capital instruments subject to phase out from Additional Tier 1* | - | |
| 34. | Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1) | 10,049 | |
| 35. | *of which: instruments issued by subsidiaries subject to phase out* | - | |
| **36.** | **Additional Tier 1 capital before regulatory adjustments** | **10,049** | |

USD'000

| Composition of Regulatory Capital as at 30 June 2024 | | Component of Regulatory Capital Reported by Bank | Source based on reference letters of the statement of financial position under the regulatory scope of consolidation |
|---|---|---|---|
| **Additional Tier 1 capital: regulatory adjustments** | | | |
| 37. | Investments in own Additional Tier 1 instruments | - | |
| 38. | Reciprocal cross-holdings in Additional Tier 1 instruments | - | |
| 39. | Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold) | - | |
| 40. | Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions) | - | |
| 41. | CBB specific regulatory adjustments | - | |
| 42. | Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions | - | |
| **43.** | **Total regulatory adjustments to Additional Tier 1 capital** | **-** | |
| **44.** | **Additional Tier 1 capital (AT1)** | **-** | |
| **45.** | **Tier 1 capital (T1 = CET1 + AT1)** | **1,013,541** | |
| | | | |
| **Tier 2 capital: instruments and provisions** | | | |
| 46. | Directly issued qualifying Tier 2 instruments plus related stock surplus | - | |
| 47. | *Directly issued capital instruments subject to phase out from Tier 2* | - | |
| 48. | Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2) | 13,399 | |
| 49. | of which: instruments issued by subsidiaries subject to phase out | - | |
| 50. | Provisions | 54,332 | A |
| **51.** | **Tier 2 capital before regulatory adjustments** | **67,730** | |

USD'000

| Composition of Regulatory Capital as at 30 June 2024 | | Component of Regulatory Capital Reported by Bank | Source based on reference letters of the statement of financial position under the regulatory scope of consolidation |
|---|---|---|---|
| **Tier 2 capital: regulatory adjustments** | | | |
| 52. | Investments in own Tier 2 instruments | - | |
| 53. | Reciprocal cross-holdings in Tier 2 instruments | - | |
| 54. | Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold) | - | |
| 55. | Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions) | - | |
| 56. | National specific regulatory adjustments | - | |
| **57.** | **Total regulatory adjustments to Tier 2 capital** | **-** | |
| **58.** | **Tier 2 capital (T2)** | **67,730** | |
| **59.** | **Total capital (TC = T1 + T2)** | **1,081,272** | |
| **60.** | **Total risk weighted assets** | **5,988,033** | |
| | | | |
| **Capital ratios and buffers** | | | |
| **61.** | **Common Equity Tier 1 (as a percentage of risk weighted assets)** | **16.76%** | |
| **62.** | **Tier 1 (as a percentage of risk weighted assets)** | **16.93%** | |
| **63.** | **Total capital (as a percentage of risk weighted assets)** | **18.06%** | |
| **64.** | **Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk weighted assets)** | **N/A** | |
| 65. | of which: capital conservation buffer requirement | N/A | |
| 66. | of which: bank specific countercyclical buffer requirement | N/A | |
| 67. | of which: D-SIB buffer requirement | N/A | |
| **68.** | **Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)** | **16.76%** | |

USD'000

| Composition of Regulatory Capital as at 30 June 2024 | | Component of Regulatory Capital Reported by Bank | Source based on reference letters of the statement of financial position under the regulatory scope of consolidation |
|---|---|---|---|
| **National minima including CCB (where different from Basel III)** | | | |
| 69. | CBB Common Equity Tier 1 minimum ratio | 9.0% | |
| 70. | CBB Tier 1 minimum ratio | 10.5% | |
| 71. | CBB total capital minimum ratio | 12.5% | |
| | | | |
| **Amounts below the thresholds for deduction (before risk weighting)** | | | |
| 72. | Non-significant investments in the capital of other financials | 1 | B |
| 73. | Significant investments in the common stock of financials | 838 | C |
| 74. | Mortgage servicing rights (net of related tax liability) | - | |
| 75. | Deferred tax assets arising from temporary differences (net of related tax liability) | - | |
| | | | |
| 76. | Provisions eligible for inclusion in Tier 2 in respect of exposures subject to 8 standardized approach (prior to application of cap) | 54,332 | A |
| 77. | Cap on inclusion of provisions in Tier 2 under standardized approach | - | |
| 78. | N/A | - | |
| 79. | N/A | - | |
| | | | |
| **Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2019 and 1 Jan 2024)** | | | |
| 80. | *Current cap on CET1 instruments subject to phase out arrangements* | NA | |
| 81. | *Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)* | NA | |
| 82. | *Current cap on AT1 instruments subject to phase out arrangements* | NA | |
| 83. | *Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)* | NA | |
| 84. | *Current cap on T2 instruments subject to phase out arrangements* | NA | |
| 85. | *Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)* | NA | |

| **Disclosure template for main features of regulatory capital instrument** | | |
|---|---|---|
| 1. | Issuer | GFH Financial Group B.S.C |
| 2. | Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement) | GFH *(DFM)*<br>GFH *(ADX)*<br>GFH *(BHB)*<br>GFH *(KSE)* |
| 3. | Governing law(s) of the instrument Regulatory treatment | All applicable laws and regulations in the Kingdom of Bahrain. |
| | ***Regulatory treatment*** | |
| 4. | Transitional CBB rules | Common Equity Tier 1 |
| 5. | Post-transitional CBB rules | Common Equity Tier 1 |
| 6. | Eligible at solo/group/group & solo | Group and solo |
| 7. | Instrument type (types to be specified by each jurisdiction) | Common equity shares |
| 8. | Amount recognized in regulatory capital (Currency in USD mn, as of most recent reporting date) | USD 1,016 million |
| 9. | Par value of instrument | USD 0.265 |
| 10. | Accounting classification | Shareholders' equity |
| 11. | Original date of issuance | 1999 |
| 12. | Perpetual or dated | *Not applicable* |
| 13. | Original maturity date | *Not applicable* |
| 14. | Issuer call subject to prior supervisory approval | *Not applicable* |
| 15. | Optional call date, contingent call dates and redemption amount | *Not applicable* |
| 16. | Subsequent call dates, if applicable Coupons / dividends | *Not applicable* |
| 17. | Dividends | Dividends as decided by the shareholders |
| 18. | Coupon rate and any related index | *Not applicable* |
| 19. | Existence of a dividend stopper | *Not applicable* |
| 20. | Fully discretionary, partially discretionary or mandatory | Fully discretionary |
| 21. | Existence of step up or other incentive to redeem | *Not applicable* |
| 22. | Noncumulative or cumulative | *Not applicable* |
| 23. | Convertible or non-convertible | *Not applicable* |
| 24. | If convertible, conversion trigger (s) | *Not applicable* |

