

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

Al Baraka Islamic Bank B.S.C. (c)

**REPORT OF THE FATWA AND SHARIA  
SUPERVISORY BOARD,  
BOARD OF DIRECTORS' REPORT,  
INDEPENDENT AUDITORS' REPORT TO THE  
CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2025 (AUDITED)

**Date: 20<sup>th</sup> Shaaban 1446 A.H.**  
**Corresponding to: 8<sup>th</sup> February 2026**

In the Name of Allah, the Most Gracious, the Most Merciful

**Report of the Fatwa and Sharia Supervisory Board  
from 01.01.2025 to 31.12.2025**

**To the Shareholders of alBaraka Islamic Bank**  
Praise be to Allah, the Almighty, and Peace and Blessings be upon our Prophet Muhammad, his Family, and Companions.

In accordance with the General Assembly Resolution appointing the Sharia Supervisory Board of Al Baraka Islamic Bank and entrusting us with this task, we present to you the following report:

We have independently and under no duress reviewed the applicable principles, contracts, financial reports, relating to the Bank's activities and products offered by Al Baraka Islamic Bank during the period from January 1<sup>st</sup> until the end of December 2025. We have done the necessary reviewing to express an opinion as to whether the Bank has complied with the provisions and principles of Islamic Sharia as well as the Fatwa, resolutions and guidelines that we have issued within this period, in addition to reviewing the report issued by IESCA "Deloitte & Touche - M.E".

We also have monitored the procedures of the Bank on the basis of testing each type of transactions, either directly or through the Sharia Officer or the Sharia Auditor. This was achieved through convening 4 meetings of SSB and reviewing: ("278" documents), (audits on "86" executed transactions), (Sharia training program for staff, trainees), ("353" new advertisement and promotional material).

Additionally we carried out the necessary planning and arrangements in order to obtain all the information and explanations that we deemed essential to provide us with sufficient evidence to give reasonable assurance that the Bank did not violate the provisions and principles of Islamic Sharia.

**In our opinion:**

1. The contracts, transactions and services entered into and provided by the Bank during the financial year ended 31<sup>st</sup> December 2025 which we reviewed (except those we decided as a non-halal income) were made in compliance with the provisions and principles of Islamic Sharia.
2. The management has committed itself to segregate all the unintended gains obtained from sources or means prohibited by the provisions and principles of Islamic Sharia and disburse of it towards charitable causes under the supervision of the Sharia Supervisory Board.
3. The allocation of profits and charging of losses related to investment accounts conform to the basis that has been approved by us in accordance with Sharia provisions and principles.
4. The management is not authorized to pay the Zakat on behalf of the shareholders, and as such the responsibility for payment of the Zakat lies with the shareholders in accordance with the Zakat calculation approved by the Sharia Supervisory Board, which is equivalent to USD 0.133 per share. In case the shareholders authorize the management to pay the zakat, the management will distribute it through the Zakat and Charitable Donations Committee at the bank.

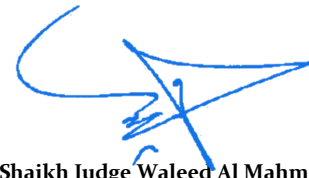
We pray to Allah Almighty to guide us to the righteous path.



**Shaikh Esam Ishaq**  
**Chairman of Sharia Supervisory Board**



**Shaikh Dr. Nedham Yaqoobi**  
**Member of sharia Supervisory Board**



**Shaikh Judge Waleed Al Mahmood**  
**Member of sharia Supervisory Board**



**Mohamed Jasim Ebrahim**  
**Sharia Officer & Secretary of Sharia Supervisory Board**

# **Al Baraka Islamic Bank B.S.C. (Closed)**

## **Board of Directors' Report**

### **For the year ended 31 December 2025**

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**In the name of Allah, the most beneficent, the most merciful.**

Praise be to Allah, Lord of the Worlds, and prayers and peace be upon the last Apostle and Messenger Prophet Mohamed (Peace be upon him) and his family and companions.

**Ladies and gentlemen, distinguished shareholders,**

On behalf of the Board of Directors, it is my pleasure to present the annual report of Al Baraka Islamic Bank and its subsidiary (the "Group") for the financial year ended 31 December 2025.

#### **Economic Review**

In 2025, the global economy showed cautious optimism, with modest recovery amid persistent structural challenges. The IMF projected global GDP growth at 3.0%, while the UN estimated 2.8%, reflecting stable yet uneven progress. Growth was supported by fiscal expansion, a weaker U.S. dollar, and a rebound in trade, especially in emerging markets. The U.S. economy remained resilient, driven by strong consumer spending and investment in AI and clean technology. The Federal Reserve cut interest rates by 75 basis points to balance inflation control with economic stimulus, easing pressure on housing and consumer finance. The Eurozone faced inflation and energy challenges but achieved modest growth, aided by rate cuts and investments in digital and green sectors. Germany and France saw gains from innovation, while Spain and Italy benefited from a tourism revival. Asia's emerging markets led global growth through industrial output and innovation, though external risks persisted. Latin America posted mixed results, with commodity exporters performing better than fiscally constrained peers.

In 2025, GCC economies maintained solid growth, supported by stable oil prices and diversification. While oil revenues ensured fiscal stability, member states expanded investments in tourism, logistics, finance, and renewable energy. Structural reforms and digital transformation projects advanced across the region, with countries like Saudi Arabia and the UAE leading in infrastructure and innovation. The bloc also made strides in green energy and private sector development, reinforcing its resilience and positioning the GCC as a dynamic, diversified economic hub.

In 2025, Bahrain's economy maintained steady growth, with a projected GDP increase of 3% and non-oil sectors contributing 85.9% of total output. The government's diversification strategy continued to yield results, driven by investments in infrastructure, tourism, financial services, and technology. Major projects in transportation, housing, and sustainable utilities enhanced living standards and attracted foreign investment. Stable oil revenues supported fiscal stability, while Bahrain's growing role as a regional hub for logistics and innovation reinforced its economic resilience and long-term development trajectory.

Pakistan's economy showed signs of stabilization following a \$7 billion IMF bailout in 2024, which boosted investor confidence and lifted the Pakistan Stock Exchange. The government launched a five-year economic plan targeting 6% annual growth and \$60 billion in exports, focusing on industrial development and private sector engagement. However, challenges such as high poverty and low per capita income persist.

# **Al Baraka Islamic Bank B.S.C. (Closed)**

## **Board of Directors' Report**

### **For the year ended 31 December 2025**

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#### **Performance Review**

The financial year 2025 marked a transformative phase for the Bank, driven by a renewed strategic focus and a strong commitment to addressing key challenges with resilience amid a complex market environment. The effective implementation of targeted initiatives and responsive measures began to yield tangible results, evident in enhanced growth, operational efficiency, and risk optimization. The Bank's financial position expanded by 13%, rising from USD 2,574 million as of 31 December 2024 to USD 2,901 million by year-end 2025. This growth was fuelled by customer-centric policies, strengthened teams, expansion into new markets and business segments, and a broadened product portfolio aligned with evolving client needs. Notably, growth was recorded across all business lines, geographic segments, and operational areas. Total deposits rose by 14% to USD 2,570 million, by closing of 2025 (2024: USD 2,250 million), reflecting the Bank's strong presence in domestic and regional markets. Financing assets increased by 18% to USD 1,401 million by 2025, up from USD 1,184 million in 2024, driven by strategic partnerships and targeted campaigns. Investments also grew to USD 1,011 million, in year 2025, from prior year levels of USD 1,027 million, primarily due to increased participation in securities issued by domestic sovereign entities. In delivering this robust growth, the Bank remained unwavering in its commitment to prudent risk management, ensuring that performance gains were not achieved at the expense of financial soundness. This is evidenced by the continued strengthening and maintenance of key risk metrics, including capital adequacy ratios, liquidity coverage, and asset quality indicators — all of which reflect a well-balanced and resilient risk profile. The growth in the Bank's financial position during 2025 translated into a corresponding improvement in operating revenues, which increased by 3.1% to USD 79.8 million, up from USD 77.4 million in the previous year. Despite the expansion of operations—including the opening of 11 new branches in Pakistan—and prevailing inflationary pressures, the Bank maintained strong cost discipline, limiting the growth in operating expenses to just 3.5%. Additionally, robust remedial recovery efforts led to significant write-backs, effectively offsetting the impact of new provisions, which remained below prior-year levels. As a result, net losses were substantially reduced by 61%, declining from USD 20.2 million in 2024 to USD 7.8 million by 31 December 2025.

Eventually, the significant improvement in operating performance for the financial year ending 31 December 2025 can be attributed to the close oversight of the Board of Directors, patronage of our holding company and parent (Al Baraka Group), effective strategic repositioning, continuous efforts to strengthen and diversify the Bank's financial position, and the unwavering dedication of the entire team.

#### **Credit Rating**

The Group's creditworthiness and financial stability continued to be recognized by leading rating agencies. The Islamic International Rating Agency (IIRA) reaffirmed the Group's international credit rating at the investment-grade level of BB (long-term) / A3 (short-term), with a stable outlook. It also maintained the national scale rating at BBB+ (long-term) / A3 (short-term), reflecting consistency in performance and risk management. Notably, VIS Credit Rating Company Ltd. in Pakistan upgraded the Group's national credit rating to AA- (long-term) / A1 (short-term), citing improved financial fundamentals and operational resilience. These ratings underscore the Group's strong capacity to meet its financial obligations, underpinned by a sound capital base, prudent risk practices, and a robust compliance and governance framework. They also reflect growing market confidence in the Group's strategic direction, operational integrity, and long-term sustainability.

# **Al Baraka Islamic Bank B.S.C. (Closed)**

## **Board of Directors' Report**

### **For the year ended 31 December 2025**

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#### **Corporate and Social Responsibility**

In 2025, the Bank remained steadfast in its commitment to sustainability and social responsibility, which is central to its strategic framework aimed at uplifting communities and enhancing quality of life. In alignment with Bahrain's Commercial Companies Law, which mandates the disclosure of environmental and social performance, the Bank actively supported initiatives in health, education, and sustainable environmental practices. This year, the Bank launched the first training program dedicated to autistic youth in collaboration with the Aalia Rehabilitation Centre, emphasizing its commitment to inclusivity. Additionally, the Bank allocated sponsorship funds for mangrove incubators in collaboration with the Supreme Council for the Environment. This allocation is vital for ensuring compliance with emerging regulations and supporting the Bank's commitment to environmental, social, and governance standards. The Bank made a significant shift in practices by adopting NFC business cards instead of traditional ones, reflecting its dedication to sustainable and innovative solutions. Recognizing the importance of empowering women, the Bank sponsored "Threads of Gold," a national cultural and creative celebration honoring Bahraini Women's Day and Bahraini National Day, also known as "Raedat." Furthermore, the Bank hosted the Sustainability Forum Middle East, gathering experts for high-level discussions on marine ecosystems and climate action, thereby enhancing its role as a leader in sustainability. The Bank's support for youth development continued through training programs with INJAZ Bahrain, and it maintained active participation in key Islamic finance forums, including those organized by AAOIFI, reinforcing its role as a responsible and engaged corporate citizen.

#### **Future Outlook**

As the Bank enters 2026, it does so with renewed vigour and a sharpened strategic mandate to accelerate sustainable growth, deepen customer engagement, and reinforce its leadership in an increasingly digital and competitive landscape. Building on the momentum of 2025, the Bank will focus on expanding its outreach through a dual-channel strategy—scaling digital platforms while strengthening high-touch conventional networks—to ensure inclusive access and seamless service delivery. Key priorities include the rollout of AI-driven personalization, the enhancement of core banking system/ infrastructure, and the development of ESG-aligned financial products to meet the evolving expectations of our diverse clientele. We will continue to leverage existing strategic alliances while actively cultivating new partnerships, particularly in the fintech and sustainability ecosystems, to drive innovation and market expansion. In parallel, we remain committed to fortifying our risk management framework, embedding advanced analytics for proactive oversight, and accelerating the automation of core processes to unlock greater agility and cost efficiency. Above all, safeguarding and growing the funds entrusted to us—guided by sound prudential standards and in full compliance with Sharia principles—will remain our highest priority as we chart a resilient and forward-looking path into the future.

#### **Acknowledgment**

In conclusion, on behalf of the Board of Directors, I would like to express my sincere gratitude and appreciation to His Majesty King Hamad bin Isa Al Khalifa, King of the Kingdom of Bahrain, and to His Royal Highness Prince Salman bin Hamad Al Khalifa, Crown Prince and Prime Minister, for their unwavering support for the advancement of the banking sector in the Kingdom of Bahrain.

# **Al Baraka Islamic Bank B.S.C. (Closed)**

## **Board of Directors' Report**

### **For the year ended 31 December 2025**

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Our sincere gratitude to the Central Bank of Bahrain, Ministry of Industry and Commerce, the State Bank of Pakistan, and all government agencies for their continued assistance and support. We also express our gratitude to our shareholders, valued customers and business partners for their trust and loyalty, while we extend our sincere regards to our parent company and Sharia Supervisory Board for their patronage.

A special thanks and appreciation goes to our employees for the hard work and dedication that supported the Group throughout the challenges and difficulties it faced.

#### **Regulatory Disclosures**

As part of the Group's commitment towards its shareholders, and in compliance with the provisions of the Commercial Companies Law promulgated by Decree No. (21) of 2001 and its amendments and pursuant to the provisions of Article No. (188) thereto, and in compliance with the Executive Regulations of the Commercial Companies Law issued by the order of the Minister of Industry and Commerce No. (6) of 2002 and its amendments and pursuant to the provisions of Article No. (125) thereto, we are pleased to attach herewith tables that shows the remuneration of the Board of Directors and the Executive Management for the year ended 31 December 2025:

**Al Baraka Islamic Bank B.S.C. (Closed)**  
**Board of Directors' Report**  
**For the year ended 31 December 2025**

**Details of the Board of Directors Remunerations:**

*All amounts in Bahraini Dinars (unless otherwise stated)*

Name	Fixed Remunerations				Variable Remunerations <sup>(1)</sup>						Aggregate amount (excluding expenses allowance)	End of service award <sup>(2)</sup>	Expenses allowance
	Remunerations of the Chairman and Board <sup>(2)</sup>	Total allowance for attending Board and committee meetings	Salaries	Others	Total	Remunerations of the Chairman and Board	Bonus	Incentive plans	Others	Total			
<b>First: Independent Directors:</b>													
1. Sabah Khalil Almoayyed	12,000	12,441	-	-	24,441	-	-	-	-	-	-	24,441	1,700
2. Akram Yassin	12,000	13,572	-	-	25,572	-	-	-	-	-	-	25,572	-
3. Abdulrahman Abdulla Al Sayed	12,000	12,441	-	-	24,441	-	-	-	-	-	-	24,441	-
4. Adnan Abdulla Al Bassam	12,000	13,572	-	-	25,572	-	-	-	-	-	-	25,572	-
<b>Second: Non-Executive Directors</b>													
5. Dr. Khalid Abdulla Ateeq	12,000	11,310	-	-	23,310	-	-	-	-	-	-	23,310	-
6. Abdulla Tarrar Edham	12,000	12,441	-	-	24,441	-	-	-	-	-	-	24,441	-
7. Masood Ahmed Albastaki	12,000	11,310	-	-	23,310	-	-	-	-	-	-	23,310	-
<b>Third: Executive Directors</b>													
8. Housseem Ben Haj Amor	12,000	9,048	-	-	21,048	-	-	-	-	-	-	21,048	-
9. Abdulmalek Shehadeh Mezher	12,000	11,310	-	-	23,310	-	-	-	-	-	-	23,310	-
<b>TOTAL</b>	<b>108,000</b>	<b>107,445</b>	-	-	<b>215,445</b>	-	-	-	-	-	-	<b>215,445</b>	<b>1,700</b>

**Al Baraka Islamic Bank B.S.C. (Closed)  
Board of Directors' Report  
For the year ended 31 December 2025**

**Details of the Executive Management Remunerations:**

*All amounts in Bahraini Dinars (unless otherwise stated)*

Executive Management	Total paid salaries and allowances	Total paid remuneration (Bonus) <sup>(3)</sup>	Any other cash/ in-kind remuneration	Aggregate Amount
Remuneration of top 6 executives (including the Chief Executive Officer and the Chief Financial Officer)	647,557	-	104,857	752,414

(1) The Group did not pay any variable remunerations or end-of-service awards during the year.  
(2) Recommended remunerations for the year ended 31 December 2025 to be paid after securing all necessary approvals and after been approved by the Annual General Meeting.  
(3) No bonus payment as at 31 December 2025.



**Sabah Khalil Almoayyed**  
Chairman  
Al Baraka Islamic Bank B.S.C. (c)  
Manama, Kingdom of Bahrain  
24 February 2026



**Dr. Adel Abdulla Salem**  
Chief Executive Officer  
Al Baraka Islamic Bank B.S.C. (c)  
Manama, Kingdom of Bahrain  
24 February 2026



## *Independent auditor's report to the shareholders of Al Baraka Islamic Bank B.S.C. (c)*

### *Report on the audit of the consolidated financial statements*

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#### *Our opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Al Baraka Islamic Bank B.S.C. (c) (the "Bank") and its subsidiary (together the "Group") as at 31 December 2025, its consolidated financial performance, its consolidated cash flows and consolidated statement of changes in off-balance sheet assets under management for the year then ended in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI").

#### **What we have audited**

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2025;
- the consolidated statement of income for the year then ended;
- the consolidated statement of other comprehensive income for the year then ended;
- the consolidated statement of income and attribution related to quasi-equity for the year ended;
- the consolidated statement of changes in owners' equity for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in off-balance sheet assets under management for the year then ended; and
- the notes to the consolidated financial statements which include significant accounting policies and other explanatory information.

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#### *Basis for opinion*

We conducted our audit in accordance with the Auditing Standards for Islamic Financial Institutions issued by AAOIFI. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

We are independent of the Group in accordance with AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions (AAOIFI Code) as applicable to audits of financial statements of public interest entities and the ethical requirements that are relevant to our audit of the consolidated financial statements in the Kingdom of Bahrain. We have fulfilled our other ethical responsibilities in accordance with these requirements and the AAOIFI Code.

