alBaraka

DIGITAL HEARTBEAT

Keeping Humanity at the Core of Digitization

23

ANNUAL REPORT
AL BARAKA ISLAMIC BANK B.S.C. (C)

Head Office

Dr. Adel Abdulla Salem, CEO
Al Baraka Tower, Bahrain Bay
P.O. Box 1882 Manama, Kingdom of Bahrain

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Riffa Branch	Tel: +973 17 768 600	Fax: +973 17 490 003
Ramli Mall, A'ali	Tel: +973 17 646 677	Fax: +973 17 646 676
Galleria Mall	Tel: +973 17 166 600	Fax: +973 17 911 844

www.albaraka.bh

Subsidiaries

Al Baraka Bank Pakistan Limited
Mohamed Atif Hanif
Chief Executive Officer
Plot No. 162,
Bangalore Town Block 7 & 8
Shahrah-e-Faisal Karachi, Pakistan

Tel: +9221 34 315 851
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Danat Al Baraka
Mr. Mohammed Abdulrahim
Chairman
Flat 10, Building 2504,
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Kingdom of Bahrain.

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CONSOLIDATED FINANCIAL STATEMENTS

His Highness
Shaikh Isa bin Salman
Al Khalifa

The Late Amir of
The Kingdom of Bahrain

His Majesty
King Hamad bin Isa
Al Khalifa

The King of
The Kingdom of Bahrain

His Royal Highness
Prince Salman bin Hamad
Al Khalifa

Crown Prince and Prime Minister of
The Kingdom of Bahrain

> AIB provides cutting-edge financial solutions rooted in Islamic financing principles, spanning investments, international trade, short-term liquidity management, and consumer financing.

Corporate Profile

Bank Profile

Al Baraka Islamic Bank ("AIB" or "the Group") is one of leading financial institutions in the Islamic banking sector. Throughout its history of more than three decades (since its establishment in 1984), the Group has played a prominent role in building the infrastructure of the Islamic finance industry. The Group also played a significant role in promoting the Islamic finance industry and publicizing its merits. The Group enjoys a good reputation and high standing with the community in the Kingdom of Bahrain in particular, and in the GCC, Arab and Islamic worlds in general.

AIB offers innovative financial products, including investments, international trading, management of short-term liquidity and consumer financing, all of which are all based on Islamic financing modes. Such financing includes Murabaha, Wakala, Istisna, Musharaka, Mudarabah, Salam, and Ijara Muntahia Bittamleek.

The Group had achieved excellent results in its banking operations, thanks to its vast wealth of knowledge in the area of Islamic Fiqh (Jurisprudence), the diverse experience of its executive management team, and the strong and deep financial position of its Ultimate Parent (Al Baraka Group). Since its inception, AIB is managing funds on behalf of many large financial institutions and high net worth clients (who sought rewarding long-term and financial returns) by deploying Sharia compliant instruments

In 2010, AIB completed the merger of its branches in Pakistan (whose operations started back in 1992) with Emirates Global Islamic Bank Limited, to establish Al Baraka Bank Pakistan Limited ("ABPL"). Thereafter, in 2016, ABPL acquired and merged with Burj Bank Limited leading to the addition of 74 new branches.

As for its strategic plans, the Group continued to maintain the pace of growth in its business operations with particular focus on commissions and fee-based income. The Group also expanded its investment portfolio, continued to develop its infrastructure, particularly in modernizing its information technologies (IT) and related services, improved its customer services, provided training and coaching to its employees and maintained its special relationship with its customers as "Partners in Achievement".

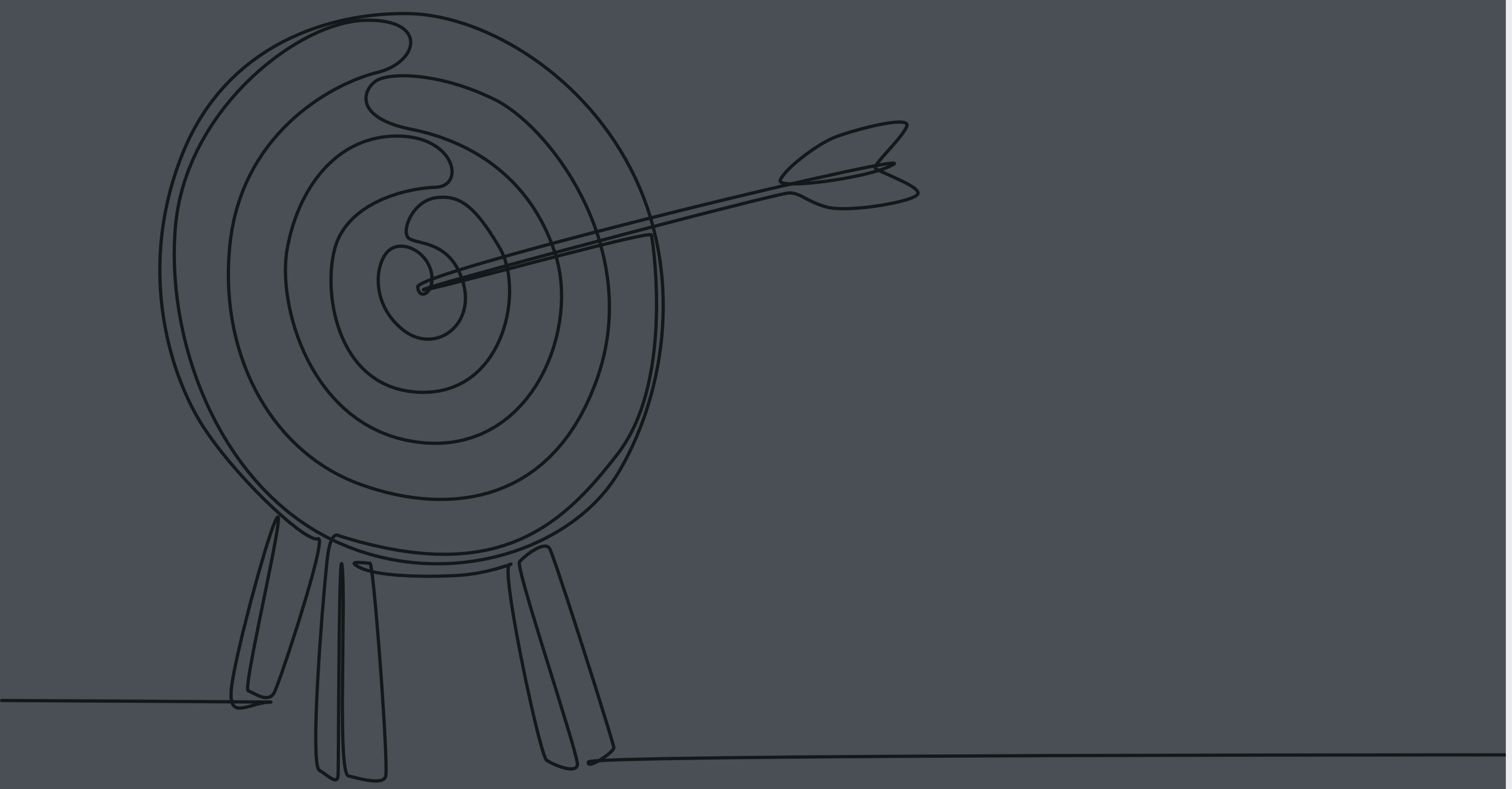
AIB is a retail Islamic bank licensed by the Central Bank of Bahrain and registered with Bahrain's Ministry of Industry, Commerce, and Tourism under Commercial Registration No. 14400.

AIB is one of the banking units of ABG. Al Baraka Group B.S.C. ("ABG" / the "Ultimate Parent") is licensed as an Investment Business Firm – Category 1 (Islamic Principles) by the Central Bank of Bahrain. It is a leading international Islamic financial group providing financial services through its banking subsidiaries in several countries offering retail, corporate, treasury and investment banking services, strictly in accordance with the principles of Islamic Sharia.

The Ultimate Parent has a wide geographical presence with operations in Jordan, Egypt, Tunisia, Bahrain, Sudan, Turkey, South Africa, Algeria, Pakistan, Lebanon, Syria, Morocco and Germany, in addition to two branches in Iraq and a representative office in Libya and provides its services in more than 600 branches. ABG's network serves a population totaling around one billion customers.

The authorized capital of ABG is US$2.5 Billion.

> The Group excelled in banking operations due to its extensive Islamic Fiqh expertise, diverse executive team experience, and robust financial backing from AlBaraka Group.



Vision, Mission, & Values

OUR VISION
To be a global leader in innovative participation finance, offering an agile ethical financial system built for the digital age.

OUR MISSION
To fulfill the financial needs of communities across the globe by conducting business through an ethical customer-centric approach tailored for the digital age, based on our core beliefs and aimed at sharing the mutual rewards with our partners in business success: our customers, our employees, our shareholders, and our communities at large

OUR VALUES
1. PARTNERSHIP
Our shared beliefs create strong bonds that form the basis of long-term relationships with customers and staff

2. AGILITY
We are fleet-footed to adapt to the Digital Age to meet the fast changing customer behavior and needs in a dynamic and challenging environment.

3. INNOVATION
We recognize that an 'INNOVATION FIRST' culture is necessary to be able to serve our customers on a 'here and now' basis in a fast changing world.

4. TRUST
Our customers can experience peace of mind and rest assured that their financial interests are being managed by us to the highest ethical standards of participation finance.

5. DEVELOPMENT
By banking with our banking subsidiaries, our customers make a positive contribution to a better society - their growth and ours will sustain the greater good of society.

Board of Directors

Sabah Khalil Al Moayyed
CHAIRPERSON

Akram Yassin
VICE CHAIRMAN

Dr. Khalid Abdulla Ateeq
BOARD MEMBER

Abdulrahman Al Sayed
BOARD MEMBER

Adnan Al Bassam
BOARD MEMBER

Abdulla Tarrar Edham
BOARD MEMBER

Masood Ahmed Al Bastaki
BOARD MEMBER

Abdul Malek Mezher
BOARD MEMBER

* Hamad Al Oqab
CEO & BOARD MEMBER

* Hamad Al Oqab was a board member until 31 August 2023.

Sharia Supervisory Board

Shaikh Esam Ishaq
CHAIRMAN OF SHARIA BOARD

Shaikh Nedham Yaqoobi
SHARIA BOARD MEMBER

Shaikh Judge Waleed Al Mahmood
SHARIA BOARD MEMBER

“AL Baraka Bank enjoys a good reputation and high standing with the community in the Kingdom of Bahrain in particular, and in the GCC, Arab and Islamic worlds in general.

Financial Highlights

2019 -2023

Total Assets (Consolidated)

USD 2,711

In USD million

CAGR @ 5%

2,376	2019
2,652	2020
2,863	2021
2,723	2022
2,711	2023

Investments (Consolidated)

USD 1,081

In USD million

CAGR @ 5%

779	2019
1,013	2020
1,142	2021
1,149	2022
1,081	2023

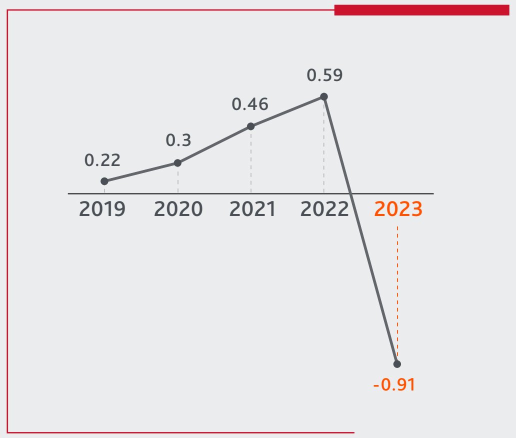
Net Income/(Loss) (Consolidated)

USD -24.6

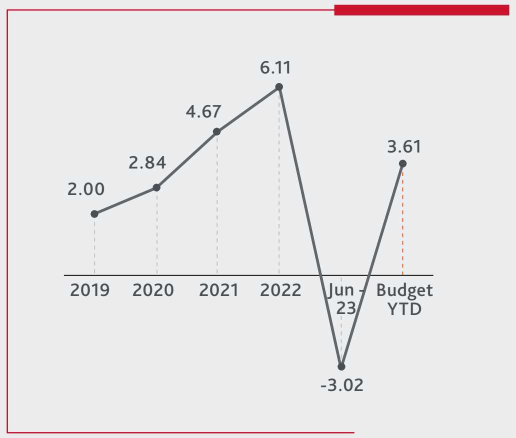
In USD million

5.1	2019
7.6	2020
12.6	2021
16.4	2022
-24.6	2023

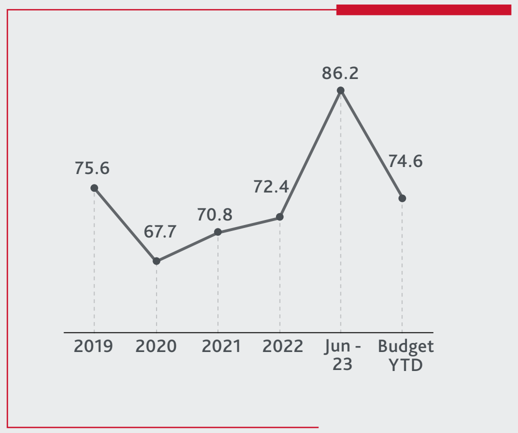
ROA %
(Consolidated)



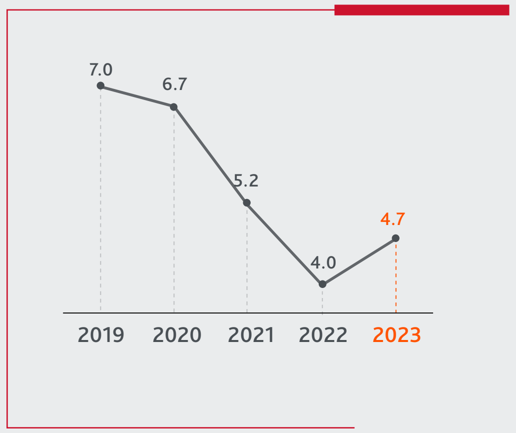
ROE %
(Consolidated)



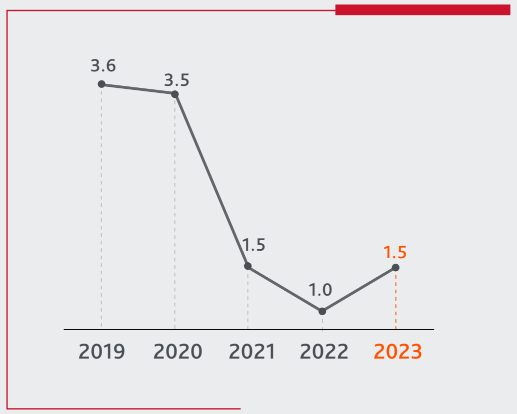
Efficiency %
(Consolidated)



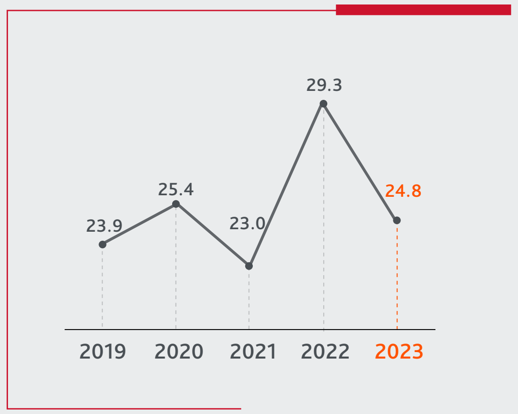
Gross NPA %
(Consolidated)



Net NPA %
(Consolidated)



Capital Adequacy %
(Consolidated)



Directors Report

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 subsidiaries (the "Group") for the financial year ended 31 December 2023.