| Disclosure template for main features of regulatory capital instrument | | |
|---|---|---|
| 25. | If convertible, fully or partially | *Not applicable* |
| 26. | If convertible, conversion rate | *Not applicable* |
| 27. | If convertible, mandatory or optional conversion | *Not applicable* |
| 28. | If convertible, specify instrument type convertible into | *Not applicable* |
| 29. | If convertible, specify issuer of instrument it converts into | *Not applicable* |
| 30. | Write-down feature | *Not applicable* |
| 31. | If write-down, write-down trigger(s) | *Not applicable* |
| 32. | If write-down, full or partial | *Not applicable* |
| 33. | If write-down, permanent or temporary | *Not applicable* |
| 34. | If temporary write-down, description of write-up mechanism | *Not applicable* |
| 35. | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | *Not applicable* |
| 36. | Non-compliant transitioned features | *Not applicable* |
| 37. | If yes, specify non-compliant features | *Not applicable* |

# 5 Capital structure and capital adequacy ratio

## 5.1 Capital adequacy

The Bank's regulator CBB sets and monitors capital requirements for the Bank as a whole (i.e. at a consolidated level). The banks are required to maintain minimum capital adequacy ratio of 12.5% on a consolidated basis [ i.e. CET1 – 6.5%, AT1-1.5%, Tier 2 – 2% and CCB – 2.5%] and a capital adequacy ratio (CAR) of 8% on a solo basis [ i.e. CET1 – 4.5%, AT1 – 1.5% and Tier 2– 2%]. 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 Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

The Bank has adopted the standardised approach to credit and market risk and basic indicator approach for operational risk management under the Capital Adequacy Framework.

The Group's regulatory capital position at 30 June 2024 was as follows:

| Total Capital | USD'000 |
|---|---|
| **Common Equity Tier 1 (CET1)** | |
| Issued and fully paid ordinary shares | 1,015,637 |
| Less: Treasury Shares | (85,705) |
| Statutory reserves | 47,518 |
| Retained earnings | (26,076) |
| Current interim cumulative net income / losses | 67,897 |
| Other reserves | (33,830) |
| **Total CET1 capital before minority interest** | **985,441** |
| Total minority interest in banking subsidiaries given recognition in CET1 capital | 60,294 |
| **Total CET1 capital prior to regulatory adjustments** | **1,045,735** |
| Less: Investment in own shares | - |
| Goodwill | (14,792) |
| Intangibles other than mortgage servicing rights | (27,451) |
| Cash flow hedge reserves | - |
| **Total CET1 capital after to the regulatory adjustments** | **1,003,492** |
| Other capital - Additional Tier 1 (AT1) & Tier 2 (T2) capital | |
| Instruments issued by banking subsidiaries to third parties | |
| - AT1 | 10,049 |
| - T2 | 13,399 |
| General financing loss provisions | |
| - T2 | 54,332 |
| **Total Available AT1 & T2 capital** | **77,780** |
| | |
| **Total Capital** | **1,081,272** |

| **Risk weighted exposures** | *USD '000* **30 June 2024** |
|---|---|
| Credit risk | 5,325,344 |
| Market risk | 151,595 |
| Operational risk | 511,093 |
| **Total Risk Weighted Exposures** | **5,988,032** |

| | |
|---|---|
| CET1 ratio | 16.76% |
| T1 ratio | 16.93% |
| **Total Capital Adequacy ratio (Total Capital)** | **18.06%** |

Total and Tier 1 Capital ratios of Khaleeji (significant banking subsidiary of GFH) are as follows:

| | **30 June 2024** |
|---|---|
| Capital adequacy ratio (CET1) | 20.92% |
| Capital adequacy ratio (T1) | 20.92% |
| **Total capital Adequacy ratio (Total capital)** | **22.00%** |

The Bank's paid up capital consists only of ordinary shares which have proportionate voting rights.

# Pillar I Risks

## 6 Credit risk

### 6.1 Introduction

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's, placements with financial institutions, financing assets, and other receivables balances. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

The Bank does not have a trading book and hence all of its equity investments are classified in the banking book and are subject to credit risk weighting under the capital adequacy framework. For regulatory capital computation purposes, the Bank's equity investments in the banking book include investments carried at fair value through equity, investments designated at fair value through income statement, significant and majority investments in commercial entities and associate investments in non-significant financial and non-financial entities (as significant financial entities which qualify as associates are treated separately for regulatory purposes).

### 6.2 Credit risk management

The Bank is primarily exposed to credit risk from placements with other financial institutions, investment in sukuks, receivables from its investment banking services and in respect of funding made (both in the form of financing and short-term liquidity facilities) to its projects and other direct credit facilities provided.

The Bank has an established internal process for assessing credit risk. The Bank has established investment and credit risk policies covering credit risk identification, and assessment, risk reporting, documentation and legal procedures, and compliance with regulatory and statutory requirements. The policies are supplemented by an internal authorisation structure for the approval and renewal of investment and credit facilities. Authorisation limits for credit facilities are as per the Board approved Delegated Authority Limits (DAL). The RMD assesses all investment and credit proposals prior to investments / facilities being committed. RMD lists down its concerns, performs internal rating and provides final risk comments on all applications prior to circulation for sign off. Renewals and reviews of investments / facilities are subject to the same review process. Investment updates are periodically reviewed by the Board of Directors. Regular audits of business units and credit processes are undertaken by Internal Audit.

### 6.3 Risk grading of exposure

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. Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. The Bank relies on the ratings issued by ECAI such as S&P, Moody's and Fitch that are approved by the Central Bank of Bahrain mainly for Financial Institutions & Sovereign. If there are two assessments by ECAI's, the lowest rating will be applied while if there are three assessments by ECAIs, the middle rating will be applied. Ratings from selected ECAIs will be sued regularly for the ongoing monitoring of the exposures which may result in an exposure being moved to a different credit risk grade. The credit risk grade for unrated exposures will be based on qualitative and quantitative factors which may vary depending on the nature of the exposure and they type of the borrower.

## 6.4 Capital requirements for credit risk

To assess its capital adequacy requirements for credit risk in accordance with the CBB requirements, the Bank adopts standardized approach. According to standardized approach, on and off-balance sheet credit exposures are assigned to various defined categories based on the type of counterparty or underlying exposure. Risk Weighted Assets (RWAs) are calculated based on prescribed risk weights by CBB.