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## *Independent auditor's report to the shareholders of Al Baraka Islamic Bank B.S.C. (c) (continued)*

### *Report on the audit of the consolidated financial statements (continued)*

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#### *Other information*

The Board of Directors is responsible for the other information. The other information comprises the Report of the Fatwa and Sharia Supervisory Board and the Board of Directors' Report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report and the Annual Report which is expected to be made available to us after that date.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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#### *Responsibilities of those charged with governance for the consolidated financial statements*

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

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the FAS and the Bahrain Commercial Companies Law number (21) of 2001, as amended (the "Commercial Companies Law"), the Central Bank of Bahrain ("CBB") Rulebook (Volume 2) and for such internal control as the Board of Directors determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, i.e., the Board of Directors, are responsible for overseeing the Group's financial reporting process.



## *Independent auditor's report to the shareholders of Al Baraka Islamic Bank B.S.C. (c) (continued)*

### *Report on the audit of the consolidated financial statements (continued)*

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

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

As part of an audit in accordance with the Auditing Standards for Islamic Financial Institutions issued by AAOIFI, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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



## *Independent auditor's report to the shareholders of Al Baraka Islamic Bank B.S.C. (c) (continued)*

### *Report on the audit of the consolidated financial statements (continued)*

#### *Auditor's responsibilities for the audit of the consolidated financial statements (continued)*

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

#### *Report on other legal and regulatory and Sharia' requirements*

As required by the Commercial Companies Law and the CBB Rulebook (Volume 2), we report the following:

- i. The Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- ii. The financial information contained in the Report of the Fatwa and Sharia Supervisory Board and the Board of Directors' Report is consistent with the consolidated financial statements;
- iii. Nothing has come to our attention which causes us to believe that the Bank has, during the year, breached any of the applicable provisions of the Commercial Companies Law, the CBB Rulebook (Volume 2), the Central Bank of Bahrain and Financial Institutions Law, and CBB directives or the items of its Memorandum and Articles of Association that would have a material adverse effect on its activities for the year ended 31 December 2025 or its financial position as at that date; and
- iv. Satisfactory explanations and information have been provided to us by the Board of Directors in response to all our requests.

Further, we report that the Bank has complied with the Islamic Sharia' Principles and Rules as determined by the Sharia' Supervisory Board of the Group during the year under audit.

Elias Abi Nakhoul

Partner's registration number: 196

PricewaterhouseCoopers M.E Limited

Manama, Kingdom of Bahrain

24 February 2026

**Al Baraka Islamic Bank B.S.C. (c)****CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

At 31 December 2025

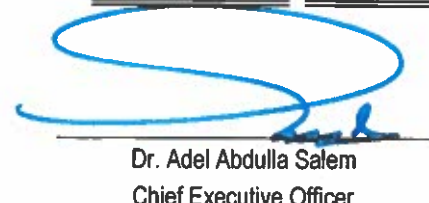
		2025	2024
	Notes	BHD '000	BHD '000
<b>ASSETS</b>			
Cash and balances with banks and financial institutions	3	58,319	58,986
Receivables	4	259,146	177,556
Ijara muntahia bittamleek and ijara receivables	5	216,207	217,460
Musharakat	6	117,634	74,358
Investments	7	377,729	377,729
Investment in joint venture	8	-	6,511
Investments in real estate	9	3,247	2,911
Premises and equipment	10	30,257	29,920
Intangibles and goodwill	11	9,185	8,251
Other assets	12	22,092	16,535
<b>TOTAL ASSETS</b>		<b>1,093,816</b>	<b>970,217</b>
<b>LIABILITIES, QUASI EQUITY AND OWNERS' EQUITY</b>			
<b>Liabilities</b>			
Current accounts		126,860	109,954
Murabaha and other payables		-	45,939
Other liabilities	13	46,264	40,337
<b>Total liabilities</b>		<b>173,124</b>	<b>196,230</b>
<b>QUASI EQUITY</b>			
Participatory investment accounts	14	842,212	692,335
Subordinated mudaraba	15	2,347	2,361
<b>Total quasi equity</b>		<b>844,559</b>	<b>694,696</b>
<b>Owners' equity</b>			
Share capital	16	57,100	57,100
Perpetual equity-type instruments		36,192	36,192
Reserves		(8,307)	(9,074)
Accumulated losses		(18,773)	(14,638)
<b>Equity attributable to parent's shareholders</b>		<b>66,212</b>	<b>69,580</b>
Non-controlling interests		9,921	9,711
<b>Total owners' equity</b>		<b>76,133</b>	<b>79,291</b>
<b>TOTAL LIABILITIES, QUASI EQUITY AND OWNERS' EQUITY</b>		<b>1,093,816</b>	<b>970,217</b>
<b>OFF-BALANCE SHEET ITEMS:</b>			
<b>ASSETS UNDER MANAGEMENT</b>			
		464,558	339,724
<b>CONTINGENCIES AND COMMITMENTS</b>			
	17	96,332	74,088



Sabah Khalil Al Moayyed  
Chairperson



Akram Yassin  
Vice Chairman



Dr. Adel Abdulla Salem  
Chief Executive Officer

The attached explanatory notes 1 to 35 form part of these consolidated financial statements.

**Al Baraka Islamic Bank B.S.C. (c)**  
**CONSOLIDATED STATEMENT OF INCOME**  
For the year ended 31 December 2025

	Notes	2025 BHD '000	2024 BHD '000
Income from financing	18	38,257	44,654
Income from investments	19	29,407	40,114
Share of income from investment in joint venture	8	-	220
Income from banking services	20	3,093	2,611
Other income	21	3,754	3,046
Group's mudarib / agency fee from off-balance assets under management		47	51
<b>TOTAL INCOME</b>		<b>74,558</b>	<b>90,696</b>
Cost of murabaha and other payables		(1,253)	(8,453)
<b>TOTAL OPERATING INCOME BEFORE CONTRIBUTION TO QUASI EQUITY</b>		<b>73,305</b>	<b>82,243</b>
Net income attributable to quasi-equity		(43,223)	(53,076)
<b>TOTAL OPERATING INCOME</b>		<b>30,082</b>	<b>29,167</b>
<b>OPERATING EXPENSES</b>			
Staff cost		(12,496)	(12,347)
Depreciation and amortization		(4,342)	(4,316)
Other operating expenses	22	(13,626)	(12,771)
<b>TOTAL OPERATING EXPENSES</b>		<b>(30,464)</b>	<b>(29,434)</b>
<b>NET OPERATING LOSS</b>		<b>(382)</b>	<b>(267)</b>
Reversals / (allowances) for impairment - net	23	507	(1,813)
<b>NET INCOME / (LOSS) BEFORE TAXATION</b>		<b>125</b>	<b>(2,080)</b>
Taxation	24	(3,082)	(5,520)
<b>LOSS FOR THE YEAR</b>		<b>(2,957)</b>	<b>(7,600)</b>
Attributable to:			
Equity of the parent's shareholders		(4,067)	(9,695)
Non-controlling interests		1,110	2,095
		<b>(2,957)</b>	<b>(7,600)</b>

  
Sabah Khalil Al Moayyed  
Chairperson

  
Akram Yassin  
Vice Chairman

  
Dr. Adel Abdulla Salem  
Chief Executive Officer

The attached explanatory notes 1 to 35 form part of these consolidated financial statements.

**Al Baraka Islamic Bank B.S.C. (c)****CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME**

For the year ended 31 December 2025

	<b>2025</b>	2024
	<b>BHD '000</b>	BHD '000
Loss for the year	<b>(2,957)</b>	(7,600)
<b>Other comprehensive income</b>		
<b><i>Items that may subsequently be classified to consolidated statement of income</i></b>		
(Deficit) / Surplus on foreign currency translations	<b>(147)</b>	318
Net changes in fair value of investments measured at fair value through other comprehensive income - net of tax	<b>431</b>	118
Deferred tax on revaluation of fixed assets	-	(9)
<b><i>Items that may not be subsequently classified to consolidated statement of income</i></b>		
Remeasurement loss on defined benefit obligation	<b>(130)</b>	(20)
<b>Total other comprehensive income for the year</b>	<b>154</b>	407
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>	<b>(2,803)</b>	(7,193)
Attributable to:		
Equity of the Parent's shareholders	<b>(3,300)</b>	(9,653)
Non-controlling interests	<b>497</b>	2,460
	<b>(2,803)</b>	(7,193)

The attached explanatory notes 1 to 35 form part of these consolidated financial statements.

**Al Baraka Islamic Bank B.S.C. (c)****CONSOLIDATED STATEMENT OF INCOME AND ATTRIBUTION RELATED TO QUASI-EQUITY**  
For the year ended 31 December 2025

	<b>2025</b>	2024
	<b>BHD '000</b>	BHD '000
<b>Total operating income</b>		
<b>before attribution to quasi equity</b>	<b>73,305</b>	82,243
Adjustments for:		
Less: Income from self-financed assets	<b>(22,277)</b>	(23,333)
Less: expenses attributable to quasi-equity	<b>(3,663)</b>	(3,790)
Less: allowances for impairment and credit losses - attributable to quasi-equity	<b>(1,264)</b>	(854)
<b>Total income available for quasi-equity</b>	<b>46,101</b>	54,266
Less: Group's share as mudarib (net of hibba)	<b>(2,878)</b>	(1,190)
<b>Net income attributable to quasi-equity</b>	<b>43,223</b>	53,076

The attached explanatory notes 1 to 35 form part of these consolidated financial statements.

	<i>Equity attributable to shareholders of the parent</i>											
	<i>Share capital</i>	<i>Perpetual equity-type instruments</i>	<i>Reserves</i>							<i>Equity attributable to parent's shareholders</i>	<i>Non-controlling interest</i>	<i>Total owners' equity</i>
			<i>Statutory</i>	<i>General</i>	<i>Employee defined benefit plan</i>	<i>Cumulative changes in fair value</i>	<i>Revaluation of premises and equipment</i>	<i>Foreign exchange</i>	<i>Accumulated losses</i>			
<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	
<b>Balance at 1 January 2025</b>	57,100	36,192	9,845	3,275	(129)	2,452	113	(24,630)	(14,638)	69,580	9,711	79,291
(Loss) / income for the year	-	-	-	-	-	-	-	-	(4,067)	(4,067)	1,110	(2,957)
Other comprehensive (loss) / income for the year	-	-	-	-	(77)	944	-	(100)	-	767	(613)	154
Distribution of Zakat	-	-	-	-	-	-	-	-	(68)	(68)	-	(68)
Dividend paid by subsidiary	-	-	-	-	-	-	-	-	-	-	(287)	(287)
<b>Balance at 31 December 2025</b>	<b>57,100</b>	<b>36,192</b>	<b>9,845</b>	<b>3,275</b>	<b>(206)</b>	<b>3,396</b>	<b>113</b>	<b>(24,730)</b>	<b>(18,773)</b>	<b>66,212</b>	<b>9,921</b>	<b>76,133</b>
<b>Balance at 1 January 2024</b>	57,100	36,192	9,845	3,275	(109)	2,595	119	(24,835)	(4,870)	79,312	7,251	86,563
(Loss) / income for the year	-	-	-	-	-	-	-	-	(9,695)	(9,695)	2,095	(7,600)
Other comprehensive (loss) / income for the year	-	-	-	-	(20)	(143)	-	205	-	42	365	407
Distribution of Zakat	-	-	-	-	-	-	-	-	(73)	(73)	-	(73)
Deferred tax adjustment on revaluation of premises and equipment	-	-	-	-	-	-	(6)	-	-	(6)	-	(6)
<b>Balance at 31 December 2024</b>	<b>57,100</b>	<b>36,192</b>	<b>9,845</b>	<b>3,275</b>	<b>(129)</b>	<b>2,452</b>	<b>113</b>	<b>(24,630)</b>	<b>(14,638)</b>	<b>69,580</b>	<b>9,711</b>	<b>79,291</b>

**Al Baraka Islamic Bank B.S.C. (c)****CONSOLIDATED STATEMENT OF CASH FLOWS**

For the year ended 31 December 2025

	<b>2025</b>	2024
	<b>BHD '000</b>	BHD '000
<b>OPERATING ACTIVITIES</b>		
Net income / (loss) before taxation	125	(2,080)
<i>Adjustments for :</i>		
Depreciation and amortization	4,342	4,316
(Reversals) / allowances for impairment - net (Note 23)	(507)	1,813
Gain on sale of premises and equipment	(110)	(15)
Loss on sale of investments (Note 19)	861	475
Unrealized gains on remeasurement of investment in real estate	(326)	-
Share of income from investment in joint venture	-	(220)
Operating profit before changes in operating assets and liabilities	<u>4,385</u>	<u>4,289</u>
Net changes in operating assets and liabilities:		
Balances with central banks in mandatory reserves	(10,112)	3,378
Receivables	(39,222)	(6,218)
Ijara muntahia bittamleek and ijara receivables	982	21,590
Musharakat	(42,985)	(13,699)
Other assets	(5,541)	(30)
Other liabilities	6,325	(2,854)
Murabaha and other payables	(45,939)	(106,235)
Current accounts	16,905	12,383
Participatory investment accounts	149,877	54,002
Tax paid	(4,840)	(5,201)
Net cash generated from / (used in) operating activities	<u>29,835</u>	<u>(38,595)</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of investments	(530,385)	(333,768)
Proceeds from sale / redemption of investments	529,799	353,954
Net purchase of premises and equipment	(4,174)	(4,038)
Liquidation of investment in joint venture	6,510	-
Net cash generated from investing activities	<u>1,750</u>	<u>16,148</u>
<b>FINANCING ACTIVITIES</b>		
Net movement in subordinated mudaraba	(14)	(2,155)
Dividend paid by subsidiary	(287)	-
Zakah paid	(68)	(73)
Net cash used in financing activities	<u>(369)</u>	<u>(2,228)</u>
Foreign currency translation adjustments	(141)	(380)
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>31,075</b>	<b>(25,055)</b>
Cash and cash equivalents at beginning of the year	<u>47,436</u>	<u>72,491</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<u><u>78,511</u></u>	<u><u>47,436</u></u>

During the year, right-of-use assets increased by BHD 1.161 million (2024: BHD 0.675 million), with corresponding additions to ijara liabilities of BHD 2.390 million (2024: BHD 1.839 million).

The attached explanatory notes 1 to 35 form part of these consolidated financial statements.

**Al Baraka Islamic Bank B.S.C. (c)****CONSOLIDATED STATEMENT OF CHANGES IN OFF-BALANCE SHEET ASSETS UNDER MANAGEMENT**

For the year ended 31 December 2025

	Balance at 1 January 2025 <i>BHD '000</i>	Net deposits / (withdrawals) <i>BHD '000</i>	Gross income <i>BHD '000</i>	Mudarib/ agency fee <i>BHD '000</i>	Balance at 31 December 2025 <i>BHD '000</i>
Wakala Bi Al-Istithmar on balance sheet					
jointly financed assets	257,484	130,535	10,268	(5,860)	392,427
Receivables	71,390	(8,644)	178	(21)	62,903
Investments	10,850	(2,875)	1,278	(25)	9,228
	<b>339,724</b>	<b>119,016</b>	<b>11,724</b>	<b>(5,906)</b>	<b>464,558</b>

	Balance at 1 January 2024 <i>BHD '000</i>	Net deposits <i>BHD '000</i>	Gross income <i>BHD '000</i>	Mudarib/ agency fee <i>BHD '000</i>	Balance at 31 December 2024 <i>BHD '000</i>
Wakala Bi Al-Istithmar on balance sheet					
jointly financed assets	136,497	112,036	9,652	(701)	257,484
Receivables	46,077	23,132	2,207	(26)	71,390
Investments	8,390	1,129	1,356	(25)	10,850
	<b>190,964</b>	<b>136,297</b>	<b>13,215</b>	<b>(752)</b>	<b>339,724</b>

The attached explanatory notes 1 to 35 form part of these consolidated financial statements.

**1 INCORPORATION AND PRINCIPAL ACTIVITIES**

Al Baraka Islamic Bank B.S.C. (c) (the "Bank") is a closed shareholding company incorporated in the Kingdom of Bahrain on 21 February 1984. The Bank operates under a Retail Banking license number RB/025 issued by the Central Bank of Bahrain (CBB). The Bank has four commercial branches (2024: five commercial branches) in the Kingdom of Bahrain. The Bank is 92.81% (2024: 92.81%) owned by Al Baraka Group B.S.C.(c) (the "Parent Company").

The principal activities of the Bank and its subsidiary (the "Group") are taking demand, saving and investment accounts, providing Murabaha, Ijara and other Shari'a compliant forms of financing as well as managing investors' money on the basis of Mudaraba or agency for a fee, providing commercial banking services and other investment activities. The Bank's registered office is at Bahrain Bay, P.O. Box 1882, Manama, Kingdom of Bahrain.

These consolidated financial statements were approved by the Board of Directors on 24 February 2026.

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES****2.1 Basis of Preparation**

The consolidated financial statements of the Group are prepared in accordance with applicable rules and regulations issued by the Central Bank of Bahrain ("CBB"). These rules and regulations require the adoption of all Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI). In accordance with the AAOIFI framework, for matters not covered by FAS, the Group uses the requirements of the relevant IFRS Accounting Standards issued by the International Accounting Standards Board ("IASB"). This framework is referred to as "FAS issued by AAOIFI".

**2.2 Accounting convention**

The consolidated financial statements are prepared on a historical cost basis, except for investment in real estate, equity-type instruments through other comprehensive income, equity-type instruments through income statement, debt type instruments through other comprehensive income, debt type instruments through income statement and land owned by the Group (classified as premises and equipment) that have been measured at fair value.

The consolidated financial statements are presented in Bahraini Dinars ("BHD"), being the presentational currency of the Group. All values are rounded to nearest Bahraini Dinars thousand unless otherwise indicated. The functional currency of the Bank is Bahraini Dinars and that of the subsidiary is Pakistani Rupees. Items included in the consolidated financial statements of each entity are measured using their respective functional currency.