The year 2023 has witnessed a notable global hyperinflationary economic environment, combined with regional instability in Palestine and Ukraine, as well as heightened market competition. Unofficial data suggested that the Eurozone is anticipated to experience an overall slowdown in 2023, as individual European countries faced diverse circumstances. Similarly, they also expected that China report a slowdown in 2023 due to the property sector recession and the ongoing impact of COVID-19 pandemic.

In the meantime, the Gulf Cooperation Council economies achieved a moderate economic growth in 2023, averaging around 4.8%, although it was initially forecasted to be higher. This performance surpassed global growth estimates and demonstrated the region's resilience amongst volatile global conditions. Higher oil prices and continued diversification efforts fuelled this growth, particularly benefiting major oil producers. However, some non-oil dependent member countries witnessed slower expansion.

Bahrain's economic performance in 2023 presented a mixed picture. With estimated overall GDP growth at around 2.5%, the year witnessed significant progress in diversification efforts and resilience against global challenges. Non-oil sectors such as financial services and trade exhibited robust growth. However, maintenance work in key oil fields led to a dip in oil production and affected overall GDP growth. In addition, rising interest rates, supply chain disruptions, and geopolitical uncertainties pose risks to Bahrain's economy.

Pakistan's economic performance in 2023 marked significant challenges and mixed outcomes with official estimated GDP growth at 2.5%, while independent analysts suggested a contraction by 0.6%. The main domestic and global factors include devastating floods in 2022, high inflation rates exceeding 25% year-on-year basis, slowdown in key sectors, significant currency depreciation, and unemployment rates.

Such factors transformed into liquidity strains, hikes in cost of funding and operations, increase in delinquency rates, and slowdown in growth momentum in both Bahrain and Pakistan. Over the past two years, the US Federal Reserve increased interest rates by 550bps to combat inflation as well as to maintain price stability and prevent the creation of asset bubbles.

As a result, the overall liability-base (predominantly short term in nature) was re-priced to the prevailing market rates, in contrast with the financing assets (having longer maturities and not been subject to re-pricing either due to strategic arrangement or due to underlying nature of contract), which carried previous profit rates. Accordingly, the overall spreads narrowed or became negative for certain business sectors.
With all the challenges posed by market fundamentals in addition to the material devaluation (around 25% on year-to-year basis) in Pakistani Rupee, Al Baraka Islamic Bank Group reported a decline of 0.4% in its consolidated total assets, i.e. from USD 2,723mn in 2022 to USD 2,711mn in 2023. Although financing assets have grown by 11% in Bahrain operations, the consolidated financing assets reported a decline of 1% due to devaluation in Pakistani Rupee, i.e. from USD 1,206mn in 2022 to USD 1,193mn in 2023.

However, even with the devaluation impact, consolidated total deposits reported a growth of 1%, i.e. from USD 2,328mn in 2022 to USD 2,356mn in 2023. The Group total operating income declined by 10%, i.e. from USD 98mn in 2022 to USD 74mn in 2023, the main contributor to this decline was the significant increase in return paid on equity of investment accountholders and other funds providers by 40%, i.e. from USD 130mn in 2022 to USD 150mn in 2023.

The Group incorporated expected credit losses and allowances for impairments amount to USD 17mn in comparison with USD 6mn booked in last year. In order to overcome this unprecedented situation, the Group closely monitor its operating expenses, which recorded an inflationary increase of 3% only as compared with last year. Eventually, the Group announced a net loss of USD 24.6mn for the year ended 31 December 2023 as compared with USD 16.4mn net profits reported in the previous year.

The Islamic International Rating Agency has maintained Al Baraka Islamic Bank's international scale investment grade credit rating of BB (long term)/A3 (short term) with a stable outlook and a national scale rating of BBB+ (long term)/A3 (short term) with a stable outlook. At the same time, the VIS Credit Rating Company Limited reaffirmed long term/ short term credit rating of A+/A-1 on a national scale. Such ratings reflect the strong capacity of the Group to meet its financial obligations and commitments, and the presence of a strong compliance and governance environment.

The Group continues to adhere to its philosophy of sustainability and social responsibility, considering it as a fundamental pillar of its strategic agenda, with a focus on engaging in commercial activities that utilise sustainable resources to enhance income and living standards.
In the context of fulfilling its social obligations, the Group has supported various health, educational and sports activities and programmes. This includes donating significant amounts to educational institutions, hospitals, orphanages and other charitable institutions. Additionally, the Group sponsored workshops and activities conducted by various ministries and universities throughout the year 2023.

Furthermore, Group delegates visited Salmaniya Medical Complex and social welfare centres for the elderly. The Group also provided on-job training to university and school students, in cooperation with the INJAZ Bahrain programme. Moreover, the Group continued its partnership in many Islamic finance and banking events and conferences organised by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Other milestones in this area included winning five awards in different categories and sectors, such as best Islamic banking product, best medical financing services, best bank for social media in Bahrain, best new marketing activation campaign of the year, and best Islamic Bank for SME's financing.

Directors Report

Dear shareholders,

The global economic outlook is mixed in 2024, with major economies experiencing a slower pace of inflation, easing pressure on central banks and consumers. Global growth is projected to remain at 3.1% in 2024, according to the IMF, despite initial expectations of a slowdown. Many countries, including the US, are experiencing robust labour markets with low unemployment rates, indicating sustained consumer spending power.

However, central banks are still raising interest rates to combat inflation, which could potentially dampen economic activity. In addition, conflicts in Palestine and Ukraine, as well as other regional tensions are creating uncertainty and could cause further disruptions to energy supplies and trade. Global debt levels remain high, which could limit governments' ability to stimulate the economy in the event of a downturn. Furthermore, some emerging market economies are facing headwinds due to rising interest rates and weaker external demand.

In 2024, the Group will prioritise business expansion strategies to increase market share and drive digital transformation initiatives. Our focus will also be on enhancing our physical network presence and growing our volume in strategic products and services to bolster revenue streams. The Group will also focus on Retail, structured finance, private banking, wealth management, and SME sectors. The Group will leverage on its network to enhance services offered to its client base.

At the corporate level, the Group remains steadfast in upholding robust Corporate Governance practices, in full compliance with regulations and directives set forth by the Central Bank of Bahrain. We are dedicated to refining our internal framework and practices, and delivering continuous training to our workforce to elevate their competencies and ensure operational excellence.

During this time, and in line with our commitment to client protection, we continue to enhance our cybersecurity infrastructure to safeguard client rights, assets and data, in accordance with the highest global banking standards. Our goal is to fortify our defences and effectively mitigate cyber risks.

Dear shareholders,

It is worth noting that the Board of Directors has been playing a crucial role in providing oversight and guidance to the Executive Management team, through closely monitoring the Bank's performance and ensuring that strategic objectives are being met in accordance with regulatory requirements and best practices in the banking industry. This has been essential in driving the bank's success and maintaining its reputation as a trusted and respected Islamic banking institution.

In this context, the Board has been keen to provide valuable insights and recommendations to the Executive Management in making informed decisions to drive the bank's growth and sustainability, ensuring that the necessary measures are taken in a timely manner to address challenges and seize opportunities in the ever- evolving banking landscape.

In addition, the Board is constantly committed to enhancing cooperation with regulatory bodies such as the Central Bank of Bahrain, the Ministry of Industry and Commerce, the Bahrain Association of Banks, State Bank of Pakistan, and other stakeholders, in order to ensure compliance with regulatory guidelines and foster a culture of transparency and integrity within the organisation.

Furthermore, the Group is focused on improving operational efficiency through proactive measures such as streamlining costs and optimising processes. As an agile and lightweight institution, we prioritise resilience and cost-effectiveness to navigate through uncertainties and challenges, while remaining competitive in the dynamic banking landscape. Our unwavering dedication to driving sustainable growth and innovation underscores our mission to deliver exceptional value to stakeholders and uphold our position as a leading Islamic banking institution.

The Group is actively engaged in addressing risk management parameters to ensure a secure and stable financial environment. By improving its capitalisation and key performance indicators (KPI's), the Group aims to enhance its financial strength and resilience to external market fluctuations.

Through a focus on efficiency ratio, the Group continues its endeavours to optimise its operational processes and cost structures to achieve optimal profitability and sustainability.

Directors Report

With this strategic approach to risk management and capitalisation, the Group is positioning itself as a competitive player in the dynamic banking industry, ensuring long-term success and growth opportunities at both a banking and corporate levels.

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.

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.

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 2023:

	Fixed Remunerations					Variable Remunerations							
Name	Remunerations of the chairman and Board	Total allowance for attending Board and committee meetings	Salaries	Others	Total	Remunerations of the chairman and Board	Bonus	Incentive plans	Others	Total	End of service award	Aggregate amount (excluding expenses allowance)	Expenses allowance
First: independent Directors:													
1. Saleh Salman Al Kawari	9,947	12,000	-	-	**21,947**	-	-	-	-	-	-	**21,947**	-
2. Yousef Ali Bin Fadil	9,947	12,000	-	-	**21,947**	-	-	-	-	-	-	**21,947**	5,140
3. Abdulrahman Abdulla Mohamed	9,947	12,000	-	-	**21,947**	-	-	-	-	-	-	**21,947**	-
4. Abdulrahman Abdulla Al Sayed	39,788	66,000	-	-	**105,788**	-	-	-	-	-	-	**105,788**	-
5. Adnan Abdulla Al Bassam	39,788	69,000	-	-	**108,788**	-	-	-	-	-	-	**108,788**	-
6. Sabah Khalil Almoayyed	29,841	69,000	-	-	**98,841**	-	-	-	-	-	-	**98,841**	-
7. Akram Yassin	29,841	57,000	-	-	**86,841**	-	-	-	-	-	-	**86,841**	-
Second: Non-Executive Directors:													
8. Abdullatif Abdulrahim Janahi	9,947	12,000	-	-	**21,947**	-	-	-	-	-	-	**21,947**	-
9. Dr. Khalid Abdulla Ateeq	39,788	54,000	-	-	**93,788**	-	-	-	-	-	-	**93,788**	-
10. Abdulrazzaq Abdulkhaleq Abdulla	9,947	12,000	-	-	**21,947**	-	-	-	-	-	-	**21,947**	-
11. Abdulla Tarrar Edham	29,841	63,000	-	-	**92,841**	-	-	-	-	-	-	**92,841**	-
12. Masood Ahmed Albastaki	29,841	42,000	-	-	**71,841**	-	-	-	-	-	-	**71,841**	-
Third: Executive Directors:													
13. Hamad Abdulla Al-Oqab	26,525	36,000	-	-	**62,525**	-	-	-	-	-	-	**62,525**	-
14. Abdulmalek Shehadeh Mezher	29,841	54,000	-	-	**83,841**	-	-	-	-	-	-	**83,841**	-
TOTAL	**344,828**	**570,000**	**-**	**-**	**914,828**	**-**	**-**	**-**	**-**	**-**	**-**	**914,828**	**5,140**

Directors Report

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)(5)	Any other cash/ In-kind remuneration for 2023	Aggregate Amount
Remuneration of top 6 executives (including the Chief Executive Officer and the Chief Financial Officer)	644,180	-	269,705	913,885

(1) The Group did not pay any variable remunerations or end-of-service awards during the year.
(2) Directorship term expired in 23 March 2023.
(3) Directorship term started in 23 March 2023.
(4) He resigned from the Group in 31 August 2023 and his Directorship was terminated on the same date.
(4') No bonus payment as at 31 December 2023.

Sabah Khalil Al Moayyed
Chairperson
Al Baraka Islamic Bank B.S.C. (c)
Manama, Kingdom of Bahrain
20 February 2024

Dr. Adel Abdulla Salem
Chief Executive Officer
Al Baraka Islamic Bank B.S.C. (c)
Manama, Kingdom of Bahrain
20 February 2024

“ Through strategic partnerships and innovative initiatives, AlBaraka has leveraged fintech solutions to streamline operations, improve accessibility, and deliver Sharia-compliant financial products.

Executive Management

Dr. Adel Abdulla Salem
CHIEF EXECUTIVE OFFICER

Khalid Mahmood AlAli
DCEO - SUPPORT GROUP

Mohammed Abdulrahim
CHIEF FINANCIAL & STRATEGY OFFICER

Hasan Abdulwahab Al Khan
HEAD OF OPERATIONS

Srinivas Nallamothu
ACTING CHIEF RISK OFFICER

Fahad Albalooshi
CHIEF CORPORATE & INSTITUTIONAL BANKING OFFICER

Ahmed Alkhayyat
CHIEF TECHNOLOGY OFFICER

Dr. Adel Basha
CHIEF LEGAL OFFICER & CORPORATE SECRETARY

Bader Isa Al Shetti
CHIEF COMPLIANCE OFFICER & MLRO

Executive Management

Raeda Asghar Murad
HEAD OF SPECIAL ASSETS

Duaij Khalifa Abulfateh
HEAD OF INTERNAL SHARIA AUDIT

Hasan A.Aziz Alqasimi
ACTING CHIEF INTERNAL AUDITOR

Mohammed Jasim Ebrahim
HEAD OF SHARIA COORDINATION & IMPLEMENTATION

Mohamed Ali Qudrat
CHIEF TREASURER

Abdulla Abdulaziz Suwaileh
HEAD OF HUMAN RESOURCES & ADMINISTRATION

Khaled Abdulla Al Awadhi
HEAD OF INTERNAL CONTROL

Khalid Waheed Abdulrahman
CHIEF INFORMATION SECURITY OFFICER

Ali Khalil Al Derzi
ACTING CHIEF RETAIL OFFICER

Executive Management Report

Uncertainty has been at the forefront of the year, as the global economy's recovery from the consequences of the Covid-19 pandemic was set back by the ongoing conflict in Ukraine, which disrupted supply chains, pushed up commodity prices, and exacerbated inflationary pressures. This has led to a slowdown in global growth, as central banks in many major economies have tightened their monetary policies.

Despite these global challenges, the GCC economies achieved moderate economic growth in 2023, supported by rising oil prices, at an average rate of 4.8%. Despite all of this, the GCC countries continued their efforts to diversify sources, as non-oil sectors in some GCC countries showed promising signs of expansion.

Economic growth in the Kingdom of Bahrain declined during 2023 to about 2.5% due to the contraction of the oil and gas sector. However, there have been positive developments, as non-oil sectors, especially tourism and services, have shown resilience and growth supported by ongoing infrastructure projects. Likewise, 2023 was a challenging year in the Islamic Republic of Pakistan, where domestic and external influences, including the consequences of devastating floods and a global rise in commodity prices, led to a contraction in GDP growth.

The consolidated assets of Al Baraka Islamic Bank Group recorded a decrease of 0.4% at the end of the year, i.e. from USD 2,723mn in 2022 to USD 2,711mn in 2023. The main reason for this decline is the significant decline in the value of the Pakistani rupee against the US dollar by 25% on an annual basis. However, it is worth noting that the total assets of local operations have grown by approximately 10%. Financing assets witnessed a growth of 11% in Bahrain operations. However, due to the impact of Pakistani Rupee devaluation, consolidated financing assets recorded a decrease of 1%, i.e. from USD 1,206mn in 2022 to USD 1,193mn in 2023. On the other hand, total consolidated deposits increased by 1%, i.e. from USD 2,328mn in 2022 to USD 2,356mn in 2023. The significant decline in the value of Pakistani Rupee has led to a decrease in the consolidated total equity below minimum capital requirements as prescribed by the Central Bank of Bahrain, where the total consolidated equity amounted to USD 230mn as of 31 December 2023, noting that the minimum capital requirements according to Central Bank of Bahrain is USD 265mn.