Following is the Group's analysis for credit risk as computed for regulatory capital adequacy purposes:

USD'000

| Exposure Class | Gross Credit exposures | Credit Risk Mitigant | Credit Risk Exposure after Credit Risk Mitigant | Average Risk weights | Total Credit risk Weighted Exposure |
|---|---|---|---|---|---|
| **Self-financed assets** | | | | | |
| Cash items | 11,657 | - | 11,657 | 0% | - |
| Total claims on sovereign and PSEs treated as sovereign | 2,319,076 | - | 2,319,076 | 0%-100% | 54,066 |
| Standard Risk Weights for Claims on Banks | 784,557 | - | 784,557 | 20%-150% | 521,657 |
| Short term Claims on Banks | 282,740 | - | 282,740 | 20% | 56,548 |
| Preferential Risk Weight for Claims on Banks | 14,310 | - | 14,310 | 20% | 2,862 |
| Claims on Corporates | 2,585,011 | (139,472) | 2,445,539 | 0%-100% | 2,340,957 |
| Regulatory Retail Portfolio | 124,979 | (45,202) | 79,777 | 75% | 59,833 |
| Mortgage | 283,512 | - | 283,512 | 35% | 99,229 |
| Past Due Facilities | 117,792 | (13,300) | 104,492 | 100%-150% | 150,075 |
| Investments in Equity Securities and Equity Sukuk | 198,801 | - | 198,801 | 100%-800% | 283,388 |
| Holding of Real Estate | 410,230 | - | 410,230 | 200%-400% | 692,354 |
| Others Assets | 202,054 | - | 202,054 | 100% | 202,054 |
| **Total self-financed assets (A)** | **7,334,719** | **(197,974)** | **7,136,745** | **0%-800%** | **4,463,023** |
| **Total regulatory capital required - self-financed assets (A x 12.5%)** | | | | **12.5%** | **557,878** |

USD'000

| Exposure Class | Gross Credit exposures | Credit Risk Mitigant | Credit Risk Exposure after Credit Risk Mitigant | Average Risk weights | Total Credit risk Weighted Exposure |
|---|---|---|---|---|---|
| **Financed by EIAH** | | | | | |
| Total claims on sovereign and PSEs treated as sovereign | 451,327 | - | 451,327 | 0%-100% | 327,916 |
| Standard Risk Weights for Claims on Banks | 567,853 | - | 567,853 | 20%-100% | 280,913 |
| Short term Claims on Banks | 13,123 | - | 13,123 | 20% | 2,625 |
| Claims on corporates | 2,156,394 | (76,909) | 2,079,485 | 20%-150% | 2,078,038 |
| Regulatory Retail Portfolio | - | - | - | 35% | - |
| Mortgage | - | - | - | 35% | - |
| Past Due Facilities | 17,775 | - | 17,775 | 150% | 26,663 |
| Investments in Equity Securities and Equity Sukuk | 66,265 | - | 66,265 | 100%-150% | 85,487 |
| Holding of Real Estate | 72,770 | - | 72,770 | 100% | 72,770 |
| **Total financed by EIAH (B)** | **3,345,507** | **(76,909)** | **3,268,598** | **0%-150%** | **2,874,412** |
| **Considered for credit risk (C) = (B x 30%)** | | | | **30%** | **862,324** |
| **Total regulatory capital required - financed by EIAH (C x 12.5%)** | | | | **12.5%** | **107,790** |
| | | | | | |
| **Total Credit Risk Assets (A+C)** | | | | | **5,325,347** |
| **Minimum regulatory capital required (at 12.5%)** | | | | | **665,668** |

## 6.5 Quantitative information on credit risk

### 6.5.1 Gross and average credit exposure

The following are gross credit risk exposures considered for Capital Adequacy Ratio calculations of the Group classified as per disclosure in the condensed consolidated interim financial information:

USD'000

| Balance sheet items | Self-finance | EIAH | Total credit exposure | Average credit exposure* |
|---|---|---|---|---|
| Cash and bank balances | 213,908 | 76,345 | 290,253 | 321,703 |
| Treasury portfolio | 2,938,205 | 1,829,868 | 4,768,073 | 4,650,661 |
| Financing assets | 1,003,064 | 792,689 | 1,795,753 | 1,820,688 |
| Real estate investments | 1,202,157 | 42,339 | 1,244,496 | 1,188,392 |
| Proprietary investments | 380,330 | 802,737 | 1,183,067 | 1,169,045 |
| Co-investments | 278,371 | - | 278,371 | 270,584 |
| Receivables and prepayments | 983,405 | 62,953 | 1,046,358 | 1,018,980 |
| Property and equipment | 282,243 | - | 282,243 | 283,343 |
| **Total funded exposure** | **7,281,683** | **3,606,931** | **10,888,614** | **10,723,394** |
| Commitments | 160,230 | - | 160,230 | 154,977 |
| Restricted investment accounts | - | - | - | - |
| **Total unfunded exposure** | **160,230** | **-** | **160,230** | **154,977** |

** Average gross credit exposures have been calculated based on the average of balances outstanding on a quarterly basis during the half year ended 30 June 2024. Assets funded by EIAH are geographically classified in GCC countries, Asia and Europe. Placements with financial and other institutions that are funded by EIAH are placed with Banks and financial institutions having maturity profile of up to 3 months.*

### 6.5.2 Credit exposure by geography

The classification of credit exposure by geography, based on the location of the counterparty, was as follows:

USD'000

| | GCC countries | MENA | Asia | North America | Others | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and bank balances | 202,316 | 392 | 130 | 40,307 | 47,108 | **290,253** |
| Treasury portfolio | 3,681,119 | 134,969 | - | 260,242 | 691,743 | **4,768,073** |
| Financing assets | 1,785,601 | - | - | 10,152 | - | **1,795,753** |
| Real estate investments | 815,713 | 348,014 | - | - | 80,769 | **1,244,496** |
| Proprietary investments | 386,927 | - | 5,128 | 733,622 | 57,391 | **1,183,068** |
| Co-investments | 1,859 | - | - | 267,155 | 9,356 | **278,370** |
| Receivables and prepayments | 710,592 | 22,552 | 3,804 | 299,468 | 9,942 | **1,046,358** |
| Property and equipment | 14,572 | - | - | - | 267,671 | **282,243** |
| **Total assets** | **7,598,700** | **505,927** | **9,062** | **1,610,946** | **1,163,980** | **10,888,615** |
| Equity of investment account holders | 2,404,498 | 8,450 | - | - | 1,193,983 | **3,606,931** |
| **Off-Balance sheet items** | | | | | | |
| Commitments | 142,452 | - | - | - | 17,778 | **160,230** |