**2.3 Basis of consolidation**

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

All intra-group balances, transactions, income and expenses and profits and losses are eliminated in full on consolidation.

Subsidiary is fully consolidated from the date control is transferred to the Group and continue to be consolidated until the date that control ceases. Control is achieved where the Bank controls an asset or business, when it has substantially all risks and rewards incidental to ownership of such asset or business, duly meeting both of the following conditions:

- a. It is directly exposed to, or has rights to, variable returns (negative or positive, respectively) from its involvement with such assets or business; and
- b. It has the ability to affect those returns through its power over the assets or business.

Non-controlling interest in a subsidiary's net assets is reported as a separate line item in the Group's owners' equity. In the consolidated statement of income, non-controlling interest is included in net profit, and shown separately from that of the shareholders.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2025

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)****2.3 Basis of consolidation (continued)**

Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in owners' equity since the date of combination. Statement of income and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests (NCIs), even if this results in the NCIs having a deficit balance.

Transactions with non-controlling interests are handled in the same way as transactions with external parties. Changes in the ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transaction.

The subsidiary of the Bank, which is consolidated in these consolidated financial statements is follows:

<b>Bank</b>	<b>Ownership for 2025 / 2024</b>	<b>Year of incorporation</b>	<b>Country of incorporation</b>	<b>No. of branches/ offices at 31 December 2025 / 2024</b>
<b>Held directly by the Bank</b>				
Al Baraka Bank (Pakistan) Limited*	59.13%/ 59.13%	2004	Pakistan	196/185

\*Al Baraka Bank (Pakistan) Limited became a subsidiary on 21 December 2010.

**2.4 New standards, interpretations and amendments adopted by the Group**

During the year, the Group applied the following standards and amendments to standards in preparation of these consolidated financial statements. The adoption of the below standards and amendments to standards did not result in changes to previously reported net income or equity of the Group.

**2.4.1 FAS 42 – Presentation and disclosures in the Financial Statements of Takaful Institutions**

AAOIFI has issued FAS 42 in 2022. This standard supersedes the earlier FAS 12 – General Presentation and Disclosures in the Financial Statements of Islamic Insurance Companies”. The objective of this standard is to set out the overall requirements for the presentation of financial statements, the minimum requirement for the contents of and disclosures in the financial statements and recommended structure of financial statements that facilitates fair presentation in line with Shari’a principles and rules for Takaful institutions. This standard shall be effective for the financial periods beginning on or after 1 January 2025 with early adoption permitted if adopted alongside FAS 43 – Accounting for Takaful: Recognition and Measurement, provided that FAS 1 (Revised 2021) has already been adopted or is simultaneously adopted.

The adoption of this standard did not have significant impact on the Group’s presentation and disclosures in these consolidated financial statements.

**2.4.2 FAS 43 – Accounting for Takaful: Recognition and Measurement**

AAOIFI has issued FAS 43 in 2022. The objective of this standard is to set out the principles for the recognition and measurement of Takaful arrangements and ancillary transactions with the objective of faithfully representing the information related to these arrangements to the relevant stakeholders. The standard should be read in conjunction with FAS 42 – Presentation and disclosures in the Financial Statements of Takaful Institutions. This standard shall be effective for the financial periods beginning on or after 1 January 2025 with early adoption permitted if adopted alongside FAS 42 – Presentation and disclosures in the Financial Statements of Takaful Institutions. The adoption of this standard did not have significant impact on the Group’s recognition and measurement.

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)****2.5 New standards, amendments and interpretations issued but not yet effective****2.5.1 FAS 45 - Quasi-Equity (Including Investment Accounts)**

AAOIFI has issued FAS 45 in 2023. This standard prescribes the principles of financial reporting related to the participatory investment instruments (including investment accounts) in which an Islamic financial institution controls the underlying assets (mostly, as a working partner), on behalf of the stakeholders other than the owners' equity. Such instruments (including, in particular, the unrestricted investment accounts) normally qualify for on-balance-sheet accounting and are reported as quasi-equity. This standard also provides the overall criteria for on-balance-sheet accounting for participatory investment instruments and quasi-equity, as well as, pooling, recognition, derecognition, measurement, presentation and disclosure for quasi-equity. It further addresses financial reporting related to other quasi-equity instruments and certain specific issues. This standard shall be effective for the financial reporting periods beginning on or after 1 January 2026.

The concept of quasi-equity has been introduced in FAS 1 "General Presentation and Disclosures in the Financial Statements (Revised 2021)". The Group shall address the requirements of FAS 45 "Quasi-Equity (Including Investment Accounts)" on the effective date of the standard.

**2.5.2 FAS 46 - Off-Balance sheet Assets Under Management**

AAOIFI has issued FAS 46 in 2023. This standard prescribes the criteria for characterisation of off-balance sheet assets under management, and the related principles of financial reporting in line with the "AAOIFI Conceptual Framework for Financial Reporting". The standard encompasses the aspects of recognition, derecognition, measurement, selection and adoption of accounting policies, related to off-balance-sheet assets under management, as well as certain specific aspects of financial reporting such as impairment and onerous commitments by the institution. The standard also includes the presentation and disclosure requirements particularly aligning the same with the requirements of the revised FAS 1 "General Presentation and Disclosures in the Financial Statements" in respect of the statement of changes in off-balance sheet assets under management. This standard, along with, FAS 45 "Quasi-Equity (Including Investment Accounts)", supersedes the earlier FAS 27 "Investment Accounts". This standard shall be effective for the financial periods beginning on or after 1 January 2026 and shall be adopted at the same time of adoption of FAS 45 - Quasi-Equity (Including Investment Accounts).

**2.5.3 FAS 48 – Promotional Gifts and Prizes**

AAOIFI has issued FAS 48 on 9 December 2024. This standard prescribes the accounting and financial reporting requirements applicable to promotional gifts and prizes awarded by the Islamic financial institutions to their customers, including quasi-equity and other investment accountholders. This standard shall be effective for the financial periods beginning or after 1 January 2026.

**2.5.4 FAS 49 – Financial Reporting for Institutions Operating in Hyperinflationary Economies**

AAOIFI has issued FAS 49 on 19 December 2024. This standard outlines the principles governing financial reporting for the institutions applying AAOIFI FASs operating in hyperinflationary economies, duly considering the relevant Shari'a principles and rules and their unique business models. This standard shall be effective for the financial periods beginning or after 1 January 2026 with early adoption encouraged.

**2.5.5 FAS 50 – Financial Reporting for Islamic Investment Institutions (Including Investment Funds)**

AAOIFI has issued FAS 50 on 24 December 2024. This standard supersedes the earlier FAS 14 "Investment Funds." This standard sets out the principles of financial reporting for Islamic Investment Institutions ("IIs") particularly prescribing overall requirements for the presentation, minimum contents and recommended structure of their financial statements in a manner that facilitates truthful and fair presentation in line with Shari'a principles and rules. This standard shall be effective on the annual financial statements of an IiI or after 1 January 2027.

**2.5.6 FAS 51 – Participatory Ventures**

AAOIFI issued Financial Accounting Standard (FAS) 51 – "Participatory Ventures" on 10 November 2025. The standard prescribes accounting and financial reporting principles for participatory ventures, including structures based on Mudaraba and Musharaka, and supersedes earlier FAS 3 (Mudaraba Financing) and FAS 4 (Musharaka Financing). It also covers arrangements involving gradual transfer of ownership, including diminishing Musharaka and restricted Mudaraba. This standard shall be effective on the consolidated financial statements for financial periods beginning on or after 1 January 2027 with early adoption encouraged.

**2.5.6 FAS 52 – Deferred Delivery Sales: Salam and Istisna**

AAOIFI issued Financial Accounting Standard (FAS) 52 – "Deferred Delivery Sales: Salam and Istisna" on 31 December 2025. The standard provides accounting principles for buyers/customers and sellers/developers involved in Salam and Istisna based deferred delivery sales transactions. FAS 52 supersedes FAS 7 (Salam and Parallel Salam) and FAS 10 (Istisna'a and Parallel Istisna'a) and aligns related accounting requirements with AAOIFI's broader revision strategy and global best practices. This standard shall be effective on the consolidated financial statements for financial periods beginning on or after 1 January 2027 with early adoption encouraged.

The Group is currently performing an assessment to identify the impact in accordance with the above standards.

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)****2.6 Summary of accounting policies**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below:

**2.6.1 Financial contracts**

Financial contracts consist of balances with banks, receivables, Mudaraba and Musharaka financing, Investments - debt type instruments at amortised cost & through OCI, Ijarah Muntahia Bittamleek (where the estimates of future cash flows dependent on a single customer) and certain other assets. In addition it consist of off-balance sheets exposures such as letter of credit, letter of guaranties and undrawn commitments. Balances relating to these contracts are stated net of allowance for credit losses.

**2.6.2 Cash and cash equivalents**

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash on hand, balances with central banks in non-restricted accounts, balances with other banks and financial institutions and receivables with an original maturity of 90 days or less.

**2.6.3 Financial instruments - initial recognition and subsequent measurement**

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

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

**2.6.4 Impairment, Credit Losses and Onerous Commitments**

Financial assets consist of cash and balances with banks and financial institution, receivables and Musharaka financing, Investments - debt type instruments at amortised cost, Ijarah Muntahia Bittamleek and certain other assets. Balances relating to these contracts are stated net of allowance for expected credit losses.

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

**Stage 1: twelve months ECL**

For exposures where there has not been a Significant Increase in Credit Risk ("SICR"), since initial recognition, a portion of the lifetime ECL's that represent the ECL that result from default events on a financial contract that is possible within 12 months after the reporting date (or a shorter period if the expected life of the financial instrument is less than 12 months).

**Stage 2: Lifetime ECL - not credit impaired**

For credit exposures where there has been a SICR since initial recognition but that are not credit impaired, a lifetime ECL is recognised. Lifetime ECL is the loss that results from all possible default events over the expected life of the financial contract.

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

**2.6.4 Impairment, Credit Losses and Onerous Commitments (continued)****Stage 3: Lifetime ECL – credit impaired**

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

For Stage 3 financial contracts, the losses for credit-impairment are determined based on the difference between the net carrying amount and the recoverable amount of the financial contract. In this respect, the Group recognises the lifetime expected credit losses for these financing with the PD set at 100%.

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)****Credit-impaired financial assets**

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the obligor or issuer;
- a breach of contract such as a default or past due event; or
- probability that the borrower will enter bankruptcy or other financial reorganization.

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

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

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

**Measurement of ECL**

Following are the key inputs into the measurement of ECL:

- Probability of Default (PD);
- Loss Given Default (LGD); and
- Exposure At Default (EAD).

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

**Definition of default**

The Group considers a financial asset to be in default when the obligor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as liquidating collateral; or usually when the obligor is past due more than 90 days for any material credit obligation to the Group. In assessing whether a obligor is in default, the Group considers both qualitative factors such as breaches of covenants and quantitative factors such as overdue status and non-payment of another obligation by the same issuer to the Group.

**Probability of default**

Credit risk grades are a primary input into the determination of the term structure of Probability of Default (PD) for exposures. The Group collects performance and default information about its credit risk exposures analysed by credit risk grading for corporate and days-past-due for retail portfolio. The Group employs statistical models for analysing the data collected and generates estimates of PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, across various geographies in which the Group operates.

*Types of PDs used for ECL computation*

- 12-month PDs – This is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months). This is used to calculate 12-month ECLs.
- Lifetime PDs – This is the estimated probability of a default occurring over the remaining life of the financial instrument. This is used to calculate lifetime ECLs for 'stage 2'.

*Incorporation of forward - looking information*

The Group considers latest available economic forecasts published by the International Monetary Fund (IMF) or other reputed service providers, for 5 years. The Group employs statistical models to incorporate macro-economic factors on historical default rates. In case none of the macro-economic parameters are statistically significant or the results of forecasted PDs are significantly deviated from the present forecast for the economic conditions, quantitative PD overlay shall be used by the management after analyzing the portfolio.

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)****2.6 Summary of accounting policies (continued)****2.6.4 Impairment, Credit Losses and Onerous Commitments (continued)**

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

**Loss Given Default**

LGD is a magnitude that determines the amount of loss that will arise if the obligor was to default. This is calculated by looking at the collateral and other recourses available to the Group that can be used to recover the asset in case of default.

**Loss Given Default (continued)**

The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties, based on historical data using both internal and external factors. For Estimation of LGD, the Group considers use of any of the following methods:

Internal default history: When data is available LGD can be estimated using the historical default information and corresponding recovery data.

Basel LGD: local regulatory recommended Basel LGD adjusted depending on the available collateral.

Collateral-based LGD: for secured financing the Group uses collateral-based LGD, where the Group has effective collateral management framework that is able to assess and provide up to date collateral valuation and establish legal charge and enforceability. However, the Group applies 10% floor regardless of collateral coverage of the exposure.

**Exposure At Default (EAD)**

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amounts allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For financing commitments and financial guarantees, the EAD is converted to on balance sheet equivalents.

**On-balance sheet EADs**

EADs for on-balance sheet items are the amount that is outstanding at the time of default. Outstanding of an on-balance sheet exposure shall be directly taken subject to inclusion of its repayment structure.

Prepayments have to be estimated using previous trends and deducted from EAD while calculating ECL

**Off-balance sheet EADs**

Off-balance sheet exposures do not have fixed payout date; thus, the EAD for off-balance sheet is calculated after applying the Credit Conversion Factor (CCF) to the nominal amount of the Off-balance sheet exposure. The Group uses following method to work out CCF for off- balance sheet EADs.

*Regulatory CCFs* - In absence of internal data, the Group uses same as Basel CCF that are used for calculating the Capital Adequacy Ratio (CAR) as per the CBB regulations. These rates are 20% for exposures with maturity equal to or less than 1 year and 50% for exposures with maturity of more than 1 year.

ECL on individually large exposures and credit-impaired finances are generally measured individually. For retail exposures and other exposures to small sized enterprises, where less client-specific information is available, ECL is measured on a collective basis. This incorporates obligor-specific information, such as delinquency, collective historical experience of losses and forward-looking macroeconomic information.

To assess the staging of exposures and to measure a loss allowance on a collective basis, the Group combines its exposures into segments on the basis of shared credit risk characteristics, such as geography, type of customer, industry, rating, date of initial recognition, maturity and collateral value.

**Significant Increase in Credit Risk**

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

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)****2.6 Summary of accounting policies (continued)****2.6.4 Impairment, Credit Losses and Onerous Commitments (continued)**

The assessment is carried out for specific facility rather than a counterparty. As each facility may have had different credit risk at initial recognition.

The application of above requirements of SICR to various locations of the Group varies depending on a number of circumstances faced by each location and each location applies a robust risk assessment methodology that is commensurate with the size, complexity, structure, economic significance and risk profile of its portfolio.

**Renegotiated financial assets**

The contractual terms of a financing may be modified for a number of reasons including changing market conditions, and other factors not related to the current or potential credit deterioration of a customer. When the terms of a financial asset are modified and the modification does not result in a derecognition, the determination of whether the asset's credit risk has increased significantly reflects a comparison of its remaining lifetime PD at the reporting date based on modified terms, with the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Group renegotiates financing to customers in financial difficulties to maximize collection opportunities and minimize the risk of default. This may involve extending the payment arrangements and documenting the agreement of new conditions for providing finance. Management continuously reviews renegotiated facilities to ensure that all criteria are met and that future payments are likely to occur.

The accounts which are performing prior to restructuring but restructured due to financial difficulty are categorised under stage 2. The accounts that are non-performing or meet any criteria for classifying as non-performing, then such restructured accounts are categorized under stage 3.

**Backward transition**

FAS 30 staging model is of symmetrical nature as movement across stages is a "Two Way" phenomenon. However, backward movement across stages are not immediate once SICR indicators are no longer triggered. Once such indicators are no longer triggered, movement back to Stage 1 or Stage 2 has to be calibrated and cannot be automatic or immediate. Certain criteria like cooling off period, SICR indicators and payment history are considered for migrating customers backwards to Stage 2 or Stage 1. Following factors including cure period are considered for any backward transition:

*From Stage 2 to stage 1*

- The criteria to classify the exposure into Stage 2 (criteria covered in SICR section above) is no longer present;
- Up to date payment with no arrears;
- A minimum cool-off/cure period of 6 months for any stage 2 accounts; and
- A minimum cool-off/cure period of 12 months for restructured accounts.

*From stage 3 to stage 2*

- The criteria to classify the exposure into Stage 3 (criteria covered in default section above) is no longer present;
- Up to date payment with no arrears; and
- A minimum cool-off/cure period of 12 months for non-performing and restructured facilities.

**Credit Conversion Factor**

The estimation of EAD takes into account any unexpected changes in the exposure after the assessment date, including estimation of expected drawdowns on committed facilities through the application of a credit conversion factor (CCF). The EAD is estimated using the outstanding exposure adjusted by CCF times undrawn portion of the facilities.

The outstanding exposure is calculated as principal plus profit less expected prepayments. The undrawn portion refers to the portion of the unutilized credit limit. CCF applied to the facilities would be the higher of average behavioral utilization over the last five years or capital charge.

**Write-offs**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2025

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)****2.6 Summary of accounting policies (continued)****2.6.4 Impairment, Credit Losses and Onerous Commitments (continued)****Presentation of allowance for credit losses in the consolidated statement of financial position**

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

- financial assets measured at amortised cost, as a deduction from the gross carrying amount of the assets;
- financing commitments and financial guarantee contracts: generally as a provision included in other liabilities; and
- where a financial contract includes both a drawn and undrawn component, and the Group has identified the ECL on the financing commitments / off-balance sheet component separately from those on the drawn component, allowance for credit losses on undrawn component is presented as a provision in other liabilities; where the Group has not identified the ECL on the financing commitments / off-balance sheet component separately from those on the drawn component, allowance for credit losses on undrawn component is presented against the drawn commitment.