The Group's total operating income decreased by 10%, from USD 98mn in 2022 to USD 74mn in 2023 due to a significant increase in the return paid to equity of investment account holders and other financing costs by 40%, from USD 130mn in 2022 to USD 150mn in 2023. As part of its conservative policy, the Group booked additional expected credit losses and impairment provisions amounting to USD 17mn compared to USD 6mn booked last year. As a result, the Group announced a net loss of USD 24.6mn for the year ending 31 December 2023 compared with a net profit of USD 16.4mn announced in the previous year. On the operational side, the Group focused during 2023 on improving the efficiency of its financial resources and its sources of income, and was able to build a sustainable revenue-base that contributes to the stability and sustainability of its performance in the future. The Group also conducted a comprehensive review of its expenses in order to rationalize them in line with its strategic plans and without compromising service quality.

The Islamic International Rating Agency has maintained Al Baraka Islamic Bank's international scale investment grade credit rating of BB (long term)/A3 (short term) with a stable outlook and a national scale rating of BBB+ (long term)/A3 (short term) with a stable outlook. At the same time, the VIS Credit Rating Company Limited reaffirmed long term/ short term credit rating of A+/A-1 on a national scale. Such ratings reflect the strong capacity of the Group to meet its financial obligations and commitments, and the presence of a strong compliance and governance environment.

The group also continues to adhere to the philosophy of sustainability and social responsibility, which is considered a fundamental pillar of its strategy, through conducting business activities that use sustainable resources to enhance income and raise living standards.

Our human capital is an essential pillar of our Group, and we believe in its ability to take the Group to broader horizons. On this occasion, I would like to express my sincere thanks and deep gratitude to all our employees for their contributions to the renaissance of the Group and improving its operational performance to achieve the best accomplishments. We are striving to create a positive and flexible work environment that preserves the rights of all employees and provide them with more privileges and incentives due to our belief in the essence of developing the human element to achieve sustainable development.

During the year 2023, the Group won five awards in various categories and sectors, as it won the Best Islamic Banking Product Award, the Best Medical Financing Services Product Award, the Best Social Media Bank Award in the Kingdom of Bahrain, the Best New Marketing Campaign of the Year, and the Best Islamic Financing for Small and medium Enterprises.

Our group has made significant progress in its digital banking services to strengthen its leadership in Islamic banking innovation, as we have enabled our customers to open accounts and conduct banking transactions through our application to facilitate their journey with our banking services. We have also facilitated the issuance of virtual debit cards that allow instant transactions, in addition to our integration of Apple Pay services, highlighting our commitment to instant and convenient financial management and enhancing transaction security and convenience for our customers. We also launched an automated AI-powered Chatbot service to provide the necessary support to our customers around the clock. With a large number of our customers migrating to our digital app, these efforts demonstrate our continued commitment to digital transformation to deliver a seamless and efficient banking experience.

At Al Baraka Islamic Bank Group, we always strive to improve the performance rates and quality of services provided to our valued customers with the aim of achieving their aspirations by reviewing policies and procedures and adopting an integrated Islamic banking model of high-quality banking services for individuals and businesses and maintaining our level of leadership in Islamic banking.

Executive Management Report

The Group is committed to serving the communities in which it operates aiming to improve the well-being of community members. Its initiatives supporting raising the concept of social solidarity varies between housing, education, sports, and health care sectors. The Group also supports many charitable activities and humanitarian initiatives. During the year, the Group's team made several visits to Salmaniya Medical Complex and social care centers for the elderly. As part of its commitment to social responsibility, the Group provided practical training opportunities for university and school students in cooperation with INJAZ Bahrain program. It also supported many events and conferences related to Islamic finance and banking organized by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

During the year 2023, the Group won five awards in various categories and sectors, as it won the Best Islamic Banking Product Award, the Best Medical Financing Services Product Award, the Best Social Media Bank Award in the Kingdom of Bahrain, the Best New Marketing Campaign of the Year, and the Best Islamic Financing for Small and medium Enterprises.

The Executive Management works hand in hand with the Board of Directors in drawing a dynamic vision for the Group and crystallizing it into strategic objectives and action plans that ensure the achievement of the targeted objectives in accordance with regulatory requirements and best practices in the banking sector. The Executive Management also appreciates the Board of Directors' keenness to provide valuable insights and recommendations, which contributed to making informed decisions that pushed the Group towards further growth.

The Group (in coordination with its ultimate owner) is currently evaluating available options to enhance and strengthen its capital position. Such options will be communicated to the relevant authorities in the near future. The Group is working on a comprehensive review of its operations with the aim of increasing efficiency by reviewing and evaluating all expense items while ensuring the highest levels of service quality. The Group is also working on innovative digital solutions that creates a distinctive experience for our valued customers. The Group is keen to address risk management standards to ensure a safe and stable financial environment.

We thank Allah Almighty for His abundant blessings, and we ask Him to grant our Group success in doing what is good and righteous.

Finally, we extend our highest thanks and gratitude to His Majesty King Hamad bin Isa Al Khalifa, the King of the Kingdom of Bahrain, and to His Royal Highness Prince Salman bin Hamad Al Khalifa, the Crown Prince and Prime Minister, for their unlimited support to the banking sector and for their guidance for the growth and prosperity of the economy of the Kingdom of Bahrain, and special thanks goes to the Central Bank of Bahrain and the Central Bank of Pakistan for the advanced regulatory and supervisory environment they provide in the financial and banking sector, and thanks also go to the Ministry of Industry and Commerce for their support and assistance it provides to the commercial sector. We also extend our sincere thanks and appreciation to our shareholders, customers and employees for their support and assistance, which has contributed to achieving various successes despite the difficult challenges.

“The Group is also working on innovative digital solutions that creates a distinctive experience for our valued customers.The Group is keen to address risk management standards to ensure a safe and stable financial environment.

01

Corporate Governance

Corporate Governance

1. Philosophy, Strategy and objectives

Al Baraka Islamic Bank ("AIB" or "the Group") strongly believes that a good corporate governance is an essential part of transparency and maintaining stability and enhancing the solid foundations of the Group. It is a fundamental part of how the Group discharge its duties and responsibilities towards protecting and enhancing shareholder's value as well as ensuring the achievement of a sustainable financial performance. The Group's governance framework extends beyond legislative and regulatory compliance, and aims at creating a strong governance culture across all segments to protect the interests of all stakeholders. The Group aspires to the highest ethical standards by delivering its promises to clients, reporting financial results accurately and transparently and maintaining full compliance with all laws, rules and regulations governing the Group's business.

The Group's governance and compliance strategies, objectives, and structures are designed to ensure that it complies with all relevant legislations and simultaneously extending beyond accountability and assurance issues to value creation and resource utilization. Internally the function has expanded into five complementary directions:

- Enterprise-wide corporate governance;
- Business governance;
- Corporate accountability and ethics;
- Sustainability management and reporting; and
- Compliance.

The Group's Compliance Department works closely with Legal, Corporate Secretary, Risk Management, and Internal Audit departments in promoting a strong culture of governance and compliance within the Group and has taken all necessary steps to improve its corporate governance to ensure conformity with best practices.

The Board of Directors have approved and adopted its Corporate Governance Policy ("the Policy") covering Group-wide corporate governance framework, matters related to the Board, and the principles and rules of Central Bank of Bahrain ("CBB") on Corporate Governance for Islamic Retail Licensed Institutions ("HC Module"). Moreover, the Group conducts a detailed self-assessment on annual basis to ensure its compliance with HC Module requirements, and sets specific milestones for implementation of any shortfalls whenever they exist, including continuous reviews and upgrades for strong corporate governance practices, and any amendments to any requirements and milestones are reported to the CBB, shareholders, and the Board of Directors. Corporate governance is a fixed item on the agenda of the Annual General Meeting since 2011.

These disclosures should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2023. To avoid any duplication, information required under the CBB Rulebook PD Module but already disclosed in other sections of the annual report have not been reported in these disclosures.

2. Governance Framework

2.1. Ownership Structure

Al Baraka Islamic Bank is a Bahraini licensed Islamic Retail Bank and operates as a subsidiary of Al Baraka Group ("ABG" or "Ultimate Parent"). ABG is the dominating shareholder. The existing shareholding structure is transparent and consists entirely of ordinary shares, which is the only class of shares issued. The Group confirms that the non-controlling interests are sufficiently represented in the Board of Directors, either directly or through independent Directors.

As at 31 December 2023, the composition and distribution of shares are set out in the following table:

Corporate Governance

2. Governance Framework (continued)

	Name	Relation	Nationality	No. of shares	Share %
1	ABG	Ultimate Parent	Bahraini	1,405,755	92.816
2	Abdullatif Abdulrahim Janahi	Director, Non-Executive	Bahraini	1,250	0.083

Abdullatif Janahi was a board member until March 2023. Other than the above, none of the other directors at the end of 2023 had any interest in the Group shares or its subsidiaries. Other shareholders are as follows:

3	Hussain Mohsin Alharthe	Shareholder	Saudi	50,000	3.301
4	Bahrain Islamic Bank	Shareholder	Bahraini	10,000	0.660
5	Ibdar Bank	Shareholder	Bahraini	10,000	0.660
6	Suleiman Abdulaziz Al Rajhi	Shareholder	Saudi	5,000	0.330
7	Saleh Abdulaziz Al Rajhi	Shareholder	Saudi	5,000	0.330
8	Abdulla Abdulaziz Al Rajhi	Shareholder	Saudi	5,000	0.330
9	Mohamed Abdulaziz Al Rajhi	Shareholder	Saudi	5,000	0.330
10	Heirs of Dr. Hassan Abdulla Kamel	Shareholder	Saudi	5,000	0.330
11	Dubai Islamic Bank	Shareholder	UAE	5,000	0.330
12	Saeed Ahmed Lotah & Sons Group	Shareholder	UAE	5,000	0.330
13	Jordan Islamic Bank	Shareholder	Jordan	2,500	0.165
14	Sheikh Saleh Abdulla Kamel	Shareholder	Saudi	73	0.005
	Total			**1,514,578**	**100.0000**

2.2. Ownership by nationality

Country	No. of shares	Share %
Bahrain	1,427,005	94.218
Jordan	2,500	0.165
Saudi Arabia	75,073	4.957
UAE	10,000	0.660
Total	**1,514,578**	**100.000**

2.3. Ownership by size of shareholding

Category	No. of shares	Share %
Less than 1%	58,823	3.884
1% up to less than 5%	50,000	3.301
5% and above	1,405,755	92.816
Total	**1,514,578**	**100.000**

Corporate Governance

3. The Board of Directors

The adoption and implementation of a sound corporate governance practice is the direct responsibility of the Board of Directors ("the Board" or "the Director" or "Directors") who shall continue its endeavor to enhance shareholders' value, protect their interests, and defend their rights.

The Board is accountable to the shareholders and Executive Management is accountable to the Board. Directors apply due care in exercising their duties to the Group and are subject to fiduciary duties, they ensure that Executive Management acts in the best interest of the Group and its shareholders by working to enhance the Group's performance. The Board authorizes Executive Management to execute approved strategies. The Board oversees the conduct of the Group's business activities to ensure that Executive Management is properly managing these activities with highest standards of professionalism.

3.1. Principal Functions and Responsibilities of the Board

- Set the tone at the top and play a leading role in establishing the Bank's corporate cultures and values and oversee management's role in fostering and maintaining a sound corporate and risk culture.
- Review and approves Executive Management proposals on strategic plans including business plans and activities, and monitor the implementation of such strategies
- Approves the annual budget and conducts a regular business performance reviews and ensures that business activities and action plans are within the guidelines of the Group's overall strategy.
- Sets up Group's corporate values and lines of responsibility/accountability, and ensures that such lines are properly communicated across the Group.
- Ensures the existence of a proper and effective process for selecting and appointing Executive Management team based on qualifications and professional competence, and approves a succession planning policy.
- Ensures the implementation of an effective internal controls and processes to measure and manage all business risks.
- Establish, along with senior management and Chief Risk Officer, the Bank's risk appetite, considering the Bank's strategy, competitive and regulatory landscape, the Bank's long-term interests, risk exposure and ability to manage risk effectively, and oversee the Bank's adherence to the risk appetite statement, risk policy and risk limits.
- Establishes comprehensive policies and processes to ensure compliance with Sharia principles in all activities.
- Sets up an effective audit functions staffed with qualified personnel to perform audit activities that covers financial, management and Sharia audits.
- Establishes procedures to avoid self-serving practices and conflicts of interests.
- Assures equitable treatment of shareholders including non-controlling interests.
- Convenes and prepares the agenda for shareholders meetings.
- Ensures protection of the interests of depositors (particularly Equity of Investment Accountholders).
- Establishes and ensures the effectiveness of Board Committees.
- Ensures that operations of the Group are conducted within the framework of relevant regulations, laws, and policies.
- Ensures that the Group has a beneficial influence on the economic well-being of its community.
- Approves material transactions outside the normal course of business or in excess of the Executive Management delegated limits.

The Board has approved certain policies, which authorizes the Executive Management to approve certain transactions. The Board has delegated specific authority to the CEO and to Management Committees to manage the activities of the Group within its pre-defined limits. All credit and investment applications exceeding these pre-defined limits in the form of amount or tenor requires approval of the Board. Board meetings are held on a scheduled basis ensuring relevant policies, strategy, and business performance issues are discussed and accordingly tracked and monitored. The Board and its Committees are supplied with full and timely information to enable them to discharge their responsibilities. Special Board meetings are also convened whenever needed.

Corporate Governance

3. The Board of Directors (continued)

3.1. Principal Functions and Responsibilities of the Board (continued)

The Board of Directors during the year 2023 has the following major achievements:

- Increase the number of the Board Committees by adding two additional Committees namely, the Board Sustainability and Social Responsibility Committee and the Board Digital and Transformation Committee.
- Appointment of a new CEO
- Review and Balancing the Sukuk Portfolio.
- Reviewed, amended and issued many internal policies.
- Approved restructures of major NPL cases and close monitored their performances.
- Closely monitored and followed the liquidity position of the Bank.

3.2. The Term of the Board of Directors

The current term of the Board of Directors started in in March 2023. The term of the Board is for three years. However, as this Report covers the period from January 2023 to December 2023, the previous Board of Directors held in the office till March 2023 was also included.

3.3. Termination of Board membership

The termination of membership from the Board of Directors is stated in Article (32) of the Articles of Association of the Bank as follows:

3.3.1. If the member was appointed in violation to the provisions of the law.

3.3.2. If the member loses any of the conditions provided for in the Articles (e.g. lack of legal capacity, convicted in bankruptcy, crimes of honor or breach of trust).

3.3.3. If a member uses his membership to conduct a competitive business or causes real damages to the Group.

3.3.4. If a member is absent (from the Board meeting) for four consecutive meetings without legitimate reason.

3.3.5. If a member resigns or discharged from office.

3.3.6. If a member occupies another salaried position other than an executive position, which the Board decided to pay salary to him.

If the office of a Director becomes vacant, the Board may appoint a temporary Director to fill the vacancy. Such an appointment shall be presented to the ordinary AGM in its first meeting for ratifying the appointment.

3.4. Composition of the Board of Directors

The Current Board of Directors have broad experience across a number of industries and business sectors, and provide valuable input and an external perspective to matters of business strategy. By the end of December 2023,the Board had eight members, comprising four independent non-executive directors (including the Chairman), three non-executive directors, and one executive director. The Board meets on quarterly basis or as required to review and evaluate corporate strategy, major operational and financial plans, risk policies, financial performance, and monitors the implementation and performance to ensure it is in line with all applicable laws and regulations and within best practices.