### 6.5.3 Credit exposure by industry

The classification of credit exposure by industry was as follows:

| | Banks and financial institutions | Real estate | Others | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and bank balances | 290,253 | - | - | **290,253** |
| Treasury portfolio | 3,467,927 | 237,068 | 1,063,078 | **4,768,073** |
| Financing assets | 353,996 | 677,053 | 764,704 | **1,795,753** |
| Real estate investments | - | 1,244,496 | - | **1,244,496** |
| Proprietary investments | 846,750 | 73,033 | 263,284 | **1,183,067** |
| Co-investments | 136,470 | 130,686 | 11,215 | **278,371** |
| Receivables and prepayments | 104,553 | 248,894 | 692,911 | **1,046,359** |
| Property and equipment | 5,978 | - | 276,265 | **282,243** |
| **Total assets** | **5,205,928** | **2,611,230** | **3,071,457** | **10,888,615** |
| Equity of investment account holders | - | - | 3,606,931 | **3,606,931** |
| **Off-Balance sheet items** | | | | |
| Commitments | - | 42,995 | 117,235 | **160,230** |

### 6.5.4 Credit exposure by maturity

The maturity profile of credit exposures based on expected maturity was as follows:

USD'000

| | 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 | 290,253 | - | - | - | - | **290,253** |
| Treasury portfolio | 1,306,858 | 881,828 | 248,939 | 591,545 | 1,738,903 | **4,768,073** |
| Financing assets | 164,236 | 38,179 | 215,897 | 572,166 | 805,275 | **1,795,753** |
| Real estate investments | - | - | - | - | 1,244,496 | **1,244,496** |
| Proprietary investments | - | - | - | 205,894 | 977,173 | **1,183,067** |
| Co-investments | - | - | - | 11,215 | 267,156 | **278,371** |
| Receivables and prepayments | 399,949 | 19,132 | 39,591 | 346,638 | 241,049 | **1,046,359** |
| Property and equipment | - | - | - | - | 282,243 | **282,243** |
| **Total assets** | **2,161,296** | **939,139** | **504,427** | **1,727,458** | **5,556,295** | **10,888,615** |
| Equity of investment account holders | 1,662,140 | 487,071 | 256,285 | 180,775 | 1,020,661 | **3,606,932** |
| **Off-Balance sheet items** | | | | | | |
| Commitments | 75,846 | 2,027 | 12,615 | 69,715 | 27 | **160,230** |

The table above shows the maturity profile of the Group's assets and unrecognized commitments on the basis of their contractual maturity, here available. For other items, (including past due receivables), the maturity profile is on the basis of their expected realization. The total assets are reconciled to the gross credit exposures considered for capital adequacy computation purposes.

## 6.6 Large exposures

The CBB has set single exposure limit of 15% of the Bank's total capital base on exposures to individual and a combined exposure limit of 25% of total capital base of closely connected counterparties. The excess amount of any exposure above the mentioned thresholds must be risk weighted at 800%, unless it is an exempt exposure in accordance with the requirements of CBB rulebook.

During the quarter, the Bank had large exposures with Infracorp BSC (c), an investment in associate recognized by the Bank during the same period. The Bank sought approval for the exemption to the large exposure limit of 15% and from risk weighting the excess exposure at 800%. Accordingly, in a letter from CBB dated 15 February 2024, the request for exemption has been approved for a period of one year, subject to annual reassessment.

All large exposures in excess of 15% of capital base as at 30 June 2024 has been risk weighted at 800%. Also, the combined exposures in excess of 25% of total capital base of closely connected counterparties have been risk weighted at 800%.

As at 30 June 2024, the Group did not report a single large exposure which is in excess of 15% of Capital Base.

## 6.7 Impaired facilities and past due exposures

The Bank classifies credit exposures into two broad categories “Unimpaired” and “Impaired”, reflecting risk of default and the availability of collateral or other credit risk mitigation. The Bank does not perform a collective assessment of impairment for its credit exposures as the credit characteristics of each exposure is considered to be different. Credit and investment exposures are subject to regular reviews by the Investment units and RMD.

The definition and details of impaired assets, past due but not impaired exposures and policy for establishing an allowance account and write-off of an exposure and changes in impairment allowances for financial instruments are provided in Note 17 and 9 of the condensed consolidated interim financial statements.

All impaired and past due credit exposures at 30 June 2024 mainly relate to the real estate and treasury sectors.

## 6.8 Credit risk mitigation

The credit risk exposures faced by the Bank are primarily related to placements with other financial institutions, investments in sukuks, other credit facilities and in respect of investment-related funding made to its projects. The funding made to the projects are based on the assessment of the underlying value of the assets and the expected streams of cash flows.

The Bank shall conduct all necessary due diligence irrespective of obtaining credit risk mitigates. As a principle, the Bank should try, on a best effort basis, not to extend facilities without any security / collateral. Only eligible collaterals as per the CBB guidelines shall be considered for reducing the capital requirement though the Bank can continue to take non-eligible collaterals to safeguard its exposure subject to obtaining requisite approvals. As a matter of principle, collateral should not replace a careful assessment of the borrower's ability to repay.

## 6.9 Regulatory capital requirements by type of financing contracts

USD'000

| Financing Contracts | Exposure | | Credit Risk Weighted Assets | | Capital Requirement @ 12.5% | |
|---|---|---|---|---|---|---|
| | Self-finance | IAH | Self-finance | IAH | Self-finance | IAH |
| Murabaha | 426,471 | 826,995 | 376,228 | - | 47,027 | 32,485 |
| Ijarah Assets | 534,729 | 5,082 | 163,207 | - | 20,401 | - |
| Musharaka | - | - | - | - | - | - |
| Mudharabah | 20,862 | - | 2,313 | - | 289 | - |
| Wakala | - | - | - | - | - | - |
| **Total** | **982,062** | **832,077** | **541,748** | **-** | **67,717** | **32,485** |

## 6.10 Related party and intra-group transactions

Related counterparties are those entities which are connected to the Bank through significant shareholding or control or both. The Bank has entered into business transactions with such counterparties in the normal course of its business. For the purpose of identification of related parties the Bank strictly follows the guidelines issued by Central Bank of Bahrain and definitions as per FAS issued by AAOIFI. Detailed break up of exposure to related parties has been presented in Note 19 to the condensed consolidated interim financial information.