**2.6.5 Investments**

Investments comprise of investment in real estate, investment in joint venture, equity-type instruments at fair value through statement of income, equity-type instruments at fair value through OCI, debt-type instruments at amortised cost, debt-type instruments at fair value through statement of income and debt-type instruments at fair value through OCI.

**(i) Investment in real estate**

Properties held for rental, or for capital appreciation purposes, or both, are classified as investment in real estate. Investments in real estate are initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, Investments in real estate are re-measured at fair value and changes in fair value (only gains) are recognised as property fair value reserve in the consolidated statement of changes in owners' equity.

Losses arising from changes in the fair values of investment in real estate are firstly adjusted against the property fair value reserve to the extent of the available balance and then the remaining losses are recognised in the consolidated statement of income. If there are unrealised losses that have been recognised in the consolidated statement of income in the previous financial periods, the current period unrealised gain shall be recognised in the consolidated statement of income to the extent of crediting back such previous losses in the consolidated statement of income. When the property is disposed of, the cumulative gain previously transferred to the property fair value reserve, is transferred to the consolidated statement of income.

**(ii) Investment in joint venture**

Investment in joint venture is accounted for using the equity method of accounting. Under the equity method, the investment in the joint venture is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the joint venture.

After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in the joint venture. The Group determines at each reporting date whether there is any objective evidence that the investment in the joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount in the consolidated statement of income.

The consolidated statement of income reflects the share of the results of operations of the joint venture. Where there has been an income or expense recognised in the other comprehensive income of the joint venture, the Group recognises its share of any such income or expense, when applicable, in other comprehensive income. Gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of stake in the joint venture.

**(iii) Equity and non-monetary debt-type instruments at fair value through consolidated statement of income**

This includes instruments held for trading purposes to gain profits from market fluctuations in the short term. These are initially recognised at cost, being the fair value of the consideration given excluding acquisition costs. These are subsequently re-measured at fair value. All related realised and unrealised gains or losses are included in the consolidated statement of income.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2025

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)****2.6 Summary of accounting policies (continued)****2.6.5 Investments (continued)****(iv) Equity and non-monetary debt-type instruments at fair value through OCI**

These investments will be initially recognized at their value plus transaction costs. Subsequent to acquisition, investments designated at fair value through OCI are remeasured at fair value with unrealised gains or losses recognised proportionately in owners' equity and equity of investment accountholders until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in owners' equity or equity of investment accountholders is recognised in consolidated statement of income. Investment carried at fair value through equity shall be tested for impairment at each reporting period.

**(v) Monetary and non-monetary debt type instruments at amortized cost**

Debt-type instruments which are managed on a contractual yield basis and are not held for trading and has not been designated at fair value through statement of income are classified as debt-type instruments at amortised cost. Such investments are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such investment is recognised in the consolidated statement of income, when the investment is de-recognised or impaired.

**2.6.6 Financing contracts****(i) Murabaha**

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

**(ii) Ijarah Muntahia Bittamleek**

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

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

**(iii) Musharaka**

Musharaka represents a partnership between the Group and a customer whereby each party contributes to the capital in equal or varying proportions to establish a new project or share in an existing one, and whereby each of the parties becomes an owner of the capital on a permanent or declining basis and shall have a share of profits or losses. These are stated at the fair value of consideration given less any amounts written off and allowances for expected credit losses, if any.

**(iv) Salam receivables**

Salam receivables are carried at cost being the fair value of consideration less the allowances for expected credit losses.

**(v) Istisna receivables**

Istisna receivables are carried at cost less the allowances for expected credit losses.

**(vi) Wakala receivables**

At the inception of the transaction, the Group as "principal/(investor)" shall evaluate the nature of investment as either:

- i. Pass through investment; or
- ii. Wakala venture.

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)****2.6 Summary of accounting policies (continued)****2.6.6 Financing contracts (continued)****(vi) Wakala receivables (continued)****i. Pass through investment**

A pass-through investment is an investment in which the involvement of the agent, as well as, the options for transferability of the instrument are limited and the investor principally takes a direct exposure on the underlying assets. On initial recognition & subsequently, the asset shall be recognized underlying the Wakala arrangement applying the initial recognition principles as applicable in line with respective FAS, and in absence thereof, in line with the generally accepted accounted principles applicable to such balances.

**ii. Wakala Venture**

These are investments, under a Wakala agency contract, in transferable instruments or the investment made in a single asset (or pool of assets) where such asset(s) are subject to frequent changes throughout the term of the contract i.e. there are routine changes or replacements over the term of arrangement (unless it constitutes a business) at the discretion of the agent; or the role of the agent is not limited whereby the agent performs day-to-day asset management function and, where applicable, is also responsible for replacement of assets or recoveries against them. On initial recognition, these assets will be recognized at cost in Wakala Venture. Subsequently, the carrying amount is adjusted to incorporate gains/ losses net of agent's remuneration and impairments, if any.

**2.6.7 Participatory investment accounts****a) Mudaraba payable**

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

All equity of investment accountholders are initially measured at cost being the fair value of consideration received at the inception of contracts. Subsequently, the equity of investment accountholders are carried at cost inclusive of undistributed profit or accumulated losses and reserves.

**b) Wakala payable under multi level arrangements**

The Group maintains multi-level investment arrangements to invest funds received under "Wakala" to invest as "Mudaraba" in jointly financed assets. The funds invested under such arrangements are recorded and disclosed as "On Balance Sheet Equity Accountholders" in consolidated statement of financial position.

**2.6.8 Investment risk reserve**

Investment risk reserves are amounts appropriated out of the income of equity of investment accountholders, after allocating the mudarib share, in order to cater against future losses for equity of investment accountholders.

**2.6.9 Profit equalisation reserve**

Profit equalisation reserves are amounts appropriated out of the Mudaraba income, before allocating the mudarib share, in order to maintain a certain level of return on investments for equity of investment accountholders.

**2.6.10 Off-balance sheet equity of investment accountholders**

Off-balance sheet equity of investment accountholders represents funds received by the Group from third parties for investment in specified products as directed by the investment accountholders. These assets are managed in a fiduciary capacity and the Group has no entitlement to these assets. Clients bear all of the risks and earn all of the rewards on these investments. Off-balance sheet equity of investment accountholders are not included in the consolidated statement of financial position since the Group does not have the right to use or dispose these investments except within the conditions of the contract between the Group and off-balance sheet equity of investment accountholders.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2025

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)****2.6 Summary of accounting policies (continued)****2.6.11 Premises and equipment**

Premises and equipment are stated at cost less accumulated depreciation and accumulated impairment in value except for land which is carried at fair value subsequent to initial recognition. The cost of additions and major improvements are capitalised; maintenance and repairs are charged to the consolidated statement of income as incurred. Gains or losses on disposal are reflected in other operating income. Depreciation is calculated using the straight-line method at rates intended to write-off the cost of the assets over their estimated useful lives. Any subsequent change in fair value of land (only gains) are recognised as property fair value reserve in the consolidated statement of changes in owners' equity.

Losses arising from changes in the fair value of land is first adjusted against the property fair value reserve to the extent of the available balance and then the remaining losses are recognised in the consolidated statement of income. If there are unrealised losses that have been recognised in the consolidated statement of income in the previous financial periods, the current period unrealised gain shall be recognised in the consolidated statement of income to the extent of crediting back such previous losses in the consolidated statement of income. When the land is disposed of, the cumulative gain previously transferred to the property fair value reserve, is transferred to the consolidated statement of income.

**2.6.12 Fair values**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability, and the principal or the most advantageous market must be accessible to by the Group.

Fair value is determined for each financial asset individually in accordance with the valuation policies set out below:

- (i) For investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the reporting date.
- (ii) For unquoted investments, fair value is determined by reference to recent significant buy or sell transactions with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.
- (iii) For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for investments with similar terms and risk characteristics.
- (iv) Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost, less provision for impairment.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2025

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)****2.6 Summary of accounting policies (continued)****2.6.13 Revenue recognition***Murabaha receivable*

Profit from sales transactions (murabaha) is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised on a time-apportioned basis over the period of the transaction. Where the income from a contract is not contractually determinable or quantifiable, it is recognised when the realisation is reasonably certain or when actually realised. Income related to accounts that are non-performing is excluded from the consolidated statement of income.

*Mudaraba financing*

Income on mudaraba financing is recognised when the right to receive payment is established or on distribution by the mudarib, whereas losses are charged to income on declaration by the mudarib.

*Wakala financing*

Income on Wakala financing is accrued on a time apportioned basis over the period of the contract based on the principal amounts outstanding.

*Ijara Muntahia Bittamleek*

Ijara income is recognised on a time apportioned basis over the Ijara term and is stated net of depreciation. Income related to non-performing ijara muntahia bittamleek accounts that are non-performing is excluded from the consolidated statement of income.

*Musharaka*

Income on musharaka is recognised when the right to receive payment is established or on distribution.

*Salam and Istisna'a receivables*

Income on Salam and Istisna'a is recognised on time-apportioned basis when the income from a contract is contractually determinable or quantifiable.

*Group's share of income from quasi equity (as a Mudarib)*

The Group's share as a Mudarib for managing quasi equity is accrued based on the terms and conditions of the related Mudarib agreements.

*Fees and commission income*

Fees and commission income including structuring fees is recognised when earned.

*Dividends*

Dividends are recognised when the right to receive payment is established.

*Mudarib's share of off-balance sheet quasi equity*

The Group shares profit for managing off-balance sheet quasi equity based on the terms and conditions of related contracts.

*Income from debt type instrument*

Income on debt type securities is amortized to consolidated statement of income on effective profit rate.

*Rental income*

Rental income is accounted for on a straight-line basis over the Ijara terms.

**2.6.14 Return on quasi equity**

Investors' share of income is calculated based on the income generated from joint investment accounts after deducting the expenses related to investment pool "mudarib expenses". Mudarib expenses include all expenses incurred by the Group, including specific provisions, but excluding staff costs and depreciation. The Group's "mudarib profit" is deducted from the investors' share of income before distributing such income. In some cases, quasi equity withdrawn before maturity are entitled to income only after deducting a penalty charge.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2025

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**2.6 Summary of accounting policies (continued)**

**2.6.14 Return on quasi equity (continued)**

The basis applied by the Group in arriving at the investment accountholders share of income is [total investment income less investment pool expenses] divided by [average funds generating income (shareholders and investment accountholders) times average funds of quasi equity].

**2.6.15 Investment pool expenses**

Investment pool expenses include business, administrative, general and other expenses.

**2.6.16 Taxation**

There is no tax on corporate income in the Kingdom of Bahrain. The subsidiary in Pakistan pays tax as per Pakistan tax regulations.

*Current*

Provision for current taxation is based on taxable income in accordance with the tax laws as applicable in Pakistan.

*Deferred*

The Group accounts for deferred taxation on material temporary differences using the liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences. Deferred tax assets are recognised only if there is a reasonable expectation of realisation in the foreseeable future. Deferred tax is reduced to the extent that it is no longer probable that related tax benefits will be realised.

**Domestic Minimum Top-Up Tax Law and Pillar Two Model Rules**

The Group falls within the scope of the OECD Pillar Two Model Rules ("Model Rules"), by virtue of being consolidated by Dallah Albaraka Holding Company B.S.C. (Closed), which qualifies as the Ultimate Parent Entity ("UPE") under the Model Rules. As such, the Group forms part of Dallah Albaraka Holding Company B.S.C. (Closed) Pillar Two Group ("MNE Group").

On 1 September 2024, the Kingdom of Bahrain issued Decree Law (11) of 2024, introducing a Domestic Minimum Top-Up Tax ("DMTT") for Multinational Enterprises ("MNEs") ("DMTT Law"), effective from 1 January 2025. The DMTT Law is broadly aligned with the Model Rules and applies a 15% effective tax rate to the Bahrain profits of MNE Group. Bahrain is the only jurisdiction in which the Group operates that has implemented Pillar Two.

Based on the Group's assessment of applicability of the DMTT law and Model Rules, the Group concluded that no top-up tax liability is expected to arise under Bahrain DMTT as the Group is loss making for the current year.

**2.6.17 Contingencies and Commitments**

Contingencies are possible obligation or assets that arises from past events and whose existence will be confirmed only by occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Further, the obligation arisen from past events where the liability cannot be determined with reasonable certainty or probability of outflow of resources cannot be determined are also contingencies.

A commitment is a binding contract for the exchange of a specified quantity of resources at a specific price on a specified future dates or date.

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**2.6 Summary of accounting policies (continued)**

**2.6.18 Derecognition**

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

- (i) the right to receive cash flows from the asset has expired;
- (ii) the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of ownership or (b) when it has neither transferred or retained substantially all the risks and rewards and when it no longer has control over the financial asset, but has transferred control of the asset; or
- (iii) the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

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

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

**2.6.19 Earnings prohibited by Shari'a**

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

**2.6.20 Foreign currencies**

**(i) Transactions and balances**

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. All differences are taken to consolidated statement of income at the entity level.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item.

**(ii) Foreign operations**

As at the reporting date, the assets and liabilities in foreign currencies are translated into the presentation currency of the Group (United States Dollar) at the rate of exchange ruling at the reporting date and their income and expenses are translated at the average exchange rates for the year. The exchange differences arising on the translation are taken directly to through OCI. On disposal of a foreign operation, the deferred cumulative amount recognised in owners' equity relating to that particular foreign operation is recognised in the consolidated statement of income.

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)****2.6 Summary of accounting policies (continued)****2.6.21 Employees' end of service benefits**

Provision is made for leaving indemnity payable under the Bahraini Labour Law applicable to non-Bahraini employees' accumulated periods of service at reporting date. Moreover provision for indemnity payable is also made for Bahraini employees as per terms of employment contracts.

Bahraini employees of the Group are covered by contributions made to the Social Insurance Organisation (SIO) as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

The subsidiary in Pakistan also operates a recognised contributory provident fund for all permanent employees. Equal monthly contributions are made, both by the subsidiary and the employees, to the fund at a rate of 10 percent of basic salary.

The subsidiary in Pakistan operates an approved funded gratuity scheme for all its permanent employees. Annual contributions are made to the scheme in accordance with the actuarial recommendation. The actuarial valuation is carried out using the projected unit credit method.

**2.6.22 Zakah**

The responsibility of payment of zakah is on individual shareholders and investment accountholders. However, the shareholders provides authority to the Group to pay Zakah on their behalf during the annual general meeting which be directly deducted from "Owner's equity" and accordingly distributed to eligible parties. While, the Group had no obligation to collect and pay Zakah on behalf of equity of investment accountholders. Zakah per share is presented in the Shari'a Supervisory Board Report.

**2.6.23 Joint and self financed**

Investments, financing, and receivables jointly owned by the Group and the equity of investment accountholders are classified as 'jointly financed' in the consolidated financial statements. Those financed solely by the Group are classified as 'self-financed'. Cash and bank balances with financial institutions, other assets, and premises and equipment are commingled and jointly financed by both 'self' and 'URIA' funds.

**2.6.24 Offsetting**

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

**2.6.25 Shari'a supervisory board**

The Group's business activities are subject to the supervision of a Shari'a supervisory board consisting of three members appointed by the general assembly of shareholders.

**2.6.26 Trade date accounting**

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

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)****2.7 Judgements and estimates**

In the process of applying the Group's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgements and estimates are as follows:

**2.7.1 Judgements***Going concern*

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

*Classification of investments*

Management decides on acquisition of an investment whether it should be classified as equity-type instrument at fair value through statement of income, equity-type instrument at fair value through equity, debt-type instrument at fair value through statement of income, debt-type instrument at fair value through equity or debt-type instrument at amortised cost. However, the investment in a monetary debt-type instrument, as it reflects a debt at the back-end, shall be initially classified and measured at cost, till the time the transaction at the back-end is executed, and at amortised cost thereafter.

*Fair value of unquoted equity investments*

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

*Real estates holdings*

Management exercises significant judgment in classifying the property that is partly used for the Bank's own operations and partly rented to tenants. In making this assessment, the Bank considered the following key factors:

- The proportion of the property's area utilized by the Bank versus that leased to tenants.
- Whether the property, including individual floors or offices, can be separately sold to third parties or whether it constitutes an indivisible structure.
- The extent to which the property serves the Bank's core business operations and provides ancillary services to customers.

Based on these considerations and guidance available in FAS 26 "Investments in Real Estate", management determined the appropriate classification of real estate held by the Bank.

**2.7.2 Estimates***Impairment and uncollectibility of financial assets*

In determining impairment on financial assets, judgment is required in the estimation of the amount and timing of future cash flows as well as an assessment of whether credit risk on the financial contract has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of expected credit losses ("ECL").

*Impairment of Goodwill*

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU (or group of CGUs) is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

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3 CASH AND BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS	2025	2024
	BHD '000	BHD '000
Cash on hand	8,820	8,921
Balances with State Bank of Pakistan		
Current account	54	19
Mandatory reserves	26,574	18,610
	3.1	18,629
Balances with Central Bank of Bahrain		
Current account and overnight placements	5	109
Mandatory reserves	18,210	16,062
	3.1	16,171
Balances with other banks and financial institutions	4,656	15,265
	<u>58,319</u>	<u>58,986</u>

3.1 The mandatory reserves with central banks are not available for use in the day-to-day operations.

**4 RECEIVABLES**

	2025			2024		
	Self	Jointly	Total	Self	Jointly	Total
	financed	financed		financed	financed	
	BHD '000	BHD '000	BHD '000	BHD '000	BHD '000	BHD '000
Commodities, wakala and						
musharaka placements with financial institutions	-	64,984	64,984	21,227	1,897	23,124
Salam financing	-	10,967	10,967	-	13,879	13,879
Istisna'a financing	-	54,950	54,950	-	51,351	51,351
Murabaha financing	1,115	155,842	156,957	424	125,117	125,541
Credit cards and others receivables	-	4,915	4,915	-	4,969	4,969
Gross receivables	1,115	291,658	292,773	21,651	197,213	218,864
Deferred profits	(30)	(15,619)	(15,649)	-	(15,856)	(15,856)
	1,085	276,039	277,124	21,651	181,357	203,008
Less: Allowances for expected credit losses (4.1)	-	(17,978)	(17,978)	(426)	(25,026)	(25,452)
Net receivables	1,085	258,061	259,146	21,225	156,331	177,556

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification. The amounts presented are gross of expected credit losses ("ECL").