The role of the Chairman of the Board is fundamentally distinct from that of the CEO. The separation of powers between the Chairman and the CEO ensures a balance of power and authority, which provides a safeguard against the exercise of unrestrained powers in decision-making. The Chairman is responsible for ensuring the Board's effectiveness, as well as representing the Board to the shareholders. The CEO acts in accordance with the authorities delegated by the Board. Board composition, independence of Directors, and membership in the Board Committees are set out below:

Corporate Governance

3. The Board of Directors (continued)

3.4. Composition of the Board of Directors (continued)

A. Board of Directors for the Term (2022/ March 2023):

Director's name	Nationality	Board Membership Designation & Position	Board Committees			
			Audit	Nomination, Remuneration, and Governance	Executive	Risk Management
Saleh Salman Al-Kawari	Bahraini	Chairman, Independent	-	Chairman	-	Member
Yousif Ali Bin Fadil	Emirati	Vice Chairman, Independent	-	-	Chairman	-
Abdullatif Abdulrahim Janahi	Bahraini	Member, Non-Executive	-	-	Member	-
Abdulrahman Abdulla Mohamed	Bahraini	Member, Independent	Chairman	-	-	Member
Dr. Khalid Abdulla Ateeq	Bahraini	Member, Non-Executive	Member	-	-	Member
Abdulrahman Abdulla Al-Sayed	Bahraini	Member, Independent	-	Member	-	Chairman
Abdulrazzaq Abdulkhaleq Abdulla	Bahraini	Member, Non-Executive	-	-	Member	-
Adnan Abdulla Al-Bassam	Bahraini	Member, Independent	Member	Member	-	-
Hamad Abdulla Al-Oqab	Bahraini	Member, Executive	-	-	Member	-

Corporate Governance

3. The Board of Directors (continued)

3.4. Composition of the Board of Directors (continued)

B. Board of Directors for the Term (March 2023/2026)

Director's name	Nationality	Board Membership Designation & Position	Board Committees				Sustainability and Social Responsibility	Board Digital Committee
			Audit	Nomination, Remuneration, and Governance	Executive	Risk Management		
Sabah Al Moayyed	Bahraini	Chairperson, Independent		Member	-	chairperson		chairperson
Mark Yaseen	Canadian	Vice Chairman, Independent	chairperson	-		Member	-	-
Dr. Khalid Abdulla Ateeq	Bahraini	Member, Executive	-	-	chairperson	-	Member	-
Abdulrahman Abdulla Al-Sayed	Bahraini	Member, Independent	-	chairperson	-	Member	-	-
Adnan Abdulla Al-Bassam	Bahraini	Member, Independent	Member	-	-	Member	-	-
Masood Al Bastaki	Bahraini	Member, Non - Executive	-	-	Member		chairperson	
Abdulla Edham	Bahraini	Member, Non - Executive	-	Member	Member	-	-	Member
Abdulamalek Mezher	Jordanian	Member, Executive	Member	-	-		Member	Member
* Hamad Abdulla Aloqab	Bahraini	Member, Executive	-	Member	-	-	-	-

*** Mr. Hamad Abdulla Aloqab resigned in August 2023.**

For the Board of Directors which ended in March 2023,the Bank has obtained permission and approval on exceptional basis to consider two members as independent directors (namely Yousif Ali Bin Fadil and Abdulrahman Abdulla Mohamed). As to the current Board of Directors all members are classified in compliance with CBB Rulebook. All Directors receive accurate, timely and clear information on all relevant matters, and have access to the advice and services of the Head of Legal and Corporate Secretary who (together with the Head of Compliance) is responsible for ensuring that Board complies with the applicable rules and regulations.

3.5. Induction and engagement letters

In line with CBB Rulebook, the Group conducted a formal induction program for its new members. Re-elected members also attended such induction. The induction program includes detailed presentation on the business of the Group, its activities, and Organizational Structure. It also covers the duties and responsibilities of the Board in accordance with the Memorandum and Articles of Association, the Charter of the Board, and the CBB Rulebook.

In addition, all members of the Board signs individual letters of engagement with the Group specifying their rights, duties, and entitlements. All members are provided with copies of the corporate governance code, the policy on entitlements, and confidentiality and non-disclosure undertaking along with all Charters of the Board Committees.

Corporate Governance

3. The Board of Directors (continued)

3.6. Board meetings and attendances

In line with the nature and demand of the Group's business, the Board meets at least every quarter unless further meetings are required. During 2023, the Board held Seven meetings (the minimum required number of meetings that must be held during the year is four meetings), and the number of meetings attended by each member were as follows:

Director's name	Meeting Dates
	21 Feb
Saleh Salman Al-Kawari	✓
Yousif Ali Bin Fadil	✓
Abdullatif Abdulrahim Janahi	✓
Abdulrahman Abdulla Mohamed	✓
Dr. Khalid Abdulla Ateeq	✓
Abdulrahman Abdulla Al-Sayed	✓
Abdulrazzaq Abdulkhaleq Abdulla	✓
Adnan Abdulla Al-Bassam	✓
Hamad Abdulla Al-Oqab	✓

Director's name	Meeting Dates					
	23 Mar	14 May	18 Jun	10 Aug	13 Nov	10 Dec
Sabah Al Moayyed	✓	✓	✓	✓	✓	✓
Akram Yassin	✓	✓	✓	✓	✓	✓
Dr. Khalid Abdulla Ateeq	✓	✓	✓	✓	✓	✓
Abdulrahman Al Sayed	✓	✓	✓	✓	✓	✓
Adnan Abdulla Al-Bassam	✓	✓	✓	✓	✓	✓
Masood Al Bastaki	✓	✓	✓	✓	✓	✓
Abdulla Edham	✓	✓	✓	✓	✓	✓
Abdulmalek Mezher	✓	✓	✓	✓	✓	✓
Hamad Abdulla Al-Oqab	✓	✓	✓	✓	•	•

3.7. Performance evaluation

In line with its Corporate Governance Policy, the Group adopts a procedure undertaken by the Board to evaluate its own performance and that of its Committees and individual Directors. At the end of each financial year, the Board distributes evaluation forms to all members to evaluate:

- The Board of Directors itself;
- The Committees of the Board of Directors;
- The Chief Executive Officer;
- The Secretary of the Board.
- The Sharia Supervisory Board.

The results of the evaluations forms are then discussed in the Nomination, Remuneration, and Governance Committee ("NRGC"), and in the Board of Directors meeting, and during the AGM.

3.8. Board Committees

According to its Charter, the Board (principally through its Committees) is responsible to oversee the establishment of risk management systems by approving accounting policies; financial statements and reports; credit and risk management policies; and systems of internal controls, taking into account

Corporate Governance

3. The Board of Directors (continued)
3.8. Board Committees (continued)

the Group's risk appetite, the overall business strategy, management expertise, and the external environment. The Board has defined general parameters to manage its Group-wide risk profile to comply with the approved Group's risk appetite and tolerances, which considers both downside risk and opportunities.

In accordance with the Articles of Association, the Board of Directors may establish Board Committees to assist the Board on taking its resolutions. Each Committee operates under a Board approved charter that is reviewed during each term of the Board unless there is a need for earlier review.

Each Committee has established a reporting structure that describes relevant responsibilities in respect to oversight and monitoring of Board approved management policies. These Committees evaluate developments in respect to the Group's structure and operations, as well as economic, industry, and market developments that may affect the Group's risk management.

The Board Committees meet regularly and consists of independent, executive, and non-executive directors.

During 2023, the Board established the following Committees:

3.8.1. Audit Committee
The Audit Committee (appointed by the Board of Directors) consists of three members. The Head of Internal Audit directly reports to the Chairman of the Committee. Audit Committee is regularly informed about significant projects aimed at further improving processes and receives regular updates on major litigations as well as significant regulatory and compliance matters. The primary function of the Audit Committee is to assist the Board in fulfilling its oversight role by:

- Monitoring and assessing the integrity of the consolidated financial statements as well as disclosures of the financial condition, results of operations and cash flows;
- Monitoring processes designed to ensure the existence of an appropriate internal control system, including compliance with legal and regulatory requirements; and
- Monitoring the activities and performance of the internal audit function.

The Audit Committee reviews and (as appropriate) approves and recommends for the approval of the Board of Directors:

- The interim and annual consolidated financial results;
- Status updates on implementation on various regulatory reports;
- Internal and external audit reports and status of their implementation (as appropriate);
- New accounting and regulatory pronouncements and their implications.

An independent non-executive Director chairs the Audit Committee. The composition of the Committee, the number of meetings held, and attendance of members are as follows:

A) For the Board of Directors(2020-March2023)

Director's name	Meeting Dates
	21 Feb
Abdulrahman Abdulla Mohamed (Chairman)	✓
Dr. Khalid Abdulla Ateeq (Member)	✓
Adnan Abdulla Al-Bassam (Member)	✓

Corporate Governance

3. The Board of Directors (continued)
3.8. Board Committees (continued)
3.8.1. Audit Committee (continued)

B) For the Board of Directors (2023-2026)

Director's name	Meeting Dates							
	13 Apr	14 May	28 May	6 Aug	8 Aug	29 Aug	25 Sep	30 Oct
Akram Yassin (Chairman)	✓	✓	✓	✓	✓	✓	✓	✓
Adnan Abdulla Al-Bassam (Member)	✓	✓	✓	✓	✓	✓	✓	✓
Abdulmalek Mezher (Member)	✓	✓	✓	✓	✓	✓	✓	✓

3.8.2. Nomination, Remuneration & Governance Committee
This Committee is responsible for assisting the Board in reviewing and overseeing the following responsibilities:

- Board of Directors and individual Directors' performance;
- Effectiveness of (and compliance with) the Group's corporate governance policies and practices;
- Succession planning for the Board and Executive Management;
- Staff remuneration policy and fees for Non-Executive Directors and Sharia Supervisory Board;
- Approve, monitor, and review the remuneration system to ensure the system operates as intended;
- Approve the remuneration policy and amounts for each Approved Person and Material Risk-taker, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits;
- Ensure remuneration is adjusted for all types of risks and that the remuneration system takes into consideration employees that earn same short-term profit but take different amount of risk on behalf of the Group;
- Ensure that for Material Risk-takers, variable remuneration forms a substantial part of their total remuneration;
- Review the stress testing and back-testing results before approving total variable remuneration to be distributed including salaries, fees, expenses, bonuses and other employee benefits;
- Carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The Committee will question payouts for income that cannot be realized or whose likelihood of realization remains uncertain at the time of payment;
- Ensure that (for approved persons in Financial Control, Risk Management, Internal Audit, Sharia Review, Internal Sharia Audit, Compliance, and Operations functions) the mix of fixed and variable remuneration is weighted in favor of fixed remuneration;
- Recommend Board members remuneration based on their attendance and performance 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;
- Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves not to use personal hedging strategies or remuneration and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.
- Advise the Board of Directors and monitor the implementation of a robust governance framework by working together with Executive Management and the Sharia Supervisory Board.

The Board is ultimately responsible for the approval of the remuneration package. The Committee is guided by the need to (attract and retain) and at the same time link the rewards to clearly articulate corporate and individual performance parameters. The composition of the Committee, the number of meetings held, and attendance of members are as follows:

Corporate Governance

3. The Board of Directors (continued)
3.8. Board Committees (continued)
3.8.2. Nomination, Remuneration & Governance Committee (continued)

A) For the Board of Directors (2020-March2023):

Director's name	Meeting Dates
	18 Jan
Saleh Salman Al-Kawari (Chairman)	✓
Abdulrahman Abdulla Al-Sayed (Member)	✓
Adnan Abdulla Al-Bassam (Member)	✓

B) For the Board of Directors (2023-2026)

Director's name	Meeting Dates						
	4 May	4 Jun	11 Jun	17 Jul	21 Aug	23 Oct	19 Dec
Abdulrahman Al Sayed (Chairman)	✓	✓	✓	✓	✓	✓	✓
Sabah Al Moayyed (Member)	✓	✓	✓	✓	✓	✓	✓
Abdulla Edham (Member)	✓	✓	✓	✓	✓	✓	✓

Shaikh Esam Ishaq (Chairman of Sharia Supervisory Board) is a member of the Committee with a voting right in respect of Sharia governance issues. He attends at least one meeting during the year or whenever necessary to provide guidance and advice on Sharia-related matters. He also coordinates and links complementary roles and functions of corporate governance and Sharia Supervisory Board.

3.8.3. Board Executive Committee
The primary purpose of this Committee is to consider specific matters delegated by the Board and make recommendations thereto or take decisions based on authorities specifically delegated by the Board. The Board Executive Committee also has the power and authority to approve certain credit and investment proposals. The composition of the Committee, the number of meetings held, and attendance of members are as follows:

A) For the Board of Directors (2020-March 2023):

Director's name	Meeting Dates	
	20 Feb	8 Mar
Yousif Ali Bin Fadil (Chairman)	✓	✓
Abdullatif Abdulrahim Janahi	✓	✓
Abdulrazzaq Abdulkhaleq Abdulla	✓	✓
Hamad Abdulla Al-Oqab	✓	✓

B) For the Board of Directors (2023-2026):

Director's name	Meeting Dates					
	16 Apr	15 Jun	1 Aug	3 Sep	2 Oct	28 Nov
Khalid Abdulla Ateeq (Chairman)	✓	✓	✓	✓	✓	✓
Masood Al Bastaki	✓	✓	✓	✓	✓	✓
Abdulla Edham	✓	✓	✓	✓	✓	✓
* Hamad Abdulla Al-Oqab	✓	✓	✓	•	•	•

* Mr. Hamad was a member up to August 31, 2023.

Corporate Governance

3. The Board of Directors (continued)
3.8. Board Committees (continued)

3.84 Board Risk Management Committee
The Board Risk Management Committee ("BRMC") is mandated to ensure that integrated risk management functions within the Group are effectively discharged. The Committee has the following overall responsibilities:

- Ensure that sound risk management policies, frameworks and practices are in place for addressing and managing the material risks, and report the results of the Committee's activities to the Board of Directors.
- Ensures day-to-day operations are executed within the boundaries set by the business and risk strategy, and risk appetite. Breaches of the risk appetite will result in immediate action at the appropriate management level.
- Ensure that Executive Management understand and accepts its responsibility for identifying, assessing and managing risk.
- Periodically review and monitor risk mitigation processes and periodically review and report to the Board of Directors:
- the magnitude of all material business risks;
- the processes, procedures and controls in place to manage material risks; and
- the overall effectiveness of the risk management process.

The composition of the Committee, the number of meetings held, and attendance of members are as follows:

A) For the Board of Directors (2020-March 2023)

Director's name	Meeting Dates
	6 Mar
Abdulrahman Al Sayed (Chairman)	✓
Saleh Salman Al Kawari (Member)	✓
Abdulrahman Abdulla (Member)	✓
Dr. Khaled Abdulla Ateeq	✓

B) For the Board of Directors(2023-2026)

Director's name	Meeting Dates					
	6 Mar	7 & 17 May	12 Jun	7 Aug	1 Oct	12 Nov
Mrs. Sabah K. Al Moayyed, Chairperson	**	✓	✓	✓	✓	✓
Mr. Mark Yassin, Member	**	✓	✓	✓	✓	✓
Mr. Adnan AlBassam, Member	**	✓	✓	✓	✓	✓
Abdulrahman Abdulla Al-Sayed, Member	✓	✓	✓	✓	✓	✓

3.8.5. Digital and Transformation Committee
The Board Digital and Transformation Committee is a new Committee mandated to ensure the end-to-end digital delivery of the Bank's products and services; receiving regular reporting on the Bank's digital ecosystem and providing oversight to the Bank's IT function including IT strategy, enterprise architecture, the alignment of IT function with the Bank's business, system stability, information security and related operations.