## 6.11 Exposure to highly leveraged and other high-risk counterparties

The Bank has no exposure to highly leveraged and other high risk counterparties as per definition provided in the CBB rule book PD 1.3.24.

## 6.12 Restructured facilities

As at 30 June 2024, other assets which are neither past due nor impaired include certain short-term financing to projects which were renegotiated during the year (refer note 9 to the condensed consolidated interim financial statements). In certain cases, on a need basis, the Bank supports its projects by providing credit facilities. These facilities are provided based on assessment of cash flow requirements of the projects and the projects ability to repay the financing amounts based on its operating cash flows. The assessment is independently reviewed by the RMD. The terms of the renegotiation primarily include extension of the repayment period. The facilities are provided for as viewed necessary based on periodic impairment assessments.

## 6.13 Equity investments held in banking book

The Bank does not have a trading book and hence all of its equity investments and other investments are classified in the banking book and are subject to credit risk weighting under the capital adequacy framework. For regulatory capital computation purposes, the Bank's equity investments in the banking book include available-for-sale investments, significant and majority investments in commercial entities and associate investments in non-significant financial and non-financial entities (i.e. significant financial entities which qualify as associates are treated separately for regulatory purposes).

Please refer to the notes to the condensed consolidated interim financial information for policies covering the valuation and accounting of equity holdings, including the accounting policies and valuation methodologies used, key assumptions and practices affecting valuation.

The RMD provides an independent review of all transactions. A fair evaluation and impairment assessment of investments takes place. Investment updates are periodically reviewed by the Board of Directors. Regular audits of business units and processes are undertaken by Internal Audit.

The Bank's equity investments are predominantly in its own projects, which include venture capital, private equity, asset management, real estate development and development infrastructure investment products. The intent of such investments is a later stage exit along with the investors principally by means of sell-outs at the project level or through initial public offerings. The Bank also has a strategic financial institutions investment portfolio which is aligned with the long-term investment objectives of the Group.

| Information on equity investments | USD'000 |
|---|---|
| Privately held | 1,116,111 |
| Quoted in an active market | 58,227 |
| Dividend income | 14,696 |
| Realised gain/ (loss) during the year | (3,265) |

The following are the categories under which equity investments are included in the capital adequacy computations as per the requirements of the CBB rules:

USD'000

| | Gross exposure | | Risk weighted exposure | | Capital Charge 12.5% | |
|---|---|---|---|---|---|---|
| | Self-finance | EIAH | Self-finance | EIAH | Self-finance | EIAH |
| Claims on Banks | - | 396,697 | - | 171,663 | - | 6,437 |
| Other Corporates Including Category 3 Investment Firms - unrated | 437,508 | - | 437,508 | - | 54,689 | - |
| Listed equity investment | 31,880 | - | 31,880 | - | 3,985 | - |
| Unlisted equity investment* | 171,328 | - | 256,991 | - | 32,124 | - |
| Significant investment in the common shares of financial entities >10% | 838 | - | 2,095 | - | 262 | - |
| Investments in unrated funds - listed | - | 26,347 | - | 26,347 | - | 988 |
| Investments in unrated funds- unlisted | - | 38,443 | - | - | - | - |
| Investment in unlisted real estate companies | 39,281 | 32,016 | 157,125 | 38,419 | 19,641 | 1,441 |
| Holdings in real estate* | - | - | - | - | - | - |
| Other Assets | - | - | - | - | - | - |
| **Total** | **680,835** | **493,503** | **885,599** | **236,429** | **110,700** | **8,866** |

**Includes amounts of risk weighted assets arising from full consolidation of Khaleeji.*

## 6.14 Geographical and sector wise break up of impairment allowances and impaired and past due accounts

USD'000

| | Geographic Wise | |
|---|---|---|
| | GCC Countries | Total |
| **Credit Impaired:** | | |
| 3 months to 1 year | 23,501 | 23,501 |
| **Less: Stage 3 impairment allowance:** | | |
| At 1 January 2024 | 3,145 | 3,145 |
| Charge during the period | (728) | (728) |
| **Impairment allowance at 30 June 2024** | **2,417** | **2,417** |
| **Carrying amount** | **21,084** | **21,084** |

USD'000

| | Sector Wise | |
|---|---|---|
| | Real Estate | Total |
| **Credit Impaired:** | | |
| 3 months to 1 year | 23,501 | 23,501 |
| **Less: Stage 3 impairment allowance:** | | |
| At 1 January 2024 | 2,802 | 2,802 |
| Charge during the period | 136 | 136 |
| **Impairment allowance at 30 June 2024** | **2,938** | **2,938** |
| **Carrying amount** | **20,563** | **20,563** |

# 7 Market risk

## 7.1 Introduction

Market risk is the risk that changes in market prices, such as foreign exchange rates, profit rates, equity prices, sukuk prices and commodity prices will affect the Bank's income 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. As a matter of general policy, the Bank does not assume trading positions on its assets and liabilities, and hence the entire balance sheet is a non-trading portfolio (banking book). The Bank has adopted a standardized approach for measurement of market risk under the CBB capital adequacy framework. The CBB's standardized approach capital computation framework requires risk weighted assets to be computed for price risk, equities position risk, Sukuk risk, foreign exchange risk and commodities risk. Hence, from a capital computation perspective the Bank's market risk measurement is limited to foreign exchange risk in the banking book. The Bank is also exposed to profit rate risk on the banking book which is managed separately.

## 7.2 Foreign exchange risk management

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank seeks to manage currency risk by continually monitoring exchange rates. The Board of Directors approves policies and strategies related to the management of FX risk. The Assets and Liabilities Committee ('ALCO') supports the Board in managing FX risk by recommending policies, setting limits and guidelines and monitoring the FX risk of the Bank on a regular basis. ALCO provides guidance for day to day management of FX risk and also approves hedging programs. The management of the day-to-day FX position of the Bank is the responsibility of the Treasury. The Treasury department shall ensure adequate FX liquidity to meet the maturing obligations and growth in assets while ensuring that all limits and guidelines set by the Board and ALCO are complied with; and shall implement hedging and other approved strategies for managing the risk. The Risk Management Department on an ongoing basis reviews the limits set and ensure that the concerned department(s) is complying with all limits set as per the risk appetite of the bank. On annual basis, the Group reports net exposures denominated in various foreign currency from various financial instruments and structural foreign currency exposure arising from unhedged equity investments in its foreign subsidiaries and investments.