	2025				2024			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	BHD '000	BHD '000	BHD '000	BHD '000	BHD '000	BHD '000	BHD '000	BHD '000
Good (1-4)	128,593	8,085	-	136,678	92,664	6,262	-	98,926
Satisfactory (5-7)	86,114	32,174	-	118,288	47,950	28,826	-	76,776
Default (8-10)	-	-	22,158	22,158	-	-	27,306	27,306
	214,707	40,259	22,158	277,124	140,614	35,088	27,306	203,008

4.1 Movements in deferred profit from murabaha contracts:	2025	2024
	BHD '000	BHD '000
<b>Balance at 1 January</b>	<b>15,885</b>	16,146
Murabaha sales	127,608	191,768
Murabaha cost of sales	(122,299)	(185,369)
Profit amortized to consolidated statement of income	(5,626)	(6,666)
Foreign exchange (FX) translation	2	6
<b>Balance at 31 December</b>	<b>15,570</b>	15,885

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**4 RECEIVABLES (continued)**
**4.2 Allowances for expected credit losses**

An analysis of the changes in ECL allowances, is as follows:

<b>2025</b>				
	<b>Stage 1: 12-month ECL BHD '000</b>	<b>Stage 2: Lifetime ECL not credit- impaired BHD '000</b>	<b>Stage 3: Lifetime ECL credit- impaired BHD '000</b>	<b>Total BHD '000</b>
<b>Balance at 1 January</b>	731	3,981	20,740	25,452
<b>Changes during the year:</b>				
- transferred to Stage 1: 12 month ECL	9	(8)	(1)	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(24)	463	(439)	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(61)	(431)	492	-
Net remeasurement of loss allowance	(148)	(679)	2,090	1,263
Recoveries / write-backs	-	-	(1,778)	(1,778)
Allowances for credit losses	(224)	(655)	364	(515)
Amounts written off during the year	-	-	(6,884)	(6,884)
FX translation	(1)	(2)	(72)	(75)
<b>Balance at 31 December</b>	<b>506</b>	<b>3,324</b>	<b>14,148</b>	<b>17,978</b>

<b>2024</b>				
	<b>Stage 1: 12-month ECL BHD '000</b>	<b>Stage 2: Lifetime ECL not credit- impaired BHD '000</b>	<b>Stage 3: Lifetime ECL credit- impaired BHD '000</b>	<b>Total BHD '000</b>
<b>Balance at 1 January</b>	718	3,394	19,592	23,704
<b>Changes during the year:</b>				
- transferred to Stage 1: 12 month ECL	34	(25)	(9)	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(101)	443	(342)	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(5)	(280)	285	-
Net remeasurement of loss allowance	85	447	2,303	2,835
Recoveries / write-backs	-	-	(345)	(345)
Allowances for credit losses	13	585	1,892	2,490
Write back of written off	-	-	(881)	(881)
FX translation	-	2	137	139
<b>Balance at 31 December</b>	<b>731</b>	<b>3,981</b>	<b>20,740</b>	<b>25,452</b>

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**5 IJARA MUNTAHIA BITTAMLEEK AND IJARA RECEIVABLES**

	2025			2024		
	<i>Self</i>	<i>Jointly</i>	<i>Total</i>	<i>Self</i>	<i>Jointly</i>	<i>Total</i>
	<i>financed</i>	<i>financed</i>		<i>financed</i>	<i>financed</i>	
	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>
Ijara muntahia bittamleek (5.1)	1,499	199,782	201,281	2,362	200,804	203,166
Ijara income receivables	988	17,352	18,340	945	17,775	18,720
	<b>2,487</b>	<b>217,134</b>	<b>219,621</b>	<b>3,307</b>	<b>218,579</b>	<b>221,886</b>
Less: Allowances for expected credit losses (5.2)	(27)	(3,387)	(3,414)	(41)	(4,385)	(4,426)
	<b>2,460</b>	<b>213,747</b>	<b>216,207</b>	<b>3,266</b>	<b>214,194</b>	<b>217,460</b>

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification. The amounts presented are gross of expected credit losses.

	2025				2024			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>
Good (1-4)	203,695	747	-	204,442	203,895	1,044	-	204,939
Satisfactory (5-7)	4,815	4,865	-	9,680	9,048	74	-	9,122
Default (8-10)	-	-	5,499	5,499	-	-	7,824	7,824
	<b>208,510</b>	<b>5,612</b>	<b>5,499</b>	<b>219,621</b>	<b>212,943</b>	<b>1,118</b>	<b>7,824</b>	<b>221,885</b>

**5.1 Ijara muntahia bittamleek**

	2025			2024		
	<i>Self</i>	<i>Jointly</i>	<i>Total</i>	<i>Self</i>	<i>Jointly</i>	<i>Total</i>
	<i>financed</i>	<i>financed</i>		<i>financed</i>	<i>financed</i>	
	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>
<b>Land and building</b>						
Cost	-	265,775	265,775	-	257,310	257,310
Accumulated depreciation	-	(65,993)	(65,993)	-	(56,506)	(56,506)
Net book value	-	<b>199,782</b>	<b>199,782</b>	-	<b>200,804</b>	<b>200,804</b>
<b>Equipment</b>						
Cost	5,608	-	5,608	5,609	-	5,609
Accumulated depreciation	(4,109)	-	(4,109)	(3,247)	-	(3,247)
Net book value	<b>1,499</b>	-	<b>1,499</b>	<b>2,362</b>	-	<b>2,362</b>
<b>TOTAL</b>						
Cost	5,608	265,775	271,383	5,609	257,310	262,919
Accumulated depreciation	(4,109)	(65,993)	(70,102)	(3,247)	(56,506)	(59,753)
Net book value	<b>1,499</b>	<b>199,782</b>	<b>201,281</b>	<b>2,362</b>	<b>200,804</b>	<b>203,166</b>

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**5 IJARA MUNTAHIA BITTAMLEEK AND IJARA RECEIVABLES (continued)**
**5.2 Allowances for expected credit losses**

An analysis of the changes in ECL allowances, is as follows:

	<b>2025</b>			
	<b>Stage 1: 12-month ECL</b>	<b>Stage 2: Lifetime ECL not credit-impaired</b>	<b>Stage 3: Lifetime ECL credit-impaired</b>	<b>Total</b>
	<b>BHD '000</b>	<b>BHD '000</b>	<b>BHD '000</b>	<b>BHD '000</b>
<b>Balance at 1 January</b>	286	88	4,052	4,426
<b>Changes during the year:</b>				
- transferred to Stage 1: 12 month ECL	85	(85)	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(6)	6	-	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(3)	-	3	-
Net remeasurement of loss allowance	(71)	139	336	404
Recoveries / write-backs	-	-	(134)	(134)
Allowances for credit losses	5	60	205	270
Amounts written off during the year	-	-	(1,280)	(1,280)
FX translation	-	-	(2)	(2)
<b>Balance at 31 December</b>	<b>291</b>	<b>148</b>	<b>2,975</b>	<b>3,414</b>

	<b>2024</b>			
	<b>Stage 1: 12-month ECL</b>	<b>Stage 2: Lifetime ECL not credit-impaired</b>	<b>Stage 3: Lifetime ECL credit-impaired</b>	<b>Total</b>
	<b>BHD '000</b>	<b>BHD '000</b>	<b>BHD '000</b>	<b>BHD '000</b>
<b>Balance at 1 January</b>	338	286	3,598	4,222
<b>Changes during the year:</b>				
- transferred to Stage 1: 12 month ECL	99	(28)	(71)	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(30)	30	-	-
- transferred to Stage 3: Lifetime ECL credit-impaired	-	(254)	254	-
Net remeasurement of loss allowance	(121)	54	343	276
Recoveries / write-backs	-	-	(14)	(14)
Allowances for credit losses	(52)	(198)	512	262
Amounts written off during the year	-	-	(61)	(61)
FX translation	-	-	3	3
<b>Balance at 31 December</b>	<b>286</b>	<b>88</b>	<b>4,052</b>	<b>4,426</b>

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**6 MUSHARAKAT**

	2025			2024		
	<i>Self financed</i> BHD '000	<i>Jointly financed</i> BHD '000	<i>Total</i> BHD '000	<i>Self financed</i> BHD '000	<i>Jointly financed</i> BHD '000	<i>Total</i> BHD '000
Musharakat	9,637	112,235	121,872	9,617	69,588	79,205
Less: Allowances for expected credit losses (6.1)	-	(4,238)	(4,238)	-	(4,847)	(4,847)
	<u>9,637</u>	<u>107,997</u>	<u>117,634</u>	<u>9,617</u>	<u>64,741</u>	<u>74,358</u>

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification. The amounts presented are gross of expected credit losses.

	2025				2024			
	<i>Stage 1</i> BHD '000	<i>Stage 2</i> BHD '000	<i>Stage 3</i> BHD '000	<i>Total</i> BHD '000	<i>Stage 1</i> BHD '000	<i>Stage 2</i> BHD '000	<i>Stage 3</i> BHD '000	<i>Total</i> BHD '000
Good (1-4)	92,385	5,699	-	98,084	56,510	1,417	-	57,927
Satisfactory (5-7)	14,646	5,682	-	20,328	11,149	5,986	-	17,135
Default (8-10)	-	-	3,460	3,460	-	-	4,143	4,143
	<u>107,031</u>	<u>11,381</u>	<u>3,460</u>	<u>121,872</u>	<u>67,659</u>	<u>7,403</u>	<u>4,143</u>	<u>79,205</u>

**6.1 Allowances for expected credit losses**

An analysis of the changes in ECL allowances, is as follows:

	2025			
	<i>Stage 1: 12-month ECL</i> BHD '000	<i>Stage 2: Lifetime ECL not credit-impaired</i> BHD '000	<i>Stage 3: Lifetime ECL credit-impaired</i> BHD '000	<i>Total</i> BHD '000
<b>Balance at 1 January</b>	242	628	3,977	4,847
<b>Changes during the year:</b>				
- transferred to Stage 1: 12 month ECL	2	(2)	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(24)	24	-	-
- transferred to Stage 3: credit impaired	(1)	(39)	40	-
Net remeasurement of loss allowance	3	(273)	531	261
Recoveries / write-backs	-	-	(552)	(552)
Allowances for expected credit losses	(20)	(290)	19	(291)
Amounts written off during the year	-	-	(291)	(291)
FX translation	(2)	(3)	(22)	(27)
<b>Balance at 31 December</b>	<u>220</u>	<u>335</u>	<u>3,683</u>	<u>4,238</u>

	2024			
	<i>Stage 1: 12-month ECL</i> BHD '000	<i>Stage 2: Lifetime ECL not credit-impaired</i> BHD '000	<i>Stage 3: Lifetime ECL credit-impaired</i> BHD '000	<i>Total</i> BHD '000
<b>Balance at 1 January</b>	831	1,323	3,745	5,899
<b>Changes during the year:</b>				
- transferred to Stage 1: 12 month ECL	3	(3)	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(20)	20	-	-
- transferred to Stage 3: credit impaired	(15)	(158)	173	-
Net remeasurement of loss allowance	(568)	(570)	148	(990)
Allowances for expected credit losses	(600)	(711)	321	(990)
Amounts written off during the year	-	-	(133)	(133)
FX translation	11	16	44	71
<b>Balance at 31 December</b>	<u>242</u>	<u>628</u>	<u>3,977</u>	<u>4,847</u>

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**7 INVESTMENTS**

	2025			2024		
	Self financed BHD '000	Jointly financed BHD '000	Total BHD '000	Self financed BHD '000	Jointly financed BHD '000	Total BHD '000
<b>i) Equity-type instruments at fair value through OCI</b>						
<b>Quoted</b>						
Listed equity shares	12,498	-	12,498	10,965	-	10,965
<b>Unquoted</b>						
Unlisted equity shares	3,362	153	3,515	3,362	173	3,535
Managed funds	377	-	377	377	-	377
Real estate funds	-	5,825	5,825	-	7,323	7,323
	<b>16,237</b>	<b>5,978</b>	<b>22,215</b>	<b>14,704</b>	<b>7,496</b>	<b>22,200</b>
Less: Provision for impairment	(1,023)	(279)	(1,302)	(1,088)	(67)	(1,155)
<b>Total equity investments</b>	<b>15,214</b>	<b>5,699</b>	<b>20,913</b>	<b>13,616</b>	<b>7,429</b>	<b>21,045</b>
<b>ii) Debt-type instruments at fair value through statement of income (Note 7.1)</b>						
<b>Quoted</b>						
Sukuk	-	13,263	13,263	-	66	66
<b>Unquoted</b>						
Sukuk	-	136	136	-	138	138
	<b>-</b>	<b>13,399</b>	<b>13,399</b>	<b>-</b>	<b>204</b>	<b>204</b>
<b>iii) Debt-type instruments at fair value through equity (7.1)</b>						
<b>Quoted</b>						
Sukuk	78,795	48,921	127,716	89,666	85,339	175,005
<b>Unquoted</b>						
Sukuk	-	791	791	-	944	944
	<b>78,795</b>	<b>49,712</b>	<b>128,507</b>	<b>89,666</b>	<b>86,283</b>	<b>175,949</b>
<b>iv) Debt-type instruments at amortised cost (7.1)</b>						
<b>Quoted</b>						
Sukuk	43,355	145,372	188,727	73,950	82,218	156,168
<b>Unquoted</b>						
Sukuk	7,580	19,060	26,640	-	24,813	24,813
	<b>50,935</b>	<b>164,432</b>	<b>215,367</b>	<b>73,950</b>	<b>107,031</b>	<b>180,981</b>
Less: Allowance for expected credit losses (7.2)	(44)	(413)	(457)	(153)	(297)	(450)
<b>Total debt-type investments</b>	<b>129,686</b>	<b>227,130</b>	<b>356,816</b>	<b>163,463</b>	<b>193,221</b>	<b>356,684</b>
<b>Total investments</b>	<b>144,900</b>	<b>232,829</b>	<b>377,729</b>	<b>177,079</b>	<b>200,650</b>	<b>377,729</b>

Within unquoted investments which are held at fair value through OCI are investments amounting to BHD 8.6 (2024: BHD 10.3 million) which are held at cost less allowance for impairment. These are mainly investments in unlisted companies whose shares are not traded on active markets. The investments are primarily in closely-held companies and structured products. The investments are held at cost less provision for impairment due to the unpredictable nature of their future cash flows and the lack of other suitable methods for determining a reliable fair value.

The Group's investments in sukuk held at amortised cost amounting to BHD 215.4 (2024: BHD 181.0 million) have a fair value amounting to BHD 214.4 (2024: BHD 176.0 million).

Investments having face value amounting to BHD Nil (2024: BHD 24.1 million) are pledged to raise funds under repurchase agreements (REPO) from a financial institutions.

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**7 INVESTMENTS (continued)**
**7.1 Debt-type instruments**

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification. The amounts presented are gross of expected credit losses.

	2025			2024		
	Stage 1 BHD '000	Stage 2 BHD '000	Total BHD '000	Stage 1 BHD '000	Stage 2 BHD '000	Total BHD '000
Good (1-4)	140,980	-	140,980	175,071	-	175,071
Satisfactory (5-7)	215,159	1,134	216,293	180,929	1,134	182,063
	<b>356,139</b>	<b>1,134</b>	<b>357,273</b>	<b>356,000</b>	<b>1,134</b>	<b>357,134</b>

**7.2 Allowances for expected credit losses**

An analysis of the changes in ECL allowances, is as follows:

	2025		
	Stage 1: 12-month ECL BHD '000	Stage 2: Lifetime ECL not credit-impaired BHD '000	Total BHD '000
<b>Balance at 1 January</b>	288	162	450
<b>Changes during the year</b>			
Net remeasurement of loss allowance	30	(21)	9
Allowances for expected credit losses	30	(21)	9
FX translation	-	(2)	(2)
<b>Balance at 31 December</b>	<b>318</b>	<b>139</b>	<b>457</b>

	2024		
	Stage 1: 12-month ECL BHD '000	Stage 2: Lifetime ECL not credit-impaired BHD '000	Total BHD '000
<b>Balance at 1 January</b>	309	119	428
<b>Changes during the year</b>			
Net remeasurement of loss allowance	(19)	43	24
Allowances for expected credit losses	(19)	43	24
FX translation	(2)	-	(2)
<b>Balance at 31 December</b>	<b>288</b>	<b>162</b>	<b>450</b>

**7.3 Provision for impairment on equity type investments**

	2025	2024
	BHD '000	BHD '000
<b>Balance at 1 January</b>	1,155	1,267
Charges for the year	247	-
Reversal for the year	(98)	(120)
Exchange difference	(2)	8
<b>Balance at 31 December</b>	<b>1,302</b>	<b>1,155</b>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**8 INVESTMENT IN JOINT VENTURE**

	2025	2024
	<i>BHD '000</i>	<i>BHD '000</i>
<b>Balance at 1 January</b>	6,511	6,291
Net share of income for the year	-	220
Liquidation	(6,511)	-
<b>Balance at 31 December</b>	<u>-</u>	<u>6,511</u>

<u>Name</u>	<u>Nature of Business</u>	<u>Ownership</u>	
		2025	2024
Danaat Al-Baraka	Real estate development	-	51%

	2025	2024
	<i>BHD '000</i>	<i>BHD '000</i>
<b>Summarised statement of financial position</b>		
Current assets	-	12,767
Current liabilities	-	(2)
<b>Net assets</b>	<u>-</u>	<u>12,765</u>
Group's ownership in equity	-	6,511
<b>Net carrying amount</b>	<u>-</u>	<u>6,511</u>

	2025	2024
	<i>BHD '000</i>	<i>BHD '000</i>
<b>Summarised statement of income</b>		
Total income	-	747
Total expenses	-	(315)
<b>Total comprehensive income</b>	<u>-</u>	<u>432</u>
<b>Group's net share of profit</b>	<u>-</u>	<u>220</u>

On 10 July 2024, the shareholders of "Danaat-Al-Baraka SPC", in an extraordinary general meeting, resolved to liquidate the company after the completion of all legal formalities. No gain or loss was recognized as a result of the liquidation.