The Composition of the Committee and the number of meetings held is as follows:

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3. The Board of Directors (continued)

3.8. Board Committees (continued)

3.8.5. Digital and Transformation Committee (continued)

Director's name	Meeting Dates		
	6 Sep	11 Oct	27 Nov
Sabah Al Moayyed (Chairman)	✓	✓	✓
Abdulla Edham	✓	✓	✓
Abdulmalek Mezher	✓	✓	✓

3.8.6. Board Sustainability and Social Responsibilty Committee

The Board Sustainability and Social Responsibility Committee is entrusted with the tasks of advising and assisting the Board of Directors to adopt strategies of sustainability and social responsibilities that balance between the financial growth of the Bank and at the same time preserve the social and environmental interests. The Committee will also oversee the implementation and application of the guidelines and measures issued by the Central Bank of Bahrain in the SDG Module.

The Composition of the Committee and the number of meetings held is as follows:

Director's name	Meeting Dates
	29 Jul
Masood Al Bastaki (Chairman)	✓
Dr. Khaled Ateeq	✓
Abdulmalek Mezher	✓

3.9. Conflict of interest

Directors avoid any action, position, or interest that conflicts with an interest of the Group, or gives the appearance of a conflict. The Group annually solicits information from Directors in order to monitor potential conflict of interest, and Directors are expected to be mindful of their fiduciary obligations towards the Group. In the event of a situation involving a potential conflict of interest, Directors are encouraged to seek advice from the Group's Compliance Officer.

4. Management Committees

In addition to the Board Committees, the Group has in place the following management committees with the CEO and/or his delegate functioning as the Chairman of these committees. Members of committees comprise of heads of relevant departments and functions.

4.1. Executive Management Committee ("EMC")

EMC role is to oversee the implementation of the strategic objectives of the Group in relation to its business direction, operations, risk, expansion plans and overall policies and procedures.

4.2. Credit Committee ("CC")

The management of credit risk starts with appointing experienced key personnel. The CC approves major credit decisions, guidelines and procedures to manage, control and monitor credit risk. All financing applications of significant amounts are approved at the Head Office or by the CC, while experienced senior credit officers at branches are given authority to approve financing with lower-risk exposure.

4.3. Asset Liability Management Committee ("ALCO")

ALCO is the primary committee responsible for liquidity and funding risk management. The ALCO make decisions and proposes guidance to force the structure of the Group's assets and liabilities, funding requirements, and liquidity management in line with its overall strategic objectives.

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4. Management Committees (continued)

4.4. Special Assets Committee ("SAC")

The primary purpose of the SAC is to timely monitor and manage non-performing credit exposures, which show signs of weaknesses or default and place into question the full and timely recovery of all amounts due to the Group, in addition to monitoring the repossessed assets and investments and recommending action plans and classifications.

4.5. Provisioning Committee ("PC")

The PC is responsible for ensuring proper implementation of FAS 30 approved policy. It is mainly responsible to take decisions related to provisioning on the Group's non-performing assets.

4.6. Digital and IT Information Committee ("ITSC")

The ITSC role is to govern the Group's short and long-term information technology strategies, investments, projects and initiatives to ensure they are enabling the Group's business objectives and aligned with the its strategies.

4.7. Executive Compliance Committee ("ECC")

The ECC role is to ensure compliance with all relevant guidelines including internal policies, CBB guidelines, audit related observations, and AML programs.

4.8. Human Resources and Compensation Committee ("HRCC")

The objective of HRC is to setup and maintain a sound human resources framework and to oversee the Group's recruitment and compensation processes to ensure its alignment with its overall strategy and objectives.

4.9. Zakat and Charity Committee ("ZCC")

The primary purpose of ZCC is to manage the Group's zakat and charity payments and contributions.

4.10. Executive Risk Management Committee ("ERMC")

The primary purpose of ERMC is to support the Executive Management in performing the role of risk oversight, framework development, policy and methodology formulation, and independent monitoring and reporting of key risk issues.

4.11. Anti-fraud and Cyber Security Committee ("CSC")

The primary purpose of CSC is to oversee the development and implementation of necessary policies, procedures, guidelines, standards and controls to protect the Group from possible fraud and Cyber Security risks, to be in line with the overall Group acceptable risk appetite and management frameworks. CSC is further responsible to review the effectiveness of Information and Cyber Security controls, data governance, privacy protection and related compliance requirements.

4.12. Business Continuity Planning Committee ("BCPC")

The BCPC is responsible for the development and implementation of strategic framework to ensure the effective continuance of the Group operations in the event of a major crises or potential catastrophic event. It is further responsible for regular testing of the effectiveness of the business continuity planning activities across the Group premises, and the development, implementation and maintenance of the emergency management, response plans and related training.

4.13. Follow-up Committee for pending internal and external issues ("FUC")

The primary purpose of this Committee is to prompt the closure and resolution of pending internal and external findings reported by multiple stakeholders.

There is a clear division of responsibility between the Board and Management. The CEO is supported by his team of Executive Management team who is responsible for the implementation of Board resolutions, overall responsibilities of day-to-day operations, and operational efficiency. The Directors are kept abreast of the Group's performance through various monthly reports presented during the Board and its Committee's meetings.

5. Remuneration

In line with CBB's issued regulations related to Sound Remuneration Practices, the Group's compensation strategy (which includes variable remuneration policy) sets out its policy on remuneration for Directors and Executive Management along with the key factors that are taken into account in setting the policy.

5.1 Remuneration strategy

The quality and long-term commitment of employees is fundamental to the Group's success. There is a robust and effective governance framework in place to ensure that the Group operates within clear parameters of its compensation strategy and policy for remunerating the Board of Directors,

Corporate Governance

5. Remuneration (continued)

5.1 Remuneration strategy (continued)

the Sharia Supervisory Board, and the Executive Management in accordance with the remuneration policies and procedures approved by the Board. All compensation matters and overall compliance with regulatory requirements are overseen by NRGC.

The Group's basic compensation philosophy is to provide a competitive level of compensation to attract and retain qualified and competent employees who are committed to maintain a career with the Group, and who will perform their role in the long-term interest of the Group and its shareholders. The Group's reward package comprises of fixed pay, benefits, performance bonus and a long-term performance incentive plan. The Group's variable remuneration policy is performance-based driven primarily by a culture that aligns employee interests with those of the Group's shareholders. These elements support the achievement of the Group objectives through balancing rewards for short-term results with long-term sustainable performance. The Group's strategy is designed to share success and align employees' incentives with risk framework and outcomes.

In order to ensure the alignment between compensating people and business strategy, the Group assesses individual performance against annual and long-term financial and non-financial objectives summarized as part of its performance management system. This assessment also considers adherence to the Group's values, risks and compliance measures, and above all, ethics and integrity. Performance is evaluated based on short-term and long-term achievements as we as on how it is achieved, the NRGC believes the latter contributes to the long-term sustainability of the business. In particular, the Group uses capital and solvency ratios, key profitability measures, quality of earning parameters and strategic growth indicators as performance metrics for key business line managers and individuals.

The Group's remuneration policy considers the role of each employee and set's guidance on whether an employee is a Material Risk-taker or an Approved Person in a business line, control function, or support function. An Approved Person is an employee whose appointment requires prior regulatory approval because of the significance of his/her role within the Group. An employee is considered a Material Risk-taker if he/she is the Head of a significant business line or an individual who has (within his/her control) a material impact on the Group's risk profile.

The Group provides fixed annual fees to the Sharia Supervisory Board and does not provide any performance linked incentives.

The NRGC oversees all reward policies of the Group employees. The NRGC is the supervisory and governing body for the compensation policy, practices and plans. NRGC is responsible for determining, reviewing and proposing the variable remuneration policy that is approved by the Board, it is also responsible for setting the principles and governance framework for all compensation decisions. The remuneration policy is periodically reviewed to reflect changes in market practices, business plans, and the risk profile of the Group. The NRGC ensures that all employees are remunerated fairly and responsibly.

In addition to its responsibilities mentioned elsewhere in this report, NRGC is entrusted with specific and detailed responsibilities with regards to the Group's variable remuneration policy and oversight of its implementation. These includes (but not limited to) ensuring that the system operates as intended especially for Material Risk-takers, ensuring that variable remuneration forms a substantial part of their total remuneration and is adjusted for all types of risks by reviewing the stress testing and back-testing results. The NRGC is also responsible for ensuring that Approved Persons in Financial Control, Risk Management, Internal Audit, Sharia Review, Internal Sharia Audit, Compliance, and Operations functions have the mix of fixed and variable remuneration with more weight in favor of fixed remuneration. In addition, NRGC recommends Board remuneration based on their attendance and performance 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.

The NRGC carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remains uncertain. The NRGC demonstrates that its decisions are consistent with an assessment of the Group's financial condition and future prospects.

The aggregate remuneration paid to NRGC members duringthe year (in the form of sitting fees) amounted to USD 72 thousand [2022: USD 36 thousand] for four meetings held during the current and prior year.

Corporate Governance

5. Remuneration (continued)

5.2 Board remuneration

Remuneration for the Group's Board of Directors is determined in line 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. Board remuneration is subject to the approval of the shareholders during the AGM. Remuneration of Non-Executive Directors does not include performance-related elements (e.g. share grants, share options, deferred share-related incentive schemes, bonuses, or pension benefits, etc.).

Non-Executive Directors level of remuneration reflects the experience and level of responsibilities they take in the Group. The CEO's remuneration is structured to link the remuneration and other rewards and benefits to contributions and achievements, in line with the Group's and the Ultimate Parent's corporate objectives, culture, and strategy.

Except for contracts mentioned in related sections of the Group's financial statements, no director has received (or become entitled to receive) any benefit from contracting with the Group or its related entities, or from entities in which a Director is a member, or from any entity in which a Director has a substantial financial interest.

Directors' interests in the Group shares

Director's name	Shareholding during 2023		
	1 January	31 December	Changes
Abdullatif Abdulrahim Janahi	1,250	1,250	-

5.2.1 Board of Directors, Supervisory Board, and CEO remuneration

Director's name	Shareholding during 2023			
	Head count	2023	Head count	2022
Directors				
Remuneration(1)		345		374
Sitting fees		570		375
Allowances and others(2)		5		52
Total		920		801
Sharia Supervisory Board members				
Staff inclusive of Chief Executive Officer				
Fixed remuneration:				
Approved Persons and Material Risk-takers (Business lines)	27	4,168	25	3,640
Approved Persons (Others)	13	2,050	17	3,025
Other staff (Bahrain Operations)		11,557		9,069
Staff (Overseas subsidiary)		12,492		14,354
Total fixed remunerations		30,267		30,088
Variable remuneration:				
Approved Persons and Material Risk-takers (Business lines)	27	-	25	374
Approved Persons (Others)	13	-	17	383
Other staff (Bahrain Operations)		-		632
Staff (Overseas subsidiary)		963		719
Total variable remunerations		963		2,108
Total staff remunerations		31,228		32,707
Sharia Committee Members		119		77

Corporate Governance

5. Remuneration (continued)

5.2 Board remuneration (continued)

(1) The amounts represent remuneration paid to the Board of Directors during the year based on the prior year performance.

(2) Others includes reimbursement of air tickets and per-diem for attending Board and its Committees meetings.

Total fixed remuneration for covered persons affected by the policy, having salaries and benefits exceeding BD 100 thousand amount to USD 2,052 thousand (2022: USD 2,702 thousand) applicable to six employees (2022: six employees). Total variable remuneration during 2023 paid to these employees was USD Nil thousand (2022: USD 427 thousand), such remuneration comprises upfront cash amounted to USD Nil thousand (2022: USD 171 thousand) and deferred shares amounted to USD Nil thousand (2022: USD 256 thousand). Total amount paid as severance or retirement benefits to covered persons retired during 2023 was USD 2,539 thousand (2022: 1,138 thousand).

5.2.2 Staff variable remuneration

The Group's variable remuneration is performance-related and consists primarily of the annual performance bonus. As a part of the Group's staff variable remuneration, annual bonus compensates for the delivery of annual operational and financial targets, employees individual performance in achieving such targets and their contribution to delivering the Group's strategic objectives.

The Group has adopted a Board approved framework that assures a transparent link between variable remuneration and performance. The framework is designed on meeting both satisfactory financial performance and achieving other non-financial factors that will (assuming all other factors being equal) deliver a target bonus pool for employees prior to consideration of any allocation to business lines and employees individually. Within this framework, NRGC aims to balance the distribution of the Group's profit between shareholders and employees.

Key performance metrics at the Group-level consists of a combination of short-term and long-term measures including profitability, solvency, liquidity and growth indicators. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

In determining the amount of variable remuneration, the Group starts from setting specific targets and other qualitative performance measures that result in a target bonus pool. The bonus pool is then adjusted to account for risks using risk-adjusted measures (including forward-looking considerations).

The Group uses a formalized and transparent process to adjust the bonus pool for quality of earnings. It is the Group's objective to pay out bonuses out of realized and sustainable profits. If the quality of earnings is not strong, the profit-base could be adjusted based on the discretion of the NRGC.

For the Group to have any funding for distribution of a bonus pool, threshold financial targets have to be achieved. The performance measures ensure that total variable remuneration is considerably contracted where subdued or negative financial performance of the Group occurs. Furthermore, the target bonus pool as determined above is subject to risk adjustments in line with the risk assessment and linked with the framework.

5.2.3 Remuneration of control functions

The staff remuneration level in control and support functions allows the Group to employ qualified and experienced personnel in these functions. The Group ensures that the mix of fixed and variable remuneration for control and support function personnel should be weighted in favor of fixed remuneration. The variable remuneration of control functions is based on function-specific objectives and not determined by business financial performance they monitor.

The Group's performance management system plays a major role in deciding the performance of the support and control units based on the objectives set for them. Such objectives are more focused on non-financial targets that includes risk, control, compliance and ethical considerations as well as the market and regulatory environment apart from value adding tasks, which are specific to each unit.

5.3 Alignment with risk

The policy aims to align variable remuneration to the risk profile of the Group. In its endeavor to do so, the Group considers both quantitative measures and qualitative measures in the risk assessment process. Both quantitative measures and human judgment plays a role in determining any risk adjustments. The risk assessment process encompasses the need to ensure that the designed remuneration policy

Corporate Governance

5. Remuneration (continued)

5.3 Alignment with risk (continued)

reduces employee incentives to take excessive and undue risks, is symmetrical with risk outcomes, and delivers an appropriate mix of remuneration that is risk aligned.

The NRGC considers whether the variable remuneration policy is in line with the Group's risk profile and ensures that through the Group's ex-ante and ex-post risk assessment framework and processes, remuneration practices (where potential future revenues whose timing and likelihood remain uncertain) are carefully evaluated.

Risk adjustments take into account all types of risks, including intangible and other risks such as reputation risk, liquidity risk, and cost of capital. The Group undertakes risk assessments to review financial and operational performance against business strategy and risk performance prior to distribution of the annual bonus. The Group ensures that total variable remuneration does not limit its ability to strengthen its capital base. The extent to which capital needs to be built up is a function of the Group's current capital position and ICAAP.

The bonus pool takes into account the performance of the Group, which is considered within the context of its risk management framework. This ensures that the variable pool is shaped by risk considerations and Group-wide notable events.

The size of variable remuneration pool and its allocation within the Group takes into account the full range of current and potential risks, including:

- Cost and quantity of capital required to support the risks taken;
- Cost and quantity of the liquidity risks assumed in the conduct of business; and
- Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

The NRGC keeps itself abreast with the Group's performance against risk management framework. NRGC will use this information when considering remuneration to ensure alignment of returns, risks, and remuneration. The Group has an ex-post risk assessment framework, which is a qualitative assessment to back-test actual performance against prior risk assumptions.