The management of foreign exchange risk against net exposure limits is supplemented by monitoring the sensitivity of the Bank'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. On annual basis, the Group provides an analysis of its net foreign exchange position and its sensitivity to an increase or decrease in foreign exchange rates (assuming all other variables, primarily profit rates, remain constant) in the consolidated financial statements.

### 7.3 Capital requirements for market risk

To assess its capital adequacy requirements for market risk in accordance with the CBB capital adequacy module for Islamic Banks, the Bank adopts the standardised approach. Foreign exchange risk charge is computed based on 8% of overall net open foreign currency position of the Group.

USD'000

| Self-financed | 30 June 2024 | Maximum during the year | Minimum during the year |
|---|---|---|---|
| Foreign exchange risk - [A] | 12,128 | 12,128 | 6,103 |
| Risk weighted assets – [B] = (A*12.5) | 151,595 | 151,595 | 76,284 |
| Capital requirement – (B*12.5%) | 18,949 | 18,949 | 9,536 |

## 8 Operational risk

### 8.1 Introduction

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is an inherent part of normal business operations. The Bank has adopted the Basic Indicator Approach for measurement of operational risk under the Basel Framework and CBB capital adequacy computation framework.

### 8.2 Operational risk management

Whilst operational risk cannot be eliminated entirely, the Bank endeavors to minimize it by ensuring that a strong control infrastructure is in place throughout the organization. Various procedures and processes used to manage operational risk include effective staff training, appropriate controls to safeguard assets and records, regular reconciliation of accounts and transactions, close monitoring of risk limits, segregation of duties, and financial management and reporting. The Risk Management Department manages the framework and facilitates the process of operational risk management.

The Bank has an operational risk management framework which includes components such as Key Risk Indicators (KRIs), operational loss data and Risk & Control Self-Assessment (RCSA) across the Bank.

The Bank's definition of operational risk also incorporates legal and Sharia'a compliance risk. This is defined as an operational risk facing Islamic banks which can lead to, loss of reputation, non-recognition of income and loss of revenue. This definition excludes strategic, liquidity, credit, market and reputational risks. Whilst operational risk excludes losses attributable to traditional banking risk (credit, market and liquidity), the Bank recognises that operational risk is attached to the management of those traditional risks. For example, operational risk includes legal and compliance related risks attached to the management of credit and market risk. Operational risks are attached to the management of business as usual as well as to changes such as the introduction of new products, projects or program activities.

### 8.3 Legal compliance and litigation

The Bank has established approved policies in relation to legal, regulatory and compliance risk; and have dedicated Compliance and Legal departments in place.
All contracts, documents, etc. have to be reviewed by the legal department as well. For information on contingencies, refer Note 21 to the condensed consolidated interim financial information.

### 8.4 Shari'a compliance

The Shari'a Supervisory Board (SSB) is entrusted with the duty of directing, reviewing and supervising the activities of the Bank in order to ensure that they are in compliance with the rules and principles of Islamic Shari'a and specific fatwas, rulings and guidelines issued. The Bank also has a dedicated internal Shari'a audit function, who performs an ongoing independent review of the compliance with the fatwas and rulings of the SSB on products and processes and also reviews compliance with the requirements of the Shari'a standards prescribed by AAOIFI while the Coordination and Implementation function assists the SSB in issuing Sharia pronouncements/ resolutions about the products and services offered by the Group. The SSB reviews and approves all products and services before launching and offering to the customers and also conducts periodic reviews of the transactions of the Bank. An annual audit report is issued by the SSB confirming the Bank's compliance with Shari'a rules and principles.

### 8.5 Capital requirements for operational risk

The Bank adopts the Basic Indicator Approach to evaluate operational risk charge in accordance with the approach agreed with the CBB. The Bank's average gross income for the last three financial years is multiplied by a fixed coefficient alpha of 15% set by CBB and a multiple of 12.5x is used to arrive at the risk weighted exposure that are subject to capital charge of 12.5%.

USD'000

| | Average gross income | Risk weighted exposure | Capital charge at 12.5% |
|---|---|---|---|
| **Operational Risk** | 272,583 | 511,093 | 63,887 |

## 9 Other types of risk

### 9.1 Introduction

Apart from the risks listed in the previous sections, the Bank is also exposed to other types of risks which it identifies and manages as part of its risk management framework. Although these risks do not directly form part of the Tier 1 risks, they are identified and captured by the ICAAP under pillar II risks.

## 9.2 Liquidity risk

Liquidity risk is the inability of the Bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. This also includes the inability of the Bank to liquidate its assets at their expected prices in a reasonable period. The Group's approach to managing liquidity is to ensure that it should 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.

The Bank has a liquidity risk policy in place, which describes the roles and responsibilities of various committees, Treasury and other concerned departments in management of liquidity. The Liquidity Risk policy and Liquidity Risk appetite limits stipulates various liquidity ratios to be maintained by the Bank, as well as gap limits for time bucket of the maturity ladder.

The liquidity position is closely monitored and stressed to cover both normal and severe bank specific and market specific conditions. Daily reports cover the liquidity position of the Bank. Moreover, periodic reports are submitted to the Asset and Liability Management Committee of the Bank (ALCO) Audit & Risk Committee (ARC) and to the Board of Directors for review and strategic decision.

The following are the key liquidity ratios which reflect the liquidity position of the Group:

| Liquidity ratios | 30 June 2024 | Maximum | Minimum |
|---|---|---|---|
| Liquid assets : Total assets | 46.46% | 46.46% | 46.28% |
| Liquid assets : Total deposits | 162.00% | 168.36% | 162.00% |
| Short-term assets : Short-term liabilities | 56.58% | 56.58% | 46.55% |
| Illiquid assets : Total assets | 53.54% | 53.72% | 53.54% |

## 9.3 Management of profit rate risk in the banking book (PRRBB)

Profit rate risk is the exposure of a bank's financial condition to adverse movements in profit rates. Changes in profit rates affect a bank's earnings by changing its net profit income and the level of other profit-sensitive income and operating expenses. Changes in profit rates also affect the underlying value of the bank's assets, liabilities, and off-balance-sheet (OBS) instruments because the present value of future cash flows change when profit rates change.
The sources of profit rate risk relevant for Bank's balance sheet size and complexity comprises mainly of:

- Repricing Risk: The primary form of profit rate risk arises from timing differences in the maturity (for fixed-rate) and repricing (for floating-rate) of bank assets, liabilities, and OBS positions.
- Basis risk: Another important source of profit rate risk arises from imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar repricing characteristics. When profit rates change, these differences can give rise to unexpected changes in the cash flows and earnings spread between assets, liabilities and OBS instruments of similar maturities or repricing frequencies.