**9 INVESTMENTS IN REAL ESTATE**

	2025	2024
	<i>BHD '000</i>	<i>BHD '000</i>
<b>Balance at 1 January</b>	2,911	2,911
Additions	280	-
Disposals during the year	(270)	-
Unrealized gains on remeasurement	326	-
<b>Balance at 31 December</b>	<u>3,247</u>	<u>2,911</u>

**10 PREMISES AND EQUIPMENT**

	<i>Land and building</i>	<i>Capital work in progress</i>	<i>Office furniture and equipment</i>	<i>Vehicles</i>	<i>Total</i>
	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>
Cost:					
<b>At 1 January 2025</b>	30,567	927	10,261	207	41,962
Additions	200	761	1,108	42	2,111
Disposals	(90)	-	(58)	(3)	(151)
Exchange difference	(20)	-	(23)	(1)	(44)
<b>At 31 December 2025</b>	<u>30,657</u>	<u>1,688</u>	<u>11,288</u>	<u>245</u>	<u>43,878</u>
Accumulated depreciation:					
<b>At 1 January 2025</b>	3,957	-	8,020	65	12,042
Depreciation for the year	896	-	792	40	1,728
Related to disposals	(67)	-	(56)	(3)	(126)
Exchange difference	(7)	-	(16)	-	(23)
<b>At 31 December 2025</b>	<u>4,779</u>	<u>-</u>	<u>8,740</u>	<u>102</u>	<u>13,621</u>
Net book values:					
<b>At 31 December 2025</b>	<u>25,878</u>	<u>1,688</u>	<u>2,548</u>	<u>143</u>	<u>30,257</u>
At 31 December 2024	<u>26,610</u>	<u>927</u>	<u>2,241</u>	<u>142</u>	<u>29,920</u>
Estimated useful life for calculation of depreciation	20-30 years	4-5 years	1-10 years	4-5 years	

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**11 INTANGIBLES AND GOODWILL**

	2025	2024
	<i>BHD '000</i>	<i>BHD '000</i>
Softwares and licenses	1,660	2,004
Right of use assets	4,503	3,208
Goodwill (11.1)	3,022	3,039
	<u>9,185</u>	<u>8,251</u>

- 11.1 Goodwill acquired through business combination has been entirely allocated to a single cash generating unit (CGU), Al Baraka Bank (Pakistan) Limited by the Group's management. The recoverable amount of the CGU was determined based on value in use calculation using cash flow projections from financial budgets approved by the Group's senior management covering a five year period. Management determined budgeted spreads based on the CGU's past performance and its expectation of market development.

*Discount rate*

Discount rate represents the factor that translates the projected cash flows into present value terms in order to arrive at an indicative business valuation of the CGU. The rate used by the management to discount the future cash flow projections is 23.6% (2024: 29.3%) and is not only reflective of the time value of money but also the risk associated with the business future operations and the geographical segment in which it operates.

*Terminal value*

The Group's management has determined the terminal value of the CGU using the discounted cash flow (DCF) methodology, applying the perpetuity growth model. Under this approach, the projected cash flows at the end of year five are capitalized by dividing them with the discount rate adjusted for the terminal growth rate

*Sensitivity to changes in key assumptions*

The key assumptions used in estimating recoverable amounts of cash generating units were sensitized to test the resilience of value in use calculations. On this basis, management believes that reasonable changes in key assumptions used to determine the recoverable amount of the Group's cash generating units will not result in an impairment.

**12 OTHER ASSETS**

	2025	2024
	<i>BHD '000</i>	<i>BHD '000</i>
Collaterals pending sale	5,736	4,466
Accounts receivable	3,836	3,951
Deferred tax (12.1)	5,101	4,311
Others	6,307	2,944
Prepayments	1,372	1,149
	<u>22,352</u>	16,821
Less: Provision for impairment	(260)	(286)
	<u>22,092</u>	<u>16,535</u>

- 12.1 The net deferred tax asset has been recognised in accordance with the Group's accounting policy. The management based on recent financial projections prepared, estimates that sufficient taxable profits would be available in future against which the deferred tax asset could be realised.

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**13 OTHER LIABILITIES**

	<b>2025</b>	<b>2024</b>
	<b>BHD '000</b>	<b>BHD '000</b>
Bills payable	13,545	10,356
Margins received	12,187	11,986
Accounts payable	6,540	4,299
Provision for employees benefits	2,953	2,625
Operating ijarah liability	4,918	3,431
Accrued expenses	2,311	3,043
Advance payments from customers	3,146	1,268
Valuation of foreign exchange contracts	59	285
Charity fund (note 13.1)	169	179
Taxation and duties	230	193
Allowance for expected credit losses-unfunded facilities	93	202
Security deposit against ijara muntahia bittamleek	86	89
Others	27	2,381
	<b>46,264</b>	<b>40,337</b>

**13.1 Movement In charity fund**

	<b>2025</b>	<b>2024</b>
	<b>BHD '000</b>	<b>BHD '000</b>
<b>Balance at 1 January</b>	<b>179</b>	<b>205</b>
Net movement	(10)	(26)
<b>Balance at 31 December</b>	<b>169</b>	<b>179</b>

**14 PARTICIPATORY INVESTMENT ACCOUNTS**

The Group manages and deploys Equity of Investment Accountholders "IAH" according to its Article of Association – Chapter 3 on Rules of Business. In this respect, the Group invests its own funds separately or jointly with amount received from Equity of Investment Account Holders. These funds received are managed in accordance with Shari'a requirements and standard of prudence is applied in the context of managing the overall portfolios to enable the Group to exercise its fiduciary responsibilities. The Group is authorised by the Investment Accountholders to invest the funds on the basis of mudaraba, murabaha, salam, ijara transactions and other forms of contract in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

	<b>2025</b>	<b>2024</b>
	<b>BHD '000</b>	<b>BHD '000</b>
IAH - Non-banks	601,196	559,612
IAH - Banks	240,745	132,452
Profit equalisation reserve (note 14.1)	271	271
	<b>842,212</b>	<b>692,335</b>

## Al Baraka Islamic Bank B.S.C. (c)

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 14 PARTICIPATORY INVESTMENT ACCOUNTS (continued)

##### 14.1 Movement in profit equalisation reserve (continued)

The Group deducts investment risk reserve as per approved policy from the profit distributable to equity of investment accountholders of its Bahrain operations, after allocating the Mudarib share in order to meet future losses for equity of IAH.

The profit equalisation reserve and investment risk reserve will revert to investment accountholders as per terms and conditions of the Mudaraba contract. There was no movement in profit equalisation profit reserve during the year.

As investment accountholder's funds are commingled with the Group's funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits.

The Group's share, as Mudarib, in the profits of equity of investment accountholders is up to a maximum of 70% (2024: up to 70%) as per the terms of IAH agreements.

The Group has charged a total administrative expense of BHD 3.7 million (2024: BHD 2.9 million) to equity of investment account holders for the year ended 31 December 2025.

##### 14.2 Participatory investment accounts by maturity

	2025 BHD '000	2024 BHD '000
Saving accounts	259,337	242,976
One month investment account	157,394	77,701
Three months investment account	116,053	82,742
Six months investment account	153,542	99,350
Nine months investment account	2,354	207
1 Year investment account	112,602	121,719
2 Years investment account	1,038	13,805
3 Years investment account	14,064	27,834
4 Years investment account	1,202	1,472
5 Years investment account	24,626	24,529
	<b>842,212</b>	<b>692,335</b>

##### 14.3 Participatory investment accounts by type

	2025 BHD '000	2024 BHD '000
Accounts on demand	259,337	242,976
Accounts on a contractual basis *	582,875	449,359
	<b>842,212</b>	<b>692,335</b>

\* These can be withdrawn subject to deduction of charges upon management discretion.

#### 15 SUBORDINATED MUDARABA

	2025 BHD '000	2024 BHD '000
Subordinated mudaraba	2,347	2,361
	<b>2,347</b>	<b>2,361</b>

Particular	Principal	Profit payment	Profit rate	Maturity
Al Baraka Pakistan Limited Tier 2 Sukuk Third issue	Bullet	Semi-Annually	6 M Kibor + 1.50%	2031

**Al Baraka Islamic Bank B.S.C. (c)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**16 SHARE CAPITAL**

	<b>2025</b>	<b>2024</b>
	<b>BHD '000</b>	<b>BHD '000</b>
(i) <i>Share capital</i>		
Authorised 6,000,000 ordinary shares (2024: 6,000,000) of US\$ 100 each	<b>226,200</b>	226,200
	<b>2025</b>	<b>2024</b>
	<b>BHD '000</b>	<b>BHD '000</b>
Issued and fully paid 1,514,578 ordinary shares (2024: 1,514,578) of US \$ 100 each	<b>57,100</b>	57,100

*Additional information on shareholding pattern:*

Names and nationalities of the major shareholder having an interest of 5% or more are as follows:

	<b>2025</b>		
<b>Name</b>	<b>Domicile</b>	<b>No. of shares</b>	<b>% holding</b>
Al Baraka Group B.S.C. (c)	Bahrain	1,405,755	92.81%
	<b>2024</b>		
<b>Name</b>	<b>Domicile</b>	<b>No. of shares</b>	<b>% holding</b>
Al Baraka Group B.S.C. (c)	Bahrain	1,405,755	92.81%

The Group has only one class of shares and the holders of these shares have equal voting rights.

Following is the distribution schedule of shares, setting out the number and percentage of other shareholders along with categories:

	<b>2025</b>			<b>2024</b>		
	<b>Number of shares</b>	<b>Number of shareholders</b>	<b>% of total outstanding shares</b>	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	<b>58,823</b>	<b>12</b>	<b>3.88%</b>	58,823	12	3.88%
1% up to less than 5%	<b>50,000</b>	<b>1</b>	<b>3.30%</b>	50,000	1	3.30%
	<b>108,823</b>	<b>13</b>	<b>7.19%</b>	108,823	13	7.19%

## Al Baraka Islamic Bank B.S.C. (c)

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2025

#### 16 SHARE CAPITAL (continued)

##### (ii) Perpetual equity-type instruments

	2025	2024
	BHD '000	BHD '000
	<b>36,192</b>	36,192

The Group held additional tier 1 capital (subordinated mudaraba) amounted to BHD 36.2 million, received from ultimate parent. Such capital was raised from time to time to ensure compliance with minimum capital requirement (MCR) and capital adequacy requirement (CAR) as prescribed by Central Bank of Bahrain. The Bank raised additional tier 1 capital amounted to BHD 30.5 million against cash consideration and BHD 5.7 million against equity shares.

Summary of terms and conditions are as follows:

- Subordinated mudaraba amounted to BHD 30.5 million carries expected profit ranging from 6% to 9% per annum, on a semi-annual basis;
- Subordinated mudaraba amounted to BHD 5.7 million carries expected profit rate, which is 30% of the dividend or profit to be received on underlying equity investments shall be distributed to the Ultimate Parent, subject to and in accordance with terms and conditions, on an annual basis;
- the investor will not have a right to claim the profit and such event of nonpayment of profit will not be considered as event of default; and
- such instruments are recognised under equity in the consolidated statement of financial position and the corresponding profits paid to investor are accounted as appropriation of profits.

##### (iii) Statutory reserve

In accordance with the Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net income for the year is transferred to the statutory reserve until such time as the reserve reaches 50% of the Bank's paid-up share capital. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the CBB.

##### (iv) General reserve

In accordance with the Bank's articles of association, the Bank may transfer any amount, as approved by the General Assembly, out of net income for the year to the general reserve after appropriating statutory reserve. The general reserve is distributable, subject to the approval of the CBB.

##### (v) Cumulative changes in fair value

This represents the net unrealised fair value changes relating to the equity of the parent on equity-type instruments at fair value through equity and investment in real estate.

##### (vi) Revaluation reserve on premises and equipment

This represents the net surplus on revaluation relating to the equity of the parent on premises and equipment carried at fair value.

##### (vii) Foreign exchange reserve

This represents the translation reserve arising as a result of consolidation of the foreign subsidiary.

##### (viii) Employee defined benefit plan reserve

This represents the reserve created in lieu of actuarial gains or losses on defined benefit liabilities and planned assets.

**Al Baraka Islamic Bank B.S.C. (c)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2025

**17 CONTINGENCIES AND COMMITMENTS**

	2025	2024
	<i>BHD '000</i>	<i>BHD '000</i>
Foreign exchange contracts	32,283	14,792
Guarantees	26,738	28,818
Letters of credit	29,230	22,583
Acceptances	4,234	3,411
Taxation	3,704	4,420
Others	143	64
	<u>96,332</u>	<u>74,088</u>

**18 INCOME FROM FINANCING**

	2025	2024
	<i>BHD '000</i>	<i>BHD '000</i>
Income from receivables	15,828	18,363
Income from participatory investments	10,345	13,585
Income from ijarah muntahia bittamleek	12,084	12,706
	<u>38,257</u>	<u>44,654</u>
Income from jointly financed financing assets	35,576	38,053
Income from self financed financing assets	2,681	6,601
	<u>38,257</u>	<u>44,654</u>

**19 INCOME FROM INVESTMENTS**

	2025	2024
	<i>BHD '000</i>	<i>BHD '000</i>
Yield, coupon or return on investments	28,902	39,580
Loss on sale of investments	(861)	(475)
Dividend income	1,037	921
Income from real estate	329	88
	<u>29,407</u>	<u>40,114</u>
Income from jointly financed investments	15,451	20,858
Income from self financed investments	13,956	19,256
	<u>29,407</u>	<u>40,114</u>

**20 INCOME FROM BANKING SERVICES**

	2025	2024
	<i>BHD '000</i>	<i>BHD '000</i>
Fees and commissions	2,636	2,185
Letters of credit and acceptances	304	287
Guarantees	153	139
	<u>3,093</u>	<u>2,611</u>

**21 OTHER INCOME**

	2025	2024
	<i>BHD '000</i>	<i>BHD '000</i>
Foreign exchange gain - net	1,860	1,706
Others	1,894	1,340
	<u>3,754</u>	<u>3,046</u>

**Al Baraka Islamic Bank B.S.C. (c)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**22 OTHER OPERATING EXPENSES**

	2025	2024
	<i>BHD '000</i>	<i>BHD '000</i>
Administrative expenses	(4,375)	(3,680)
Premises costs	(1,848)	(2,004)
Business expenses	(6,897)	(6,619)
General expenses	(506)	(468)
	<u>(13,626)</u>	<u>(12,771)</u>

**23 REVERSALS / (ALLOWANCES) FOR IMPAIRMENT - NET**

	2025	2024
	<i>BHD '000</i>	<i>BHD '000</i>
Receivables (4.2)	515	(2,490)
Ijara muntahia bittamleek and ijara receivables (5.2)	(270)	(262)
Musharakat (6.1)	291	990
Investments - debt type (7.2)	(9)	(24)
Investments - equity type (7.3)	(149)	120
Off balance sheet assets under management	108	(132)
Other assets	21	(15)
	<u>507</u>	<u>(1,813)</u>

**24 TAXATION**

Taxation relates to subsidiary in Pakistan and comprise:

	2025	2024
	<i>BHD '000</i>	<i>BHD '000</i>
<b>Consolidated statement of financial position:</b>		
Deferred tax (12)	5,101	4,311
<b>Consolidated statement of income:</b>		
Current tax	(2,969)	(5,975)
Deferred tax	(113)	455
	<u>(3,082)</u>	<u>(5,520)</u>

**25 CASH AND CASH EQUIVALENTS**

	2025	2024
	<i>BHD '000</i>	<i>BHD '000</i>
For the purpose of cash flows, cash and cash equivalents represent:		
Cash on hand	8,820	8,921
Balances with central banks (unrestricted accounts and overnight placements)	59	128
Balances with other banks and financial institutions	4,656	15,265
Receivables, commodities and wakala placements (with an original maturity of 90 days or less)	64,976	23,122
	<u>78,511</u>	<u>47,436</u>

**26 RELATED PARTY BALANCES AND TRANSACTIONS**

Related parties comprise major shareholders, directors of the Group, entities owned or controlled, jointly controlled or significantly influenced by them, companies affiliated by virtue of shareholding in common with that of the Group, Shari'a supervisory board and external auditors.