In years where the Group suffers material losses in its financial performance, the risk adjustment framework will work as follows:

- There will be considerable contraction of the Group's total variable remuneration;
- At an individual level, poor performance by the Group means individual KPI's are not met, and hence, employee performance ratings will be lower;
- Reduction in the value of deferred shares or awards;
- Possible changes in vesting periods and additional deferral applied to unvested rewards; and
- Lastly, if the qualitative and quantitative impact of a loss incident is considered significant, a malus or clawback of previous variable awards may be considered.

Based on Board's approval, NRGC can rationalize and make the following discretionary decisions:

- Increase/decrease the ex-post adjustment;
- Consider additional deferrals or increase the quantum of non-cash awards; and
- Recovery through malus and clawback arrangements.

The Group's malus and clawback provisions in the policy allows the NRGC to determine that (if appropriate) unvested elements under the deferred bonus plan can be forfeited/ adjusted or the delivered variable remuneration be recovered in certain situations. The intention is to allow the Group to appropriately respond to performance factors (on which reward decisions were based) if they turned out not to reflect the corresponding performance in the long-term. All deferred compensation awards contain provisions that enables the Group to reduce or cancel awards of employees whose individual behavior had a materially detrimental impact on the Group during the concerned performance year.

Corporate Governance

5. Remuneration (continued)

5.3 Alignment with risk (continued)

Any decision to take back an employee's award can only be made by the NRGC. The Group's malus and clawback provisions allows the NRGC to determine that (if appropriate) vested/unvested elements under the deferred bonus plan can be adjusted/cancelled in certain situations.

These events includes:

- Reasonable evidence of willful misbehavior, material error, negligence or incompetence of the employee causing the Group to suffer a material loss in its financial performance, material misstatement of the Group's financial statements, material risk management failure or reputational loss, or risk due to such employee's actions, negligence, misbehavior or incompetence during the concerned performance year; and
- The employee deliberately misleads the market and/or shareholders in relation to the financial performance of the Group during the concerned performance year.

Clawback can be used if the malus adjustment on the unvested portion is insufficient given the nature and magnitude of the issue.

5.4 Incentive plans

The employees of the Group are eligible for a variety of incentive plans to achieve a direct linkage amongst the remuneration and current/future performance. In this respect, the separate short-term incentive plans ("STIP") and long-term incentive plans ("LTIP"), are duly devised in the light of prevailing laws and regulations. The main components of said remuneration are:

Upfront cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred cash	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a period of three years.
Upfront share awards	The portion of variable compensation that is awarded and issued in the form of phantom shares on conclusion of the performance evaluation process for each year.
Deferred shares	The portion of variable compensation that is awarded and paid in the form of phantom shares on a pro-rata basis over a period of three years.

All deferred awards are subject to malus provisions. All awarded phantom shares are released to the employee after a six-month retention period from the date of vesting.

The employees in business lines and other functions can avail remuneration, under the short-term incentive plan ("STIP"), as follows:

Element of variable remuneration	Constitutions	Vesting period	Retention	Malus	Clawback
Upfront cash	40%	Immediate	-	-	Yes
Deferred share awards	60%	3 Years	6 Months	Yes	Yes

The NRGC (based on its assessment of role, profile, and risk taken by an employee) could increase the coverage of employees that will be subject to deferral arrangements. There are no signing or guaranteed bonuses awarded during the current and prior year.

In addition to non-cash short-term incentives and in order to motivate and align employees with its long-term business plans, the Group may decide to selectively award LTIP to employees contingent on the delivery of future performance targets. The NRGC will confirm the employees eligible for the LTIP scheme on annual basis. The performance horizon and quantum of awards will also be determined on an annual basis, based on the performance requirements. All LTIP awards will be delivered as non-cash instruments and are delivered on assessment of results achieved at the end of the performance

Corporate Governance

5. Remuneration (continued)

5.4 Incentive plans (continued)

period. LTIP vest immediately at the end of the performance period (a minimum of three years) and are subject to a six-month retention period post vesting.

The Group has decided to remunerate all covered staff having annual salary exceeding BD 100 thousand and those who occupies grade 3 level, by using the STIP option effectively from year 2021. In this respect, the following table further elaborates on the remuneration scheme:

Element of variable remuneration	Constitutions	Deferral period	Retention	Malus	Clawback
Upfront cash	40%	Immediate	-	-	Yes
Deferred share awards	60%	3 Years	6 Months	Yes	Yes

5.5 External consultants

The Group had appointed consultants at the time of formulation of policy and framework along with approved regulations. Thereafter, they are being appointed on time to time to provide technical advice when required.

6 Internal Control

The Board is responsible for the adequacy and effectiveness of the Group's system of internal control, which is supported by segregation of duties, enhanced systems of internal control process across all aspects of business, as well as strong support functions covering legal, regulatory, governance, finance, information technology, human resources, and strategy. Such system ensures to manage the Group's key risk areas within an acceptable risk profile rather than eliminating the risk of failure to achieve the policies and business objectives. The Group's system of Internal Control includes:

- An organization structure with clearly defined authority limits and reporting mechanisms to Executive Management and the Board.
- A risk management function with responsibility to ensure that risks are identified, assessed, and managed throughout the Group.
- A set of policies and guidelines relating to credit risk management, asset and liability management, compliance, operational risk management, and business continuity planning.
- An annual budgeting and monthly financial reporting system for all business units, which enables monitoring progress against plans, trends to be evaluated, and variances to be justified.
- An internal audit function to evaluate the adequacy and effectiveness of governance, risk and control systems, and to review management's compliance with policies and procedures.

The key processes that have been established in reviewing the adequacy and integrity of the system of internal control with respect to financial reporting include the following:

- Board established committees that assist in ensuring the effectiveness of the Group's daily operations, and ensures they are in accordance with the corporate objectives, strategic plans and annual budgets as well as approved policies and business directions.
- The Internal Audit Department checks for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlights significant findings in respect of any non-compliance. Audit is carried out on all departments and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the Board Audit Committee. Findings of audits are submitted to the Committee for review during their periodic meetings.
- The Board Audit Committee reviews internal control issues identified by the Internal Audit Department, regulatory authorities, Executive Management, and external auditors and evaluate the adequacy and effectiveness of the risk management and internal control systems. The Committee also reviews the Internal Audit function with particular emphasis on the scope and quality of deliverables and observations. The minutes of the Committee meetings are presented to the Board of Directors on periodic basis.

Corporate Governance

6. Internal Control (continued)

The governance arrangements, systems and controls employed by the Group also ensure Sharia compliance and how these meets applicable standards, and if there is less than full compliance, an explanation of the reasons for non-compliance.

The Group is committed to avoid recognizing any income generated from non-Sharia compliant sources. Accordingly, all non-Sharia compliant income is transferred to a charity fund where the Group uses these funds for social welfare activities. The statement of sources and uses of charity fund (disclosed within the Annual Report) provides further information.

7. Risk Management

7.1. Risk Management Framework

The Group is committed to comply with Basel and IFSB guidelines and to CBB requirements. Risk management framework aims at proactive management of risks throughout the life cycle of a financial transaction including its operating circumstances from origination to final disposal from the books of the Group.

The Group's risk management framework is regularly reviewed and continuously enhanced to facilitate a comprehensive assessment of the various types of risk that the Group is (and may be) exposed to; risks such as credit, market, operational, liquidity, profit rate, concentration, reputation, compliance, etc.

Keeping in mind the uncertain market conditions and continuous increase in profit rate, the Group has been closely monitoring its liquidity and funding profile. The Group also carried out extensive stress testing to assess its ability to withstand continued and even worsening economic conditions. The results of the stress tests and scenario analysis reinforced the strength of the Group's capital and liquidity ratios.

In line with the regulatory guidelines and best practices, the Group has taken initiatives to enhance its risk management framework, which consists of aligning policies and procedures, reviewing various processes and controls, creating awareness sessions, and enhancing reporting culture across the Group. The Group's already established Internal Capital Adequacy Assessment Process ("ICAAP") and Internal Liquidity Adequacy Assessment Process ("ILAAP") continued to aid the management of both daily and larger, strategic risks.

The aim of the Bank's ICAAP and ILAAP is to manage all risks that could impact the capital and liquidity positions in a structured way, using internally developed approaches to measure, monitor and manage these risks at all times. The Bank maintains a prudent and disciplined approach to risk taking by upholding a comprehensive set of risk management policies, processes and limits, employing professionally qualified people with the appropriate skills, investing in technology and training, and actively promoting a culture of sound risk management at all levels.

Risk Management governance originates at the Board level, and cascades through to the CEO and businesses, via policies and delegated authorities, which ensures Board-level oversight and a clear segregation of duties between those who originate and those who approve risk exposures.

The Board has an overall responsibility for validating and approving the policies, defining the risk tolerance, and establishing the risk strategy for an effective risk management framework. The responsibility of risk governance lies with the different Board and Management Committees, who in turn, define and monitor the relevant risks to the organization (both financial and non-financial risks, including credit ,market, liquidity, operational, compliance, strategic, reputational, and legal). The Group has constituted various management committees with specific roles and responsibilities to review and endorse relevant risk parameters on an ongoing basis.

The Group follows a policy of Enterprise-wide Risk Management ("ERM"), which aligns strategy, policies, charters, people, processes, technology and knowledge in order to evaluate and manage the opportunities, threats and uncertainties that the Group may face in its ongoing efforts to create shareholder value. The ERM places emphasis on accountability, responsibility, independence, reporting, communications, and transparency. The risk management framework of the Group is structured upon:

- Core risk principles - overriding principles governing all activities and risk monitoring procedures; and

- Specific risk policies - appropriate policies, framework documents, procedures and processes implemented to manage specific risks to which the Group is exposed.

Corporate Governance

7. Risk Management (continued)

7.1. Risk Management Framework (continued)

The Group's ERM process is based on three lines of defense:

- Business and Support Management. Each of the Group's business and support units, including Material Risk-takers, own and manage the risks, including compliance risks, inherent-in/or arising-from the business process, and are responsible for having controls in place to mitigate key risks and promoting a culture of compliance and control.

- Independent Control Functions. The Group's independent control functions, including Compliance, Legal, Information Security, and Risk, set standards according to which the Group and its business units are expected to manage and oversee risks, including compliance with applicable laws, regulatory requirements, policies and standards of ethical conduct. The Risk Management Department ("RMD") is responsible for formulating and monitoring the Group's policies related to all aspects of risk, developing the framework for risk measurement and coordinating with the relevant departments for all necessary steps for adhering to Basel requirements under CBB rules, and guidelines of the Ultimate Parent. RMD is also responsible for introducing and implementing risk measurement software/tools, monitoring the Group's compliance with risk measurement standards, providing the management with reports on various risks, and providing subject matter expertise on their respective risk areas. The Head of RMD reports directly to the BRMC and provides regular updates on the Group's risk profile and recommendations. In addition, among other things, the independent control functions provide advice and training to the Group's businesses and establish tools, methodologies, processes, and oversight of controls used by the businesses to foster a culture of compliance and control, and to satisfy risk management standards.

- Internal Audit. The Group's Internal Audit function independently reviews activities of the first two lines of defense discussed above based on a risk-based audit plan and methodology approved by the Board of Directors.

The risk appetite statement reflects the level and type of risk that the Group is willing to assume, in order to achieve its strategic and business objectives, keeping in mind the obligations to its stakeholders. The Group has a well-defined risk appetite framework, which consists of the risk appetite statement (with both qualitative and quantitative measures) along with:

- Well-defined performance metrics in the form of KPI's;

- Risk limits, exposure criteria, restrictions and controls, financing and investment standards as laid out in the internal risk policies and procedures manual;

- Capital and liquidity benchmarks monitored in the ALCO meetings;

- Key business and risk management objectives, goals, and strategy, defined in business, investment, and risk management strategies; and

- Management and oversight structures in the Group through Executive Management and Board Committees. The risk appetite defines the desired performance levels, which in turn are embedded into management of the various risks within the Group as well as the capital of the Group and is integrated into the strategic, capital, and risk management planning process across the business verticals.

Further, the Board periodically reviews the risk management policies, limits, and risk strategies to cope with the changing economic environment and Group's risk appetite.

The Group believes that accurate, reliable, and timely information is vital to support decisions regarding risk management at all levels. On an ongoing basis, the Group will also continue to strengthen its risk management processes and invest in relevant risk management infrastructure in order to be more robust and responsive to the increasingly complex business environment. The requirements span a diverse range of risk functionality including review of credit and market risk analysis systems, strategic planning, asset and liability management, performance measurement, operational risk and regulatory reporting, as well as trading and trade-processing systems and staff supporting systems. Further, it employs Information and cyber security measures to protect the confidentiality, integrity, and availability of Group's information when required by the business.

Corporate Governance

7. Risk Management (continued)

7.1. Risk Management Framework (continued)

Data reconciliation is established to provide the integrity of the information used and appropriate security controls around all systems. The Group has a Board approved comprehensive business continuity framework in place and the plan is tested periodically to ensure that the impact of any potential disaster on its operations is minimal.

The Group is committed to meeting the highest levels of ethical standards in all areas of its operations. The Compliance Department ensures the Group's operations are in line with all applicable laws and regulations, sending periodic regulatory information to the supervisory bodies, advises and keeps Executive Management informed on the implication of compliance laws and regulations on the Group's operations.

7.2 Credit Risk Management

The Group's risk management philosophy is based on a well-defined policy, trained and experienced employees, and effective systems. The Credit Risk Management Policy dictates the credit risk strategy. This policy spells out the target markets, risk acceptance/avoidance levels, risk tolerance limits, preferred levels of diversification and concentration, credit risk measurement, monitoring and controlling mechanisms. The Group has tailored credit approval processes to suit the customer, product, sector and exposure types. The credit policy articulates the Credit Risk Management Framework, including:

- key credit risk management principles;
- delegation of authority;
- credit risk management program;
- counterparty credit risk management for financing, trading and investment activities;
- aggregate limits, beyond which credit applications requires higher level of approvals ; and
- single name/aggregation exposures, beyond which exposures must be reported to the Board.

The credit policy is reviewed regularly to ensure up to date guidelines for new credit approvals, renewals or changes in the existing terms and conditions of the previously approved credit policies. The Group has a dedicated team of experienced credit review professionals who identify risk at an early stage and take proactive measures to minimize the impact. The Group uses a state-of-the-art rating system to support the internal credit models to estimate Probability of Default, Loss Given Default, and Exposure at Default parameters.

RMD tracks arrears to ensure operational efficiency and compliance with the granting and follow-up policy by identifying changes in trends and variances from tolerance levels. Arrears percentages are reported regularly and are evaluated on various verticals such as product, branch, industry levels, etc., Branch performance and targets include arrear targets, appropriately balanced with sales and profit targets.

Proactive Credit Risk Management practice in the form of studies of rating distribution, portfolio analysis of all financing assets, periodic review of industry, country, currency, counter-party, single-obligor and concentration of exposures are only some of the prudent measures; the Group is engaged in mitigating risk exposures.

7.3 Market, Liquidity, and Profit Rate Risk Management

The Group manages market, liquidity, and profit rate risks through its ALCO process. The ALCO is primarily entrusted with the task of market and liquidity risk management. The Committee decides on product pricing, mix of assets and liabilities, stipulates liquidity and profit rate risk limits and monitors them, articulates Group's profit rate view and determines the Group's business strategy.

The Group has a well-established framework for market and liquidity risk management with the asset liability management, Funds Transfer Pricing ("FTP"), profit rate risk and the Treasury Policies forming the fulcrum for procedures, processes and structure. It has a major objective of protecting the Group's net profit in the short run and equity value in the long run for enhancing shareholders wealth.