- Yield Curve Risk: Yield curve risk is the risk associated with either a flattening or steepening of the yield curve. Mismatch in maturity or repricing dates of assets, liabilities and off balance sheet items expose the Bank to risks that arises from non-parallel shift in yield curve.

- Optionality risk: This risk arises from the discretion that a bank's customers and counterparties have in respect of their contractual relations with the bank in the form of financial instruments. Embedded options are diverse and bank-specific and include prepayment risk on fixed rate loans and deposits and switching risk on non-interest bearing current accounts.

The Board is responsible for the overall management of the profit rate risk. ALCO helps the Board in determining the borrowing and funding strategy of the Bank in order to optimize risk return trade off. It supports the Board in managing profit rate risk by recommending policies, setting limits and guidelines and monitoring the risk on a regular basis.

The objective of profit rate risk measurement is to maintain the Bank's profit rate risk exposure within risk appetite limits. The process of establishing profit rate risk limits and describing the risk taking guidelines provides the means for achieving the objective. Such a process defines the boundaries for the level of profit rate risk for the Bank. The limit structure also ensures that positions that exceed certain predetermined levels receive prompt management attention.

The limit system enables management to control profit rate risk exposures, initiate discussion about opportunities and risks, and monitor actual risk taking against predetermined risk tolerance.

### 9.3.1 Management of profit rate risk in the banking book (PRRBB)

A summary of the Bank's profit rate gap position at 30 June 2024 is as follows:

The management of profit rate is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered include a 100 basis points (bps) parallel fall or rise in yield curves and a 50 bps rise or fall of all yield curves.

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 below:

| | | USD '000 |
|---|---|---|
| | 100bp parallel increase/decrease | 50bps increase/decrease |
| At 30 June 2024 | ±11,122 | ±5,561 |
| Average for the period | ±11,919 | ±5,960 |
| Maximum for the period | ±12,717 | ±6,358 |
| Minimum for the period | ±11,122 | ±5,561 |

| 200 bps parallel increase / (decrease) | USD '000 |
|---|---|
| At 30 June 2024 | ±22,244 |
| Average for the period | ±23,839 |
| Maximum for the period | ±25,434 |
| Minimum for the period | ±22,244 |

## 9.4 Concentration risk

This risk arises from exposure to a common set of factors that can produce losses large enough to threaten the Bank's health or ability to maintain its core business. Concentration risk can arise from exposure to specific classes of assets, sector, country, revenue streams, counterparty, a group of counterparties, etc. Concentration risk is mitigated by limits, diversification by assets, geography counterparty quality etc.

## 9.5 Counterparty credit risk

Counterparty credit risk is the risk that a counterparty to a contract in the profit rate, foreign exchange, equity and credit markets defaults prior to maturity of the contract. In addition to the identified credit risk exposures the Bank's counterparty credit risk from markets as such is limited to the fair value of contracts of foreign exchange risk management instruments the overall exposure to which is usually not significant. For other credit market transactions (primarily inter-bank placements), the Bank has established a limit structure based on the credit quality (assessed based on external rating) of each counter party bank to avoid concentration of risks for counterparty, sector and geography. The Bank is constantly reviewing and monitoring the position to ensure proper adherence to the limits and defined policies of the Bank. As at 30 June 2024 the Bank has foreign exchange gain amounting to USD 896 thousand on the contract disclosed as derivative asset (refer to note 8 of condensed consolidated interim financial information), notional amount of foreign exchange forward contract is USD 1,578 million. The contract has no impact on market risk as SAR is pegged to USD.

## 9.6 Reputational risk (non-performance risk)

Reputation risk is the risk that negative perception regarding the Bank's business practices or internal controls, whether true or not, will cause a decline in the Bank's investor base, lead to costly litigation that could have an adverse impact on liquidity or capital of the Bank. Being an Islamic Investment Bank, reputation is an important asset and among the issues that could affect the Bank's reputation is the inability to exit from investments, lower than expected returns on investments and poor communication to investors. A well developed and coherently implemented communication strategy helps the Bank to mitigate reputational risks.

## 9.7 Displaced commercial risk

Displaced Commercial Risk (DCR) refers to the market pressure to pay returns that exceed the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared with competitor's rates. The returns to investors on the funds are based on returns earned from short-term placements and hence the Bank is not exposed to a significant repricing risk or maturity mismatch risk in relation to these accounts. In relation to the DCR that may arise from its investment banking and restricted investment account products, the risk is considered limited as the Bank does not have any obligation to provide fixed or determinable returns to its investors. The Bank is currently in the process of drafting a DCR policy, however the Bank constantly monitors all potential risks that may arise from all such activities as part of its reputational risk management.

### 9.8 Other risks

Other risks include strategic, fiduciary risks, regulation risks etc. which are inherent in all business activities and are not easily measurable or quantifiable. However, the Bank has policies and procedure to mitigate and monitor these risks. The Bank's Board is overall responsible for approving and reviewing the risk strategies and significant amendments to the risk policies. The Bank senior management is responsible for implementing the risk strategy approved by the Board to identify, measure, monitor and control the risks faced by the Bank. The Bank as a matter of policy regularly reviews and monitors financial and marketing strategies, business performance, new legal and regulatory developments and its potential impact on the Bank's business activities and practices.

## 10 ICAAP considerations

The ICAAP incorporates a review and evaluation of risk management and capital relative to the risks to which the bank is exposed. GFH has developed an ICAAP which involves identification and measurement of risks to maintain an appropriate level of internal capital in alignment to the Bank's overall risk profile and business plan. An ICAAP policy and framework has been developed to address major components of the Bank's risk management, from the daily management of material risks including risk types which are not covered under Pillar I including liquidity risk, profit rate risk in the banking book, concentration risk, strategic risk and reputational risk etc. The Bank uses the ICAAP document for internal capital monitoring purposes.

## 11 Product disclosures

### 11.1 Product descriptions and consumer awareness

The Bank offers a comprehensive mix of Shari'a compliant investment banking products primarily to high net worth and sophisticated investors. This includes a range of innovative structured investment products like funds, repackaged products and structured restricted investment accounts. The investment department of the Bank has expertise in creating innovative high-end and value-added products offering a wide range of structures, expected returns, tenors and risk profiles.