The significant balances with related parties were as follows:

	<i>Ultimate Parent and other shareholders</i>		<i>Other related parties</i>		<i>Total</i>	
	<i>2025</i>	<i>2024</i>	<i>2025</i>	<i>2024</i>	<i>2025</i>	<i>2024</i>
	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>
<b>Assets:</b>						
Cash and balances with banks and financial institutions	3	6	15	17	18	23
Receivables	-	-	615	492	615	492
Musharakat	-	-	918	676	918	676
Investments	11,372	9,889	3,127	9,452	14,499	19,341
Other assets	3,611	3,394	-	-	3,611	3,394
	<b>14,986</b>	<b>13,289</b>	<b>4,675</b>	<b>10,637</b>	<b>19,661</b>	<b>23,926</b>
<b>Liabilities:</b>						
Current accounts	525	945	216	12,893	741	13,838
Other liabilities	1	121	468	310	469	431
Total liabilities	<b>526</b>	<b>1,066</b>	<b>684</b>	<b>13,203</b>	<b>1,210</b>	<b>14,269</b>
<b>Participatory investment accounts</b>	<b>16,597</b>	<b>17,010</b>	<b>43,500</b>	<b>23,741</b>	<b>60,097</b>	<b>40,751</b>
<b>Off-Balance Sheet Items:</b>						
Assets under management	37,754	38,463	33,322	43,678	71,076	82,141
Contingencies and commitments	-	754	41	140	41	894

The transactions with the related parties included in the consolidated statement of income are as follows:

	<i>Ultimate Parent and other shareholders</i>		<i>Other related parties</i>		<i>Total</i>	
	<i>2025</i>	<i>2024</i>	<i>2025</i>	<i>2024</i>	<i>2025</i>	<i>2024</i>
	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>
<b>Income</b>						
Income from financings contracts	-	-	23	21	23	21
Income from investments	524	462	217	354	741	816
Group's Mudarib / Agency fee from off-balance sheet assets under management	15	12	29	38	44	50
Other income	842	1,059	-	-	842	1,059
	<b>1,381</b>	<b>1,533</b>	<b>269</b>	<b>413</b>	<b>1,650</b>	<b>1,946</b>
<b>Expenses</b>						
Net income attributable to quasi-equity	1,833	1,124	2,102	1,094	3,935	2,218
Other expenses	-	-	1,053	1,019	1,053	1,019
	<b>1,833</b>	<b>1,124</b>	<b>3,155</b>	<b>2,113</b>	<b>4,988</b>	<b>3,237</b>

Compensation of key management personnel is as follows:

	<i>2025</i>	<i>2024</i>
	<i>BHD '000</i>	<i>BHD '000</i>
Salaries	2,248	1,944
Other benefits	851	807
	<b>3,099</b>	<b>2,751</b>

## Al Baraka Islamic Bank B.S.C. (c)

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 27 RISK MANAGEMENT

Risk management is an integral part of the Group's decision-making process. The risk management committee and executive committees, guide and assist with overall management of the Group's consolidated statement of financial position risks. The Group manages exposures by setting limits approved by the Board of Directors.

##### a) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a regular basis.

The table below summarises the maturity profile of the Group's assets and liabilities as of 31 December 2025 based on contractual periods to cash conversion from the consolidated statement of financial position date. However, expected periods to cash conversion where there are no contractual terms.

	Up to 3 months BHD '000	3 to 6 months BHD '000	6 months to 1 year BHD '000	1 to 3 years BHD '000	3 to 5 years BHD '000	5 to 10 years BHD '000	10 to 20 years BHD '000	Over 20 years BHD '000	No fixed maturity BHD '000	Total BHD '000
<b>ASSETS</b>										
Cash and balances with banks and financial institutions	58,319	-	-	-	-	-	-	-	-	58,319
Receivables	144,116	37,468	13,721	30,288	19,633	10,841	1,946	1,133	-	259,146
Ijara muntahia bittamleek and ijara receivables	7,282	5,101	5,505	25,555	18,439	48,398	89,032	16,895	-	216,207
Musharakat	162	351	32,030	14,483	21,840	40,382	7,565	821	-	117,634
Investments	10,508	743	73,807	101,421	41,544	134,466	-	513	14,727	377,729
Investments in real estate	-	-	-	3,247	-	-	-	-	-	3,247
Premises and equipment	-	-	-	-	-	-	-	-	30,257	30,257
Intangibles and goodwill	-	-	-	-	-	-	-	-	9,185	9,185
Other assets	15,797	398	796	-	5,101	-	-	-	-	22,092
<b>Total assets</b>	<b>236,184</b>	<b>44,061</b>	<b>125,859</b>	<b>174,994</b>	<b>106,557</b>	<b>234,087</b>	<b>98,543</b>	<b>19,362</b>	<b>54,169</b>	<b>1,093,816</b>
<b>LIABILITIES, QUASI EQUITY AND OWNERS' EQUITY</b>										
Current accounts	126,860	-	-	-	-	-	-	-	-	126,860
Other liabilities	40,773	481	877	1,440	956	1,698	39	-	-	46,264
Participatory investment accounts	648,564	122,612	42,708	25,959	853	1,516	-	-	-	842,212
Subordinated mudaraba	12	-	-	2,335	-	-	-	-	-	2,347
Total owners' equity	-	-	-	-	-	-	-	-	76,133	76,133
<b>Total Liabilities, Quasi Equity And Owners' Equity</b>	<b>816,209</b>	<b>123,093</b>	<b>43,585</b>	<b>29,734</b>	<b>1,809</b>	<b>3,214</b>	<b>39</b>	<b>-</b>	<b>76,133</b>	<b>1,093,816</b>
<b>Net gap</b>	<b>(580,025)</b>	<b>(79,032)</b>	<b>82,274</b>	<b>145,260</b>	<b>104,748</b>	<b>230,873</b>	<b>98,504</b>	<b>19,362</b>	<b>(21,964)</b>	<b>-</b>
<b>Cumulative net gap</b>	<b>(580,025)</b>	<b>(659,057)</b>	<b>(576,783)</b>	<b>(431,523)</b>	<b>(326,775)</b>	<b>(95,902)</b>	<b>2,602</b>	<b>21,964</b>	<b>-</b>	<b>-</b>
<b>Off-balance sheet items:</b>										
<b>Assets under management</b>	<b>271,187</b>	<b>100,552</b>	<b>34,361</b>	<b>30,499</b>	<b>15,658</b>	<b>9,250</b>	<b>-</b>	<b>-</b>	<b>3,051</b>	<b>464,558</b>

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**27 RISK MANAGEMENT (continued)**
**a) Liquidity risk (continued)**

The table below summarises the maturity profile of the Group's assets and liabilities as of 31 December 2024 based on contractual periods to cash conversion from the consolidated statement of financial position date. However, expected periods to cash conversion where there are no contractual terms.

	Up to 3 months BHD '000	3 to 6 months BHD '000	6 months to 1 year BHD '000	1 to 3 years BHD '000	3 to 5 years BHD '000	5 to 10 years BHD '000	10 to 20 years BHD '000	Over 20 years BHD '000	No fixed maturity BHD '000	Total BHD '000
<b>ASSETS</b>										
Cash and balances with banks and financial institutions	58,986	-	-	-	-	-	-	-	-	58,986
Receivables	72,121	32,986	15,884	28,046	18,012	7,184	1,838	1,485	-	177,556
Ijara muntahia bittamleek and ijara receivables	10,548	4,029	5,899	27,092	19,355	44,799	84,718	21,020	-	217,460
Musharakat	134	585	26,485	14,793	9,029	15,960	7,372	-	-	74,358
Investments	14,423	1,897	44,833	121,015	101,795	45,099	35,039	515	13,113	377,729
Investments in real estate	-	-	-	2,911	-	-	-	-	-	2,911
Investment in Joint Venture	-	-	-	-	-	-	-	-	6,511	6,511
Premises and equipment	-	-	-	-	-	-	-	-	29,920	29,920
Intangibles and goodwill	-	-	-	-	-	-	-	-	8,251	8,251
Other assets	11,855	123	246	-	4,311	-	-	-	-	16,535
<b>Total assets</b>	<b>168,067</b>	<b>39,620</b>	<b>93,347</b>	<b>193,857</b>	<b>152,502</b>	<b>113,042</b>	<b>128,967</b>	<b>23,020</b>	<b>57,795</b>	<b>970,217</b>
<b>LIABILITIES, QUASI EQUITY AND OWNERS' EQUITY</b>										
Current accounts	109,954	-	-	-	-	-	-	-	-	109,954
Murabaha and other payables	45,939	-	-	-	-	-	-	-	-	45,939
Other liabilities	35,336	669	1,550	1,326	629	827	-	-	-	40,337
Participatory investment accounts	533,099	61,293	55,441	23,639	16,993	1,870	-	-	-	692,335
Subordinated mudaraba	12	-	-	2,349	-	-	-	-	-	2,361
Total owners' equity	-	-	-	-	-	-	-	-	79,291	79,291
<b>Total Liabilities, Quasi Equity And Owners' Equity</b>	<b>724,340</b>	<b>61,962</b>	<b>56,991</b>	<b>27,314</b>	<b>17,622</b>	<b>2,697</b>	<b>-</b>	<b>-</b>	<b>79,291</b>	<b>970,217</b>
<b>Net gap</b>	<b>(556,273)</b>	<b>(22,342)</b>	<b>36,356</b>	<b>166,543</b>	<b>134,880</b>	<b>110,345</b>	<b>128,967</b>	<b>23,020</b>	<b>(21,496)</b>	<b>-</b>
<b>Cumulative net gap</b>	<b>(556,273)</b>	<b>(578,615)</b>	<b>(542,259)</b>	<b>(375,716)</b>	<b>(240,836)</b>	<b>(130,491)</b>	<b>(1,524)</b>	<b>21,496</b>	<b>-</b>	<b>-</b>
<b>Off-balance sheet items:</b>										
Assets under management	167,650	56,282	33,247	27,055	33,563	17,489	-	-	4,438	339,724

**27 RISK MANAGEMENT (continued)**

**a) Liquidity risk (continued)**

The Risk Management Department ('RMD') of the Group monitors the liquidity position on a daily basis through ALCO (an 'Asset and Liability Management Committee') report and measures the Liquidity Coverage Ratio based on the contractual maturity inflow and outflow of funds on a monthly basis. The Group has put in place a Risk Appetite Statement and Liquidity Risk Management Policy and Strategy, which highlights various internal liquidity thresholds and early warning indicators (EWIs). The RMD reviews the liquidity position and early warning indicators on a continuous basis and alerts the management, when needed for necessary action. The ALCO meets on a monthly basis, at a minimum and reviews the Group's liquidity profile through maturity mismatch statement and available stock of liquid assets as well as funding concentrations; also reviews the Group's profit and funding rate and accordingly, approves any change in the rates and considers any regulatory requirements or directives. The RMD also carries out stress testing exercises and contingency funding plans on a periodic basis and reports the results to the Management and Board Risk Committee.

**b) Market risk**

Market risk arises from fluctuations in profit rates, equity prices and foreign exchange rates.

*Profit rate risk*

Profit rate risk is the risk that the Group will incur a financial loss as a result of mismatch in the profit rate on the Group's assets and IAH. The profit distribution to IAH is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

The Group is exposed to displaced commercial risk in the event of having equity of IAH profit rates that are lower than market rates. The policies and procedures to manage displaced commercial risk are formulated and implemented at the segment level (Pakistan and Bahrain).

*Foreign exchange risk*

Foreign exchange risk arise from the movement of the rate of exchange over a period of time. Positions are monitored on a regular basis to ensure positions are maintained within established approved limits.

Following is the Group's exposure to different currencies in equivalent US dollars:

	<u>2025</u>
	<i>Total</i>
	<i>equivalent</i>
	<i>BHD '000</i>
Pakistani Rupees	20,800
Euro	21
Kuwaiti Dinars	74
Pound Sterling	86
Egyptian Pound	865
Algerian Dinar	2,262
Chinese Yuan	36
	<u>2024</u>
	<i>Total</i>
	<i>equivalent</i>
	<i>BHD '000</i>
Pakistani Rupees	29,805
Euro	(2,413)
Kuwaiti Dinars	29
Pound Sterling	178
Egyptian Pound	679
Algerian Dinar	2,262
Chinese Yuan	154

## Al Baraka Islamic Bank B.S.C. (c)

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 27 RISK MANAGEMENT (continued)

##### b) Market risk (continued)

*Foreign exchange risk (continued)*

The strategic currency risk represents the amount of equity of the subsidiary.

*Foreign currency risk sensitivity analysis*

In order to measure its exposures to currency risk, the Group stress tests its exposures following the standard shocks approach, which calculates the effect on equity and income of the Group as a result of 20% appreciation and depreciation in foreign currencies in relation to the reporting currency of the Group.

Following is the sensitivity analysis that calculates the effect of a reasonable possible movement of the currency exchange rate against the US Dollar with all other variables held constant on the consolidated statement of income and the consolidated statement of owners' equity. The impact of a similar increase / (decrease) in exchange rates will be approximately opposite to the impact disclosed below:

<b>Currency 2025</b>	<b>Particular</b>	<b>Change</b>	<b>Exposures in BHD '000</b>	<b>Effect on equity/ statement of income in BHD '000</b>
Pakistani Rupees	Net Long Position	20%	20,800	4,160
Euro	Net Long Position	20%	21	4
Kuwaiti Dinars	Net Long Position	20%	74	15
Pound Sterling	Net Long Position	20%	86	17
Egyptian Pound	Net Long Position	20%	865	173
Algerian Dinar	Net Long Position	20%	2,262	452
Chinese Yuan	Net Long Position	20%	36	7

<b>Currency 2024</b>	<b>Particular</b>	<b>Change</b>	<b>Exposures in BHD '000</b>	<b>Effect on equity/ statement of income in BHD '000</b>
Pakistani Rupees	Net Long Position	20%	29,805	5,961
Euro	Net Short Position	20%	2,413	483
Kuwaiti Dinars	Net Long Position	20%	29	6
Pound Sterling	Net Long Position	20%	178	36
Egyptian Pound	Net Long Position	20%	679	136
Algerian Dinar	Net Long Position	20%	2,262	452
Chinese Yuan	Net Long Position	20%	154	31

*Equity price risk*

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the investment portfolio. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

In order to measure the risk of equity on its financial position, the Group adopts a sensitivity analysis on its equity portfolio for 10% increase and decrease of the portfolio's value:

<b>Market indices</b>	<b>Change in equity price 2025 %</b>	<b>Effect on equity / statement of income 2025 BHD '000</b>	<b>Change in equity price 2024 %</b>	<b>Effect on equity / statement of income 2024 BHD '000</b>
Pakistan Stock Exchange	10%	26	10%	40
Egypt Stock Exchange	10%	86	10%	68
Jordan Stock Exchange	10%	1,137	10%	989

**27 RISK MANAGEMENT (continued)**
**b) Market risk (continued)**
**Concentration of investment portfolio**

Concentration of an investment portfolio arises when a number of investments are made in entities engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would be affected by changes in economic, political or other conditions. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration. The industry and geographical concentration of the Group's investment portfolio is as follows:

<b>2025</b>	<b>*GCC</b>	<b>Rest of the</b>	<b>Total</b>
	<b>BHD '000</b>	<b>world</b>	
Banking	296	15,633	15,929
Government	201,189	138,629	339,818
Investment companies	12,728	-	12,728
Manufacturing	-	881	881
Real estate	4,239	1,307	5,546
Others	1,848	979	2,827
	<b>220,300</b>	<b>157,429</b>	<b>377,729</b>

<b>2024</b>	<b>*GCC</b>	<b>Rest of the</b>	<b>Total</b>
	<b>BHD '000</b>	<b>world</b>	
Banking	231	13,964	14,195
Government	165,046	168,471	333,517
Investment companies	14,599	-	14,599
Manufacturing	-	644	644
Real estate	4,221	3,053	7,274
Others	5,518	1,982	7,500
	<b>189,615</b>	<b>188,114</b>	<b>377,729</b>

\* GCC countries comprise members of the Gulf Co-operation Council being Kingdom of Bahrain, State of Kuwait, Sultanate of Oman, State of Qatar, Kingdom of Saudi Arabia and the United Arab Emirates.

**c) Credit risk**

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The Group controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are mostly secured by the personal guarantees of the counterparty, by collateral in form of mortgage of the objects financed or other tangible security.

**Type of credit risk**

Financing contracts mainly comprise Murabaha receivables, Istisna'a receivable, Musharakat, Ijara Muntahia Bittamleek and Salam.

**Receivables**

The Group finances these transactions through buying a commodity which represents the object of the murabaha and then resells this commodity to the murabeh (beneficiary) at a profit. The sale price (cost plus the profit margin) is repaid in installments by the murabeh over the agreed period. The transactions are secured at times by the object of the murabaha (in case of real estate finance) and other times by a total collateral package securing the facilities given to the client.

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 27 RISK MANAGEMENT (continued)

##### c) Credit risk (continued)

###### *Type of credit risk (continued)*

###### *Istisna'a receivable*

Istisna'a is a sale agreement between the Group as the seller and the customer as the ultimate purchaser whereby the Group undertakes to have manufactured (or acquire) goods and sell it to the customer for an agreed upon price on completion at future date.

###### *Musharakat*

An agreement between the Group and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared as per the agreement set between both parties while the loss is shared in proportion to their shares of capital or the enterprise.

###### *Ijara Muntahia Bittamleek*

This is a lease whereby the legal title of the leased asset passes to the lessee at the end of the Ijara (lease) term, provided that all Ijara installments are settled.

###### *Salam*

Salam is purchase of a commodity for deferred delivery in exchange for immediate payment according to specified conditions or sale of a commodity for deferred delivery in exchange for immediate payment.

###### **Maximum exposure to credit risk**

The table below shows the maximum exposure to credit risk by type of Islamic financing contracts before the effect of mitigation through the use of collateral or other credit enhancements.

	<i>Maximum Exposure to Credit Risk</i>	
	2025 BHD '000	2024 BHD '000
Receivables	259,146	177,556
Musharakat	117,634	74,358
Ijara muntahia bittamleek and ijara receivables	216,207	217,460
Investments in sukuk	356,816	356,684
Balances with banks and financial institutions	49,499	50,065
Other assets	9,883	6,609
Contingencies and commitments	92,485	69,604
	<b>1,101,670</b>	<b>952,336</b>

###### **Credit quality by type of Islamic financing contracts**

The table below shows the credit quality by type of Islamic financing contracts, based on the Group's quality of assets. The balances presented are gross of expected credit losses.