According to Basel recommendations on liquidity management, the Group measures liquidity according to two criteria: (1) normal business, reflecting day-to-day expectations regarding the funding of the Group; and (2) crisis scenario, reflecting simulated extreme business circumstances in which the Group's survival may be threatened. The Group also carries out behavior analysis of customer funds to measure the retention rate of funds with different time buckets, using statistical techniques. The important aspect of market risk management includes profit rate risk management and the pricing of assets and liabilities.

Corporate Governance

7. Risk Management (continued)

7.3. Market, Liquidity, and Profit Rate Risk Management (continued)

ALCO has determined the most appropriate liquidity horizon for the Group as three months for the normal business scenario and six months for the crisis business scenario. This means that holding sufficient liquid funds for three months is acceptable for normal business purposes but six months would be more prudent in the event of a liquidity crisis.

The Group's liquidity policy is to hold sufficient liquid assets to cover its committed statement of financial position requirements, plus its budgeted expenses for the liquidity horizon, plus its forecast investment commitments over the liquidity horizon. The Group continues to strengthen its liquidity management activities in order to ensure that it maintains a stable funding base and strong liquidity during the prevailing period of global market crisis.

In addition, the Group ensures the availability of adequate liquidity at all times through systematic funds planning, maintenance of liquid investments and focus on more stable funding sources. The Group implements regular stress testing and review of its liquidity strategy and report results regularly to the Board.

7.4 Operational Risk Management

The objectives of operational risk management is to identify, measure, mitigate, and monitor operational risk, and promote risk awareness and a healthy risk culture within the Group. Risk quantification and awareness helps management set priorities in their actions and allocate people and resources.

The Group manages operational risk through internal controls and standard operating procedures that are updated regularly to reflect the current business environment. The Group systematically reviews its business areas to minimize the risk of financial losses due to sanctions, claims, or reputational damages resulting from non-compliance with legislation, rules, and standards.

Operational risk management within the Group aims to have a healthy balance between the exposure to these risks and tools to manage them. The Group has established a consistent framework for monitoring, assessing, and communicating operational risks and the overall operating effectiveness of the internal control environment. The operational risk management framework has been developed with the objective to ensure that operational risks within the Group are identified, monitored, managed, and reported in a structured, systematic, and consistent manner.

The management of operational risk has two key objectives:

- To minimize the impact of operational losses suffered in the normal course of business (expected losses) and to avoid or reduce the likelihood of suffering an extreme (or unexpected) loss; and
- To improve the effective management of the Group and strengthen its brand and external reputation through efficient delivery of services.

A key component of the operational risk framework is a set of a core operational risk standards, which provides guidance on the baseline control to ensure a controlled and sound operating environment. The process for operational risk management includes the following steps:

- Identify and assess key operational risks;
- Design controls to mitigate identified risks;
- Establish key risk and control indicators;
- Implement a process for early problem recognition and timely escalation;
- Produce a comprehensive operational risk report; and
- Ensure that sufficient resources are available to actively improve the operational risk environment and mitigate emerging risks.

The Group has a comprehensive system of internal controls, systems and procedures to monitor and mitigate risk, it also institutionalized the approval process of new product, services, and outsourcing to identify the risk inherent in such activities.

Information Technology ("IT") risk is managed in accordance to an IT policy (which covers risk governance, communication, monitoring, assessment, mitigation and acceptance). Centralized functional control is exercised over all computer system developments and operations. The Group employs information and cyber security controls in accordance to regulatory requirements and best practices to manage the risk and ensure protection of the Group products and services

Corporate Governance

7. Risk Management (continued)

7.4. Operational Risk Management (continued)

from all cyber threats, in line with the business directions and digital transformation strategy.

Moreover, the Group has a security operations center, digital protection and threat informed intelligence tools to proactively protect the business with the increase demand on data protection, privacy and continuity of services. The Group closely monitors cyber threats and data privacy, and as mitigating actions:

- Continues to strengthen and significantly invest to enhance its ability to prevent, detect, and respond to the ever-increasing and sophisticated threat of cyber-attacks. Specifically, the Group enhanced its capabilities to protect against increasingly sophisticated malware, denial of service attacks and data leakage prevention, and enhanced security event detection and incident response processes.

- Cyber risk is a Board priority topic and is regularly reported at Board-level to ensure appropriate visibility, governance, and executive support for ongoing cybersecurity program.

- Participate in intelligence sharing with both law enforcement and industry schemes to help improve understanding of/ and ability to respond to the evolving threats faced by the Group and peers within industry.

The Compliance Officer, who is approved by CBB, manages compliance in the Group. The main responsibility of the Compliance function is to ensure that the Group is complied with all applicable rules and regulations. The Internal Audit function through the Risk-based Internal Audit, compliments the Group's ability to control and mitigate risk.

The Group has nominated a dedicated officer to look after the business continuity framework on an ongoing basis and carryout periodic tests to ensure its preparedness to manage the operations with minimum/no disruptions in the event of any unforeseen situation.

The Group continually refines and strengthens existing policies, procedures, and internal control measures; conduct internal reviews, compliance monitoring, and comprehensive audits to prevent or minimize unexpected losses, and when necessary to cope with the growth in Group's size and complexity.

Fraud Risk Management – In light of combating the cyber fraud and non-tradition frauds, the Group has established a dedicated Fraud Risk management function led by an approved person, reporting to the Chief Risk Officer who in turn reports to the BRMC. As part of monitoring tools, the group is enhancing the fraud monitoring tools and systems to empower the concerned staff for managing the risk in a prudent manner.

7.5 Capital Management

Capital management is an ongoing process of ensuring adequate capital is available to meet regulatory capital requirements and ensure optimum capital usage. The Group has implemented a dedicated capital management system, which calculates the capital adequacy ratios in line with CBB and Basel guidelines. Using this system, exposures are measured so that account level data is correctly used for calculating risk weights, credit conversions and allocation of credit risk mitigants.

7.6 Compliance

Compliance risk is the potential that the procedures implemented by the entity to ensure compliance with relevant statutory, regulatory, and supervisory requirements are not adhered to, inefficient, or ineffective. The Group manages compliance risk through the following key activities:

- Creating awareness through the training of employees and other affected stakeholders on the impact and responsibilities related to legislative requirements;

- Monitoring and reporting on the level of compliance with legislative requirements; and

- Providing assurance that the risks related to regulatory requirements are identified, understood, and effectively managed.

The Group is committed to (and requires all its employees to display) the highest standards of integrity, professionalism, and ethical behavior, and to comply with all relevant laws, rules, and standards when conducting the business. The Group's Compliance function is an independent function

Corporate Governance

7. Risk Management (continued)

7.6 Compliance (continued)

that identifies, evaluates, advises on, monitors and reports on compliance risk. The Risk Management Department (together with Internal Audit and Compliance Departments) provides independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board of Directors.

8. Code of Business Conduct and Ethics for members of the Board of Directors

The Group maintains a Board approved policy on the employment of relatives, which establishes minimum standards regarding the employment of immediate family members or other relatives throughout every phase of the employment relationship (such as recruiting, hiring and internal transfers). The Group needs to obtain NRGC approval for any appointment of first or second-degree relatives if they relates to any Board member, Sharia Supervisory Board, or Executive Management. Recruitment of third or fourth degree relatives may be allowed. However, should not work in positions where there is an actual, potential, or perceived conflict of interest or opportunity for collusion, this includes (but not limited to) where one individual may be able to assign, process, review, approve, audit financial transactions, or otherwise affect the work of the others through direct oversight on each other. Human Resources Department and Risk Management Department are both responsible to examine applications before recruitments to ensure no actual or potential conflict of interest exists according to the approved policies, particularly the Code of Conduct and Conflict of Interest policies. Accordingly, any hiring decision relating to a relative must be made in consultation with the Internal Audit. The principles of this policy also apply to transferring employees from one Department to another, promoted, or upgraded.

The Group's Code of Business Conduct and Ethics applies to members of the Board, as well as Executive Management, officers, employees, agents, consultants and others, when they are representing for the Group. The Board of Directors and Executive Management acts ethically at all times and acknowledge their adherence to the approved policies. Any waiver of the Code of Business Conduct and Ethics for a Director or Executive Officer may be granted only by the Board or the appropriate Board Committee, and must be promptly disclosed to the shareholders.

The Code is intended to focus the Board and each Director on areas of ethical risks, provide guidance to Directors to help them recognize and deal with ethical issues, provide mechanisms to report unethical conduct, and help foster a culture of honesty and accountability. Each Director must comply with this Code. Directors should communicate any suspected violations of this Code promptly to the Chairman of the Audit Committee. Violations will be investigated by the Board or by a person delegated by the Board and appropriate action will be taken in the event of any violations of the Code.

The Code is intended to serve as a source of guiding principles for Directors, who are encouraged to bring questions about particular circumstances that may implicate one or more of the provisions of this Code to the attention of the Chairman of the Audit Committee, who may consult with inside or outside legal counsel as appropriate.

8.1 Expectations from the Board

- Adherence to the highest standards of honest and ethical conduct, including proper and ethical procedures in dealing with actual or apparent conflicts of interest between personal and professional relationships

- Full, fair, accurate, sensible, timely and meaningful disclosures in the periodic reports required to be filed with the regulatory authorities;

- Compliance with applicable laws, rules, and regulations;

- To redress misuse or misapplication of the Group's assets and resources;

- The highest level of confidentiality and fair dealing within and outside the Bank.

8.2 Conflict of interest

A conflict of interest occurs when personal interest of any Board member interferes (or appears to interfere in any way) with the interests of the Group. Every Board member has a responsibility to the Group, its shareholders and to each other. Although this duty does not prevent them from engaging in personal transactions and investments, however, it demands

Corporate Governance

8. Code of Business Conduct and Ethics for members of the Board of Directors (continued)

8.2 Conflict of interest (continued)

they avoid situations where a conflict of interest might occur or appear to occur. They are expected to perform their duties in a way that do not conflict with the Group's interest, some of the more common conflicts from which directors must refrain, however, are set out below:

- Business interests – any Board member considers investing in securities issued by the Group's customer, supplier or competitor, must ensure that these investments do not compromise their responsibilities to the Group. Many factors including size and nature of the investment; ability to influence the Group decisions; access to confidential information of the Group or of the other entity, and the nature of the relationship between the Group and the customer, supplier or competitor should be considered in determining whether a conflict exists. Additionally, Board members should disclose to the Group any interest that they have which may conflict with Group's business.

- Related parties - as a rule, Board members should avoid conducting Group's business with a relative or any counterparty in which the relative or other person is associated in any significant role. If such a related-party transaction is unavoidable, Board members must fully disclose the nature of the related party transaction to the appropriate authority as per the corporate governance guidelines approved by the Board. Any dealings with a related party must be conducted in such a way that no preferential treatment is given to that party.

- Use of Group's assets and resources - each Board member has a duty to the Group to advance its legitimate interests while dealing with Group's assets and resources. Board members are prohibited from:

- Using the Group property, information, or position for personal gain;

- Acting on behalf of the Group in any transaction in which they or any of their relative(s) have a significant direct or indirect interest;

- Gifts - soliciting, demanding, accepting or agreeing to accept anything where any such gift is more than modest in value, or where acceptance of the gifts could create the appearance of a conflict of interest;

In the case of any other transaction or situation giving rise to conflicts of interest, the appropriate authority should after due deliberations decide on its impact.

8.3 Confidentiality

Board members should maintain the confidentiality of information entrusted to them and any other confidential information about the Group that comes to them, from whatever source, in their capacity as a Board members, except when disclosure is authorized or legally mandated.

8.4 Communications Policy

The Group uses all available avenues to communicate with its stakeholders, in line with the principle of transparency and disclosure that is integral to good corporate governance. This includes wide use of corporate publications, website, direct mailers, electronic mail and local and regional media (through press releases), for the purposes of advertising and providing information on the Group's progress.

The Group's commitment to provide timely, accurate, and balanced disclosure of all material information to a broad audience is guided by the relevant regulatory guidelines and disclosure policies of the Ultimate Parent.

Furthermore, the Group maintains a website (www.albaraka.bh), which includes information of interest to various stakeholders including regulatory authorities. Information available on the website includes annual reports, quarterly reviewed financial statements, and carries updates of any significant events and regulatory requirements. The Group's quarterly results are published in Arabic and English newspapers, are posted on the Group's website.

The Board acknowledges the importance of continuous communication with shareholders, including AGM's. Shareholders are therefore encouraged to participate in such meetings. The Board oversees communications with shareholders and other stakeholders. This includes reviewing and/or approving key disclosure documents (e.g. financial statements, etc.).

The Group communicates with shareholders through the

Corporate Governance

8. Code of Business Conduct and Ethics for members of the Board of Directors (continued)

8.4 Communications Policy (continued)

annual report and by providing information at the AGM. Individual shareholders can raise matters related to their shareholdings and the business of the Group. The Group provides detailed information about its corporate governance structure and other related information. Shareholders are given the opportunity to ask questions at the AGM.

According to the Group's policy, the Chairman and the CEO are the primary spokespersons responsible for communicating company's information to the community and the media. For the purpose of these guidelines, the community refers to existing and potential investors of the Group, analysts and market professionals. Where appropriate, the Group may authorize other officers to communicate with the community or the media as part of its investor relations or public communications program.

Executive Management and Relationship Managers deals (on case-by-case basis) with investors and customers queries. Additional information for the community is provided through:

- One-to-one meetings and conference calls with Executive Management;
- Road shows, investor conferences and conference calls; and
- Financial and subject-specific presentations.

9 Customer Centric Initiatives

As always, efficient customer service and customer satisfaction are the primary objectives of the Group in its day-to-day operations. The Group has put in place a Board approved Customer Centricity policy and is highly responsive to the needs and satisfaction of its customers, and is committed to the belief that all technology, processes, products, and skills of its people must be leveraged to deliver superior banking experience to its customers.

The Group is focused towards providing excellent customer service through all delivery channels and has been working to enhance the scope of digital banking services as alternative delivery channels to the diverse needs of different customers. The varied interests and expectations of customers are taken care of by improving various processes and procedures.

All stakeholders (including investors) may use the Group's website for logging a query or a complaint. The query is automatically channeled to the appropriate responsible department to handle the issues when completed using the online form, or can be sent using the available complaints email.

The Group maintains a comprehensive whistleblowing policy (approved by the Board) for handling of customer complaints. All employees are aware of and abide by this policy. The Group has a designated whistleblowing and customer complaints team for handling all internal and external complaints and its contact details are displayed on the website and at all branches. Persons not directly related to the complaints normally investigates them. The Group endeavors to address all complaints within acceptable timeframe. Wherever this is not possible, the customer is directly contacted and a specific rectification timeframe is advised. A periodical report on status of complaints is also submitted to CBB and the Board of Directors.

10. Legal and Regulatory Risk and Anti-Money Laundering

Strict compliance with all relevant regulations is one of the Group's core values. Legal risks are mitigated through legal counsel review of transactions and documentation, as appropriate. Where possible, the Group uses standard formats for transaction documentation. To prevent potential association with any money laundering activities, the Group has designed and implemented a comprehensive set of policies and procedures. Adherence to the Group's policies and procedures is reinforced through periodic and regular staff training, along with internal reviews and external auditors review.

The Anti-Money Laundering ("AML") and Combating Financing Terrorism ("CFT") policy is the foundation on which the Group's implementation of KYC norms, AML standards, CFT measures; and obligation of the Group according to regulation and directives issued by CBB. The roles of the MLRO and his Deputy is to oversee the proper implementation of the requirements of the Anti-Money Laundering Law, as amended, on covered and suspicious transactions as well as freezing of accounts, and to ensure complying with the requirements and obligations set out in relevant legislations, rules, and industry guidance for the financial services sector.