Proposal for any new product is initiated by individual business lines within the Bank. The Management Investment Committee of the Bank reviews such proposal to ensure that the new product/ business is in line with the Bank's business and risk strategy. All new products will need the approval of the respective authorities as per the Delegated Authority Limits (DAL) as well as the Shari'a Supervisory Board of the Bank.

### 11.2 Customer complaints

GFH is dedicated to providing a high standard of service and to maintaining its reputation for honesty and integrity in all its dealings. The Bank takes all disputes and complaints from its customers and business partners very seriously. The Bank has a comprehensive policy on handling of external complaints, approved by the Board. All employees of the Bank are aware of and abide by this policy. The complaint handling process is disclosed in the Bank's website and also in all printed prospecting materials. Complaints are normally investigated by persons not directly related to the subject matter of the complaint.

## 11.3 Equity of Investment Account Holders (EIAH)

The current EIAH deposits have been accepted on a case-by-case basis considering the Bank's relationship with its customers.

The EIAH holder authorises the Bank to invest the funds in any investments approved by the Bank's Shari'a Board without any preconditions. All EIAH accounts are on profit sharing basis, but the Bank does not guarantee any particular level of return. In accordance with the principles of Shari'a, the entire investment risk is on the investor. Any loss arising from the investment will be borne by the customer except in the case of the Bank's negligence. The Bank charges a Mudarib fee as its share of profit. Early withdrawal is at the discretion of the Bank and is subject to the customer giving reasonable notice for such withdrawal and agreeing to forfeit a share of the profit earned on such account.

The Bank has only one type of financing for URIA which is Murabaha. Currently, the Bank comingles the EIAH funds with its funds for investments only into interbank placements and hence is not subject to any significant profit re-pricing or maturity mismatch risks. The Bank has an element of displaced commercial risk on EIAH which is mitigated by setting up and maintaining an appropriate level of Profit Equalisation Reserve (PER) and Investment Risk Reserve (IRR) to smoothen return to EIAH holders. Profit Equalisation Reserve (PER) is created by allocations from gross income of the Mudarabah before adjusting the Mudarib (Bank) share. Investment Risk Reserves (IRR) comprises amounts appropriated out of the income of investment account holders after deduction of the Mudarib share of income.

Administrative expenses incurred for management of the funds are borne directly by the Bank and are not charged separately to investment accounts. All terms of the EIAH are agreed upfront with the customers and form part of the agreement with the customer. Till date, the Bank has not made any withdrawals on PER or IRR. Any movements on these accounts are therefore only on account of additional reserves added.

For the qualitative disclosures pertaining to EIAH of Khaleeji, please refer to the public disclosures of Khaleeji.

The quantitative disclosures below are pertaining to the EIAH from the Bank.

The details of Bank's income distribution to IAH holders for the last five years are given below:

USD'000

| | June 2024 | 2023 | 2022 | 2021 | 2020 |
|---|---|---|---|---|---|
| Allocated income to IAH | 43,304 | 63,926 | 2,597 | 11,548 | 15,330 |
| Distributed profit | 43,304 | 63,926 | 2,597 | 11,548 | 15,330 |
| Mudarib fees* | 0 | 0.2 | 0.3 | 0.3 | 0.3 |
| Average rate of return earned | 1.77% | 4.42% | 4.44% | 5.77% | 5.14% |
| IAH[1] | 1,445,867 | 1,445,867 | 58,548 | 200,234 | 176,273 |
| Profit Equalisation Reserve (PER) | 9 | 9 | 9 | 9 | 9 |
| Investment Risk Reserve (IRR) | 6 | 6 | 6 | 6 | 6 |
| Profit Equalisation Reserve-to-IAH (%) | - | - | - | - | - |
| Investment Risk Reserve-to-IAH (%) | - | - | - | - | - |

*[1] Represents average balance*
** Includes contribution towards deposit protection scheme*

## 11.4 Restricted investment accounts

The Bank offers Restricted Investment Accounts ("RIAs") to both financial institutions and high net worth individuals in the GCC. All RIA product offering documents ("Offering Document") are drafted and issued with input from the Bank's Investment Banking, Shari'a, Financial Control, Legal and Risk Management Departments to ensure that the Investors have sufficient information to make an informed decision after considering all relevant risk factors. The Bank has guidelines for the development, management and risk mitigation of its' RIA investments and for establishment of sound management and internal control systems to ensure that the interests of the investment account holders are protected at all times. Wherever it is necessary for the Bank establishes Special Purpose Vehicles (SPVs) for management of the investment. The Bank has a Board approved SPV Governance framework in place to equip the Board in ensuring that the management of such SPVs are conducted in a professional and transparent manner.

The Bank is aware of its fiduciary responsibilities in management of the RIA investments and has clear policies on discharge of these responsibilities. The Bank considers the following in discharge of its fiduciary responsibilities:

- Ensuring that the investment structure, Offering Documents and the investment itself are fully compliant with Islamic Shari'a principles and the CBB regulations;
- Appropriately highlighting to the Investors, as part of the RIA Offering Document, of all the relevant and known risk factors and making it clear that the investment risk is to be borne by the Investor before accepting the investment funds;

- Completing all necessary legal and financial due diligence on investments undertaken on behalf of the Investors with the same level of rigor as the Bank requires for its' own investments;
- Ensuring that the funds are invested strictly in accordance with the provisions outlined in the Offering Documents;
- Preparing and disseminating periodical investment updates to Investors on a regular basis during the tenor of the investment;
- Distributing the capital and profits to the Investor in accordance with the terms of the offering document; and;
- In all matters related to the RIA, RIA SPV(s) and the investment, act with the same level of care, good faith and diligence as the Bank would apply in managing its own investments.

Within the Bank, the abovementioned responsibilities and functions are provided, managed and monitored by qualified and experienced professionals from the Investment Banking, Shari'a, Financial Control, Legal, Investment Administration and the Risk Management Departments with Internal Audit oversight.

The restricted investment accounts primarily represent the investments in the projects promoted by the Bank and managed on a portfolio basis on behalf of investors.

For the qualitative disclosures pertaining to RIA's of Khaleeji, please refer to the public disclosures of Khaleeji.

## 12 Other Disclosures

### 12.1 Details of Penalties Paid to CBB

As at June 30, 2024, no penalties paid to CBB.

### 12.2 Earnings prohibited by Sharia

The Group is committed to avoid recognizing 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 purposes. The amount that was disposed to purification during first half of 2024 was USD 13,092. In addition, as at June 30 2024, there were no Sharia violations that were identified and reported.