	2025			Total BHD '000
	<i>Neither past due nor non performing BHD '000</i>	<i>Past due but performing BHD '000</i>	<i>Non performing Islamic financing contracts BHD '000</i>	
Type of Islamic Financing Contract				
Receivables	246,658	8,308	22,158	277,124
Musharakat	116,916	1,496	3,460	121,872
Ijara muntahia bittamleek and ijara receivables	213,697	425	5,499	219,621
	<b>577,271</b>	<b>10,229</b>	<b>31,117</b>	<b>618,617</b>

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**27 RISK MANAGEMENT (continued)**
**c) Credit risk (continued)**
**Credit quality by type of Islamic financing contracts (continued)**

	2024			Total BHD '000
	<i>Neither past due nor non performing</i>	<i>Past due but performing</i>	<i>Non performing Islamic financing contracts</i>	
	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	
Type of Islamic Financing Contract				
Receivables	172,133	3,569	27,306	203,008
Musharakat	74,541	521	4,143	79,205
Ijara Muntahia Bittamleek and Ijara receivables	210,402	3,660	7,824	221,886
	<u>457,076</u>	<u>7,750</u>	<u>39,273</u>	<u>504,099</u>

**Aging analysis of past due but performing Islamic financing contracts**

	2025			Total BHD '000
	<i>Less than 30 days</i>	<i>31 to 60 days</i>	<i>61 to 90 days</i>	
	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	
Type of Islamic Financing Contracts				
Receivables	4,808	818	2,682	8,308
Musharakat	1,375	73	48	1,496
Ijara Muntahia Bittamleek & Ijara income receivables	381	41	3	425
	<u>6,564</u>	<u>932</u>	<u>2,733</u>	<u>10,229</u>

	2024			Total BHD '000
	<i>Less than 30 days</i>	<i>31 to 60 days</i>	<i>61 to 90 days</i>	
	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	
Type of Islamic Financing Contracts				
Receivables	1,543	1,678	348	3,569
Musharakat	372	90	59	521
Ijara Muntahia Bittamleek and Ijara receivables	153	3,504	3	3,660
	<u>2,068</u>	<u>5,272</u>	<u>410</u>	<u>7,750</u>

**Aging of Non-Performing Facilities**

	2025				Total BHD '000
	<i>3-6 Months</i>	<i>6-12 Months</i>	<i>1-3 Years</i>	<i>3 Years &amp; above</i>	
	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	
Receivables	7,078	3,124	4,680	7,276	22,158
Musharakat	888	78	1,008	1,486	3,460
Ijara Muntahia Bittamleek & Ijara income receivable	189	417	1,506	3,387	5,499
	<u>8,155</u>	<u>3,619</u>	<u>7,194</u>	<u>12,149</u>	<u>31,117</u>

**27 RISK MANAGEMENT (continued)**
**c) Credit risk (continued)**
**Aging of Non-Performing Facilities (continued)**

	2024				Total BHD '000
	3-6 Months	6-12 Months	1-3 Years	3 Years & Above	
	BHD '000	BHD '000	BHD '000	BHD '000	
Receivables	9,319	4,459	3,727	9,801	27,306
Musharakat	1,688	348	648	1,459	4,143
Ijara Muntahia Bittamleek & Ijara income receivable	57	184	3,326	4,257	7,824
	<u>11,064</u>	<u>4,991</u>	<u>7,701</u>	<u>15,517</u>	<u>39,273</u>

**Credit risk mitigation**

For exposures secured by real estate or other collateral, the Group carries out regular and periodic collateral verification and evaluation. This collateral verification is conducted by an independent qualified assessor or Collateral Analyst at the Group. The frequency of such collateral verification is determined as a part of the credit or investment policy and approval process. The Group allows cars, premises and equipment, plant and machinery etc, as collateral for a credit and investment product but does not accept perishable assets. The Group does not accept any assets as collateral if the assets are susceptible for obsolescence. The Group also ensure that these assets are insured in order to be accepted as collateral.

Collaterals listed hereunder attract capital relief from capital adequacy requirements:

- 1) Hamish Jiddiyah (HJ) (Good faith deposit): The Group takes this type of collateral in the transactions for which non-binding promises to perform is given by the customer. If a customer does not honour his promise to perform, the Group has recourse to the HJ. HJ is taken by the Group at the inception of the transaction but before signing the contracts. HJ constitutes partial guarantee to the Group for the performance of the contract by the customer. The Group will still have recourse to the customers for the unsecured position in case of default.
- 2) Third party guarantee: The Group should have recourse to the guarantor in case of customer's default. In order to qualify as eligible collateral, the guarantee should be unconditional and irrevocable. The guarantor must be solvent and, if applicable, should provide the Group with signed audited financial statements.
- 3) Underlying assets of the lease contract: The underlying asset must be of monetary value and the Group must have legal access to it, own it and sell it to cover the open exposure with the customers in question. The assets have also to be free of any kind of encumbrance. In the same lease contract a customer can pledge other assets that customers own other than the underlying assets in the contract. In order for the Group to consider these assets as pledged assets, it must meet all the conditions for the underlying assets under the lease contract. It must be legally enforceable, accessible, saleable and free of any kind of encumbrance. The value of the pledged asset must be used only to offset the amount against the customers.

Any excess amount resulting from the closure of the pledge by the Group should be returned to the customer (pledger). The Group is conducting at least annual evaluation of the pledged assets and keeping adequate documentation of this evaluation.

- 4) Cash deposit free from any legal encumbrance either in the form of equity of investment accountholders or off-balance sheet equity of investment accountholders.
- 5) Rated and unrated senior Sukuk issued by financial institutions or sovereigns.

**Credit quality**

Countries, governments and financial institutions will be rated on the basis of their unsecured medium term foreign currency obligations. This means that for governments and financial institutions the cross-border risk will also be part of the rating and the country's rating will be, in most cases, the ceiling on the financial institution's rating. Corporates will be rated on their senior unsecured medium term local currency obligations, unless the credit granted is across border or in foreign currency. In the latter case, the obligor's country's rating will be the ceiling on corporates' rating. Where all credit to a government is in local currency, the rating for that government is the best i.e. 1 on the rating scale, however, if the exposure to the government includes foreign currency, the rating for that government will be the same as the country's rating.

A rating is a forward looking indication of creditworthiness. It is based on an evaluation of past performance, present conditions and outlook for the future. For the purpose of rating, the Group is using only those External Credit Assessment Institutions (ECAIs) which are allowed/ approved by the CBB and are mainly used in Banking exposures.

The basic approach of the major credit rating agencies to rating is the same as what the Group credit policies require i.e. a comprehensive fundamental analysis of all relevant quantitative and non quantitative factors aimed at identifying actual and potential vulnerability. Credit rating will be applied to Countries and Single Obligors. Single Obligors, in turn are categorised as financial institutions, corporates and governments. CRS therefore rates obligors (issuers) and not facilities. The obligor rating of countries and single obligors will identify the relative probability of default but will not take into account the impact of collateral security, structure etc in the event of default. Facility ratings by contrast, combine both the probability of default and loss severity in case of defaults. However, initially the Group wide policy will be to set up obligor ratings only (which does not prevent individual subsidiary internally to also rate facilities).

**27 RISK MANAGEMENT (continued)**
**d) Operational risk**

The Group categorises operational risk loss events according to the Basel II classification consisting of seven major risk families, but also takes a causal approach to these risks and pays particular attention to the causal categories below:

**Infrastructure risks**

Availability of information technology is of paramount importance to the Group's infrastructure. The operations of the Group might be disrupted and severe operational risks could occur.

In order to protect the Group from the infrastructure risk as outlined above, the Group is taking necessary measures as indicated in the Business Continuity Plan and/or Disaster Recovery Plan to cater for these risks.

**Information technology risks**

The main risks that the Group is exposed to in this context is from inadequate software and hardware quality, cyber-attacks, unauthorized access, by third parties or employees, etc.

**Personnel risk**

These relate to any risks caused by staff (internal fraud, corruption, crime, etc.). In order to prevent these risks from occurring, the Group has established a corporate culture which entails constructive ways of dealing with mistakes. The Group has also established approved delegation of authorities in all critical business and operations processes, and established separate control functions and dedicated control processes. Further, the Group has already established measures of organizational structure in terms of segregation of duties as well as diverse training measures to improve employee competence and adherence to the required standards of work ethics.

**28 CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS**

The distribution by geographic region and industry sector was as follows:

	<b>Assets</b>		<b>Liabilities</b>		<b>Quasi equity</b>	
	<b>2025</b>	<b>2024</b>	<b>2025</b>	<b>2024</b>	<b>2025</b>	<b>2024</b>
	<b>BHD '000</b>	<b>BHD '000</b>	<b>BHD '000</b>	<b>BHD '000</b>	<b>BHD '000</b>	<b>BHD '000</b>
<b>Geographical region</b>						
Middle East	672,162	599,945	42,215	91,813	485,234	363,877
Europe	1,361	2,125	807	45	15,428	15,457
Asia	414,182	360,302	129,129	103,443	255,552	235,381
Others	6,111	7,845	973	929	88,345	79,981
	<b>1,093,816</b>	<b>970,217</b>	<b>173,124</b>	<b>196,230</b>	<b>844,559</b>	<b>694,696</b>

	<b>Assets</b>		<b>Liabilities</b>		<b>Quasi equity</b>	
	<b>2025</b>	<b>2024</b>	<b>2025</b>	<b>2024</b>	<b>2025</b>	<b>2024</b>
	<b>BHD '000</b>	<b>BHD '000</b>	<b>BHD '000</b>	<b>BHD '000</b>	<b>BHD '000</b>	<b>BHD '000</b>
<b>Industry sector</b>						
Trading and manufacturing	102,611	86,912	27,405	21,821	38,788	28,920
Banks and financial institutions	170,548	119,458	911	49,990	308,478	199,611
Construction and real estate	28,643	44,881	6,793	19,133	7,558	16,303
Government	349,387	352,904	1,679	835	16,019	24,861
Consumer	297,654	267,934	67,115	51,238	338,528	320,723
Agriculture fishing and forestry	22,546	25,460	7,920	636	2,089	728
Others	122,427	72,668	61,301	52,577	133,099	103,550
	<b>1,093,816</b>	<b>970,217</b>	<b>173,124</b>	<b>196,230</b>	<b>844,559</b>	<b>694,696</b>

**29 FAIR VALUE OF FINANCIAL INSTRUMENTS**

The fair value of investments are disclosed in note 7 to these financial statements. However, a certain equity-type instruments at fair value through equity which are carried at cost, due to the unpredictable nature of their future cash flows and the lack of other suitable methods for arriving at a reliable fair value for these investments.

Fair value is the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

Fair value is determined for each financial asset individually in accordance with the valuation policies set out below:

- (i) For investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the statement of financial position date.
- (ii) For unquoted investments, fair value is determined by reference to recent significant buy or sell transactions with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.
- (iii) For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for investments with similar terms and risk characteristics.
- (iv) Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost, less provision for impairment.

A hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable.

Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions.

These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical investments. The Group holds equity type securities classified as Level 1 and measured at fair value through OCI amounting to BHD 12,498 thousands (2024: BHD 10,965 thousands). The Group also holds debt type securities classified as Level 1 and measured at fair value through OCI amounting to BHD 127,716 thousands (2024: BHD 175,005 thousands). The Group holds debt type securities classified as Level 1 and measured at fair value through income statements amounting to BHD 13,263 thousands (2024: BHD 66 thousands). The Group does not hold any equity-type securities classified as Level 1 and measured at fair value through statement of income.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the investments, either directly (that is, as prices) or indirectly (that is, derived from prices). The Group holds investment in real estate which is classified as Level 2 and measured at FVOCI amounting to BHD 3,247 thousands (2024: BHD 2,911 thousands).

Level 3 – Inputs for the investments that are not based on observable market data (unobservable inputs). The Group also holds debt-type securities classified as Level 3 and measured at fair value through OCI amounting to BHD 790 thousands (2024: BHD 944 thousands), whereas debt-type securities measured at fair value through income statement amounting to BHD 136 thousands (2024: BHD 138 thousands). The Group holds equity-type securities classified as Level 3 and measured at fair value through equity amounting to BHD 9,717 thousands (2024: BHD 11,235 thousands) which are carried at cost less impairment. The Group does not hold any equity-type securities classified as Level 3 and measured at fair value through statement of income.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

For the year ended 31 December 2025

**30 SEGMENTAL INFORMATION**

Segmental information is presented in respect of the Group's geographical segments. The geographical segments are based upon the location of the units responsible for recording the transactions and reflects the manner in which financial information is evaluated by management and the Board of Directors.

For financial reporting purposes, the Group is divided into two geographical segments, Middle East and Other Asian Countries. Other Asian Countries represent operations in Islamic Republic of Pakistan.

The results reported for the geographic segments are based on the Group's internal financial reporting systems. The accounting policies of the segments are the same as those applied in the preparation of the Group's interim condensed consolidated financial statements. Transactions between segments are conducted at estimated market rates.

The segmental assets and liabilities of the Group were as follows:

	<i>Middle East</i>		<i>Other Asian Countries</i>		<i>Total</i>	
	<b>2025</b>	<b>2024</b>	<b>2025</b>	<b>2024</b>	<b>2025</b>	<b>2024</b>
	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>
Assets	<b>675,104</b>	599,732	<b>418,712</b>	370,485	<b>1,093,816</b>	970,217
Liabilities and quasi equity	<b>633,413</b>	554,388	<b>384,270</b>	336,538	<b>1,017,683</b>	890,926

The segmental income and expenses of the Group were as follows:

	<i>Middle East</i>		<i>Other Asian Countries</i>		<i>Total</i>	
	<b>2025</b>	<b>2024</b>	<b>2025</b>	<b>2024</b>	<b>2025</b>	<b>2024</b>
	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>
Total operating income	<b>10,151</b>	4,193	<b>19,931</b>	24,974	<b>30,082</b>	29,167
Total operating expenses	<b>(15,038)</b>	(16,021)	<b>(15,426)</b>	(13,413)	<b>(30,464)</b>	(29,434)
Reversals / (allowances) for impairment - net	<b>(786)</b>	(897)	<b>1,293</b>	(916)	<b>507</b>	(1,813)
Taxation	-	-	<b>(3,082)</b>	(5,520)	<b>(3,082)</b>	(5,520)
(Loss) / income for the year	<b>(5,673)</b>	(12,725)	<b>2,715</b>	5,125	<b>(2,957)</b>	(7,600)

**31 SOCIAL RESPONSIBILITY**

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

## Al Baraka Islamic Bank B.S.C. (c)

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2025

#### 32 Zakah

	<b>2025</b>	2024
	<b>BHD '000</b>	BHD '000
Net equity attributable to shareholders	<b>30,028</b>	33,396
Employee end of service benefits	<b>2,953</b>	2,625
Zakah-able assets	<b>(30,149)</b>	(33,201)
Zakah-able amount	<b>2,832</b>	2,820
Zakah for the year	<b>76</b>	73

#### 33 Fee disclosure

The audit and non-audit fees for the year ended 31 December 2025 to PwC and its network firms are as follows:

	<b>2025</b>	2024
	<b>BHD '000</b>	BHD '000
Audit fees	<b>91</b>	91
Non-audit fees	<b>78</b>	78
	<b>169</b>	169

#### 34 SUBSEQUENT EVENTS

There have been no events subsequent to the consolidated statement of financial position date that would significantly affect the amounts reported in the consolidated financial statements as at and for the year ended 31 December 2025.

# Al Baraka Islamic Bank B.S.C. (c)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2025

### 35 NSFR REQUIREMENTS AND CALCULATION METHODOLOGY

The Net Stable Funding Ratio ('NSFR') is calculated in accordance with the Liquidity Risk Management Module guidelines, issued by the CBB and is effective from December 2019. The minimum NSFR ratio as per CBB is 100%. The Group's consolidated NSFR ratio as of 31 December 2025 is 203.48%.

The NSFR (as a percentage) must be calculated as follows:

Item	Unweighted Values (i.e. before applying relevant factors)				Total weighted value BHD '000
	No specified maturity BHD '000	Less than 6 months BHD '000	More than 6 months and less than one year BHD '000	Over one year BHD '000	
<b>Available Stable Funding (ASF):</b>					
<b>Capital:</b>	<b>65,448</b>	-	-	<b>5,692</b>	<b>71,140</b>
Regulatory Capital	65,448	-	-	-	65,448
Other Capital Instruments	-	-	-	5,692	5,692
<b>Retail deposits and deposits from small business customers:</b>					
Stable deposits	-	<b>405,769</b>	<b>21,845</b>	<b>16,525</b>	<b>402,899</b>
Less stable deposits	-	30,383	36	15	28,914
	-	375,386	21,809	16,510	373,985
<b>Wholesale funding:</b>					
Operational deposits	-	<b>532,755</b>	<b>750</b>	<b>2,000</b>	<b>107,727</b>
Other wholesale funding	-	11,503	-	-	5,751
	-	521,252	750	2,000	101,976
<b>Other liabilities:</b>					
NSFR Shari'a-compliant hedging contract liabilities	-	-	-	<b>46,085</b>	<b>46,085</b>
All other liabilities not included in the above categories	-	-	-	-	-
	-	-	-	46,085	46,085
<b>Total ASF</b>	<b>65,448</b>	<b>938,524</b>	<b>22,595</b>	<b>70,302</b>	<b>627,851</b>
<b>Required Stable Funding (RSF):</b>					
<b>Total NSFR high-quality liquid assets (HQLA)</b>	<b>447,528</b>	-	-	-	<b>18,611</b>
<b>Deposits held at other financial institutions for operational purposes</b>	-	-	-	-	-
<b>Performing financing and sukuk/securities:</b>					
Performing financing to financial institutions secured by Level 1 HQLA	-	-	-	-	-
Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	42,250	-	7,896	14,233

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2025

### 35 NSFR REQUIREMENTS AND CALCULATION METHODOLOGY (continued)

Item	Unweighted Values (i.e. before applying relevant factors)				Total weighted value
	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	
Performing financing to non-financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	85,766	51,964	185,686	68,865
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	210,353	136,730
Performing residential mortgages, of which:					
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	-	-
Securities/sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	1,124	955
<b>Other assets:</b>	48,687	-	-	-	48,687
Physical traded commodities, including gold	-	-	-	-	-
Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs	-	-	-	-	-
NSFR Shari'a-compliant hedging assets	70	-	-	-	70
NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	6,431	-	-	-	6,431
All other assets not included in the above categories	9,507	-	-	-	9,507
<b>OBS items</b>	89,452	-	-	-	4,473
<b>Total RSF</b>	<b>601,675</b>	<b>128,016</b>	<b>51,964</b>	<b>405,059</b>	<b>308,562</b>
<b>NSFR (%)</b>					<b>203.48%</b>