Corporate Governance

10. Legal and Regulatory Risk and Anti-Money Laundering (continued)

The Group continuously review the policies and the adopted measures to ensure the ongoing application of (and adherence to) best practices. Regular training sessions are conducted on KYC, AML, and CFT guidelines for all the staff.

11. Sharia Compliance and Supervision

Based on Board of Directors recommendations, the Sharia Supervisory Board ("SSB") is elected for a three-year term by the shareholders during the AGM. The SSB has the following responsibilities:

- Overseeing the operations and activities of the Group to ensure compliance with Islamic Sharia principles;
- Monitoring and supervising transactions to ensure full compliance with the SSB decisions; and
- Reviewing files, records, and documents at any time. SSB can request any information deemed necessary and approves all relevant documents relating to new products and services including contracts, agreements, marketing and promotional material, or other legal documents used in the Group operations.
- The SSB comprises of three scholars specialized in Fiqh Al-Mu'amalat. These members have extensive experience in the Islamic banking and finance and meet the fit and proper criteria specified by the CBB. The structure of the SSB is as follows:

Name	Nationality	Qualifications
Shaikh Essam Mohamed Ishaq (Chairman)	Bahraini	- Graduate from McGill University, Montreal, Canada. - Member of Board of AAOIFI.
Shaikh Dr. Nedham Mohamed Saleh Yaqoobi (Member)	Bahraini	- Graduate from McGill University, Montreal, Canada. - Ph.D. in Sharia.
Shaikh Judge Waleed Abdulmonem Al-Mahmood (Member)	Bahraini	- B.Sc. in Sharia and Law. - High Diploma in Comparative Fiqh. - Master's Degree.

- SSB meets at least quarterly and each member attends at least ¾ of the meetings during a calendar year. Further, in addition to the regular meetings, the SSB Chairman may convene SSB meetings as and when it is necessary:

Name	Meeting Dates			
	5 Feb	22 May	25 Sep	21 Dec
Shaikh Esam Mohamed Ishaq (Chairman)	✓	✓	✓	✓
Shaikh Dr. Nedham Mohamed Saleh Yaqoobi (Member)	✓	✓	✓	✓
Shaikh Judge Waleed Abdulmonem Al-Mahmood (Member)	✓	✓	✓	✓

SSB operates in accordance with its internal regulations, which clarify its policies, procedures and responsibilities. In carrying out its duties, the SSB has the full right to communicate with the Board of Directors, the Executive Management, and the management and staff of the Subsidiary. In addition to supervising, advise on Sharia compliance in all products and services. It is worth noting that the Internal Sharia Audit function is an independent department reporting functionally to the SSB, and administratively to the CEO. In addition, the Sharia Coordination and Implementation function is an independent department that reports functionally to the SSB and administratively to the CEO. Sharia Officer and the Head of Sharia Audit are working in conformity with a charter that defines their technical duties in accordance with the instructions of CBB.

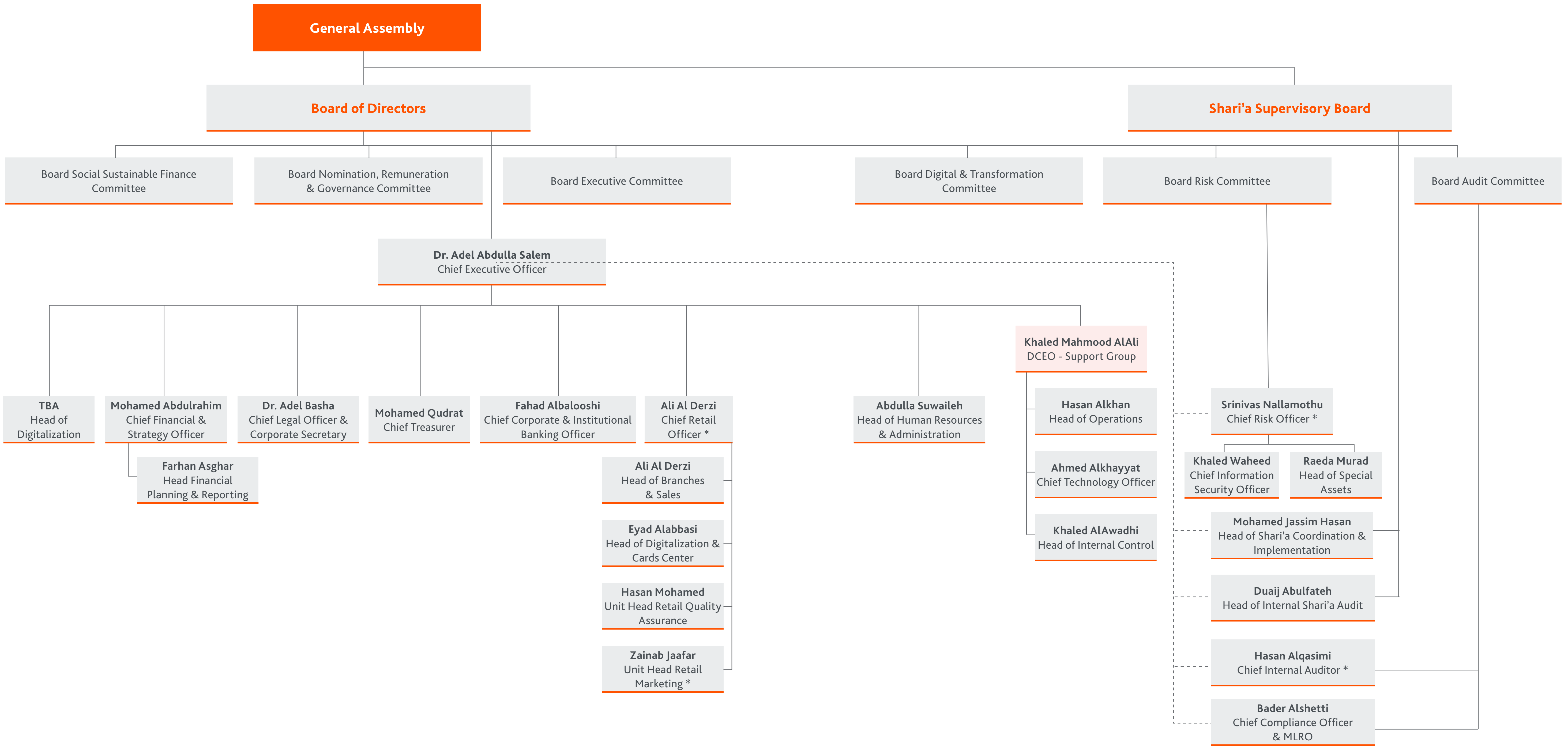
The Bank also appoints – on annual basis – an independent external Sharia auditor ("IESCA") approved by the CBB, to assess the existence of Sharia controls and their effectiveness in implementation by the Bank's Executive Management of the policies, procedures and decisions of the SSB to achieve Sharia compliance.

Corporate Governance

11. Sharia Compliance and Supervision (continued)

The Group places great importance on Sharia compliance, whether in the transactions of the Group or of its subsidiary. The compliance policy of the Group is in compliance with Sharia rules and principles stipulated in the AAOIFI standards and the decisions of the Ultimate Parent Centralized Sharia Supervisory Board. The Group and its subsidiary are committed to comply with AAOIFI Sharia standards and fatwas and decisions circulated by the Sharia Board to the extent that they do not conflict with local laws.

Organisational Chart



*Interim arrangement

Dotted Line: Administrative Reporting
Straight Line: Functional Reporting

Board of Directors Profile

Sabah Khalil Al Moayyed
CHAIRPERSON

Mrs. Sabah Khalil Almoayyed obtained B.S.C in Economics and Business Administration from the American University of Beirut. She has an MBA from the University of De Paul Chicago, USA.

Mrs. Sabah has an in-depth experience in the banking industry in Bahrain and the Gulf. She worked with many banks including Citi Bank, Gulf United Bank, NBB, and Ahli United Bank in Executive roles in the areas of commercial, treasury, and investment banking.

She was the CEO of Bahrain Eskan Bank for 10 years (mortgage and property development bank). She also served as a board member and advisor of many companies and banks in the Kingdom of Bahrain and Saudi Arabia including Ahli United Bank, Eskan Bank, Bahrain Development Bank. She is currently a Board Member at Investcorp Financial Services and L'azurde company for Jewelry.

Also she is a partner for Droob Consulting W.L.L., Flat6Labs Bahrain W.L.L., Intellect Resources Management W.L.L, Bahrain and Sabeel Real Estate Company W.L.L.

She was known for her role in the enhancement of women's roles in management and senior executive in the GCC and was instrumental in initiating and supporting the innovation ecosystem for the country through the launch of the first start-up accelerator in the Kingdom of Bahrain.

Akram Yassin
VICE CHAIRMAN

Mr. Yassin received his bachelor's degree from University of Surrey, Department of Structural Engineering, and his master's degree from Southern Methodist University, Department of Business Administration.

Mr. Yassin who possesses a banking experience of over 30 years at an international level, has served at senior executive positions at significant financial institutions including; National Bank of Abu Dhabi, Arab Bank plc, Arab Banking Corporation, Gulf International Bank, Riyadh Bank and Bank of Montreal.

Mr. Yassin currently serves as an independent and non-executive Board Member at Falcon Group and a Board Member at Al Baraka Bank Turkey.

Board of Directors Profile

Adnan Al Bassam
BOARD MEMBER

Mr. Adnan Al Bassam is the Vice Chairman of Al Bassam Investment Company W.L.L, Bahrain since 2005. Previously, he was Senior Manager – Internal Audit, Bahrain Islamic Bank (2000-2005). He served also as Senior Accountant at Ernst & Young (1997-2000).

Mr. Al Bassam is a Board Member of several institutions including, Ibdar Capital and The Malls Real Estate Development B.S.C (c), Bahrain. He is also a member of the board of trustees of Gulf University, Bahrain.

He has more than 28 years of experience in the banking and auditing fields. Mr. Al Bassam, a Bahraini national, holds Bachelor's Degree in Business Administration with concentration in Accounting, Southern Oregon State College, USA and Certified Public Accountant (CPA), Oregon State Board of Accountancy, USA.

Dr. Khalid Abdulla Ateeq
BOARD MEMBER

Dr. Khalid is currently the Chief Executive Officer and Board Member of Family Bank. Dr. Khalid has over 38 years of experience in banking, finance, auditing and accounting. Prior to join Family Bank, he was the Deputy CEO of Venture Capital Bank for 7 years. Before that, he was Executive Director of Banking Supervision at the Central Bank of Bahrain before (BMA) for 13 years, where he was responsible for the licensing, inspection and supervision of financial institutions, insuring that all banks and financial institutions, either operating or incorporated in Bahrain, complied with promulgated laws and regulations. Before joining the CBB, he was Assistant Professor at Bahrain University.

In addition, through his diversified experience, Dr. Khalid served in senior posts with a number of reputable banks and firms. He holds a Ph.D. in Philosophy of Accounting from UK. Dr. Khalid is a Board Member of Al Baraka Banking Group (ABG) and Al Baraka Bank Turkey. Also is a chairman of the Board of Directors of Al Baraka Bank Sudan.

Board of Directors Profile

Abdulrahman Al Sayed
BOARD MEMBER

Mr. Abdulrahman Abdulla Abdulrahim Al Sayed is a board member and the CEO of ITQAN Financial Services (W.L.L), Bahrain. He owns a shareholding of 50% of the company. He is also the Chairman of Tanmeya Capital, Suadi Arabia.

And he owns a shareholding of 17.5% of the company. (regulated by CMA). Previously, he worked for the Central Bank of Bahrain for 10 years (1998 – 2008) in different senior positions, the lately was Director of Islamic Financial Institutions Supervision Directorate.

Mr. Abdulrahman served as a board member in several institutions including, Bank ABC Islamic and Bahrain Saudi Bank. He served also as Audit Committee Expert – Audit Committee, Al Salam Bank, Bahrain. He is also represented the Central Bank of Bahrain in several IFSB working groups, Malaysia. He has more than 23 years of experience in the banking and regulatory fields.

Mr. Abdulrahman, a Bahraini national, holds Master Degree in Business Administration, University of Dundee, UK. He also passed all the CPA subjects, State of California, USA.

Masood Ahmed Al Bastaki
BOARD MEMBER

Mr. Masood Al Bastaki has a B.Sc. in Business Administration and High Diploma in Finance and Marketing from the University of Bahrain. He had an experience of more than 35 years ranging between banking and consultancy services in addition to executive management.

Mr. Masood has an experience covering all aspects of banking services whether wholesale, retail investment treasury and financial institutions.

He worked for many banks including JP Morgan, BMI Bank, BBK and ABC. He was one of the founder team of Venture Bank Bahrain. Mr. Masood works as partner and CEO of Aerolease Aircraft and Equipment Leasing Company and a partner in Bahrain Consultancy Company and he is a Board member of Family Microfinance House.

Board of Directors Profile

Abdul Malek Mezher
BOARD MEMBER

BA in Accounting from University of Jordan, Professional Certificates in Compliance and AML/CTF fields, ICGC-International Corporate Governance Certificate and GRCP - Governance, Risk and Compliance Professional

Mr. Abdulmalek Mezher joined ABG in November 2019 and has over 16 years of experience in Compliance, AML/CTF, Operational Risk, Corporate Governance and Board Secretariat matters in Banking and Asset Management sectors. Prior to joining ABG, he worked for Alistithmar Capital, the subsidiary of the Saudi Investment Bank, as Head of Corporate Governance besides handling matters related to Board Affairs.

Mr. Abdulmalek holds a BA in Accounting from the University of Jordan. He has several Professional Certificates in the Compliance and AML/CTF fields. He also holds the ICGC-International Corporate Governance Certificate, and is a GRCP – Governance, Risk and Compliance Professional. He recently obtained the CSAA – Certified Shari'a Advisor & Auditor designation.

Mr. Abdul Maled currently serves as Board Member at Al baraka Bank Sudan and Al Baraka Bank Pakistan.

Abdulla Tarrar Edham
BOARD MEMBER

Mr. Abdulla Edham is a certified member of the Chartered Institution of Personnel and Development, and has a certificate from the Indian Institute of Management and Technology.

He worked as Head of HR Function for Middle East of African for Citi Bank based in Dubai, and supervising branches in 25 countries during the years (2009-2022)
Before that he worked for Citi Bank Bahrain for more the 25 years. He also worked for Citi Bank in South Africa, Russia and UAE.

Mr. Abdulla is a seasoned HR professional with experience primarily in the Middle East & Africa region. He was a member of the Advisory Board of the institute of Banking and Financial Studies in UAE. Currently Mr. Abdulla is providing consultancy on a freelancing basis.

He also assistant at ITI VENTURES Company that helping leaders to make the right decisions.

Executive Management Profiles

Dr. Adel Salem
Chief Executive Officer

Experience
- Over 16 years of experience in Retail Banking
- Chief Executive Officer of Al Baraka Islamic Bank.
- Joined the Bank in 1st November 2023.
- Served as the General Manager of Retail Banking at the Bank of Bahrain and Kuwait (BBK)
- Previously held the position of Deputy General Manager - Business Support at Benefit

Qualification
- Ph.D. in Management from Monarch Business School in Switzerland
- Master's degree in business research from Monarch Business School in Switzerland

Khaled Mahmood AlAli
Deputy CEO – Support Group

Experience
- Over 26 years of experience in Islamic banking, banking operations, corporate governance, and auditing.
- Joined the Group in June 2019.
- Worked in Bahrain Islamic Bank, Arthur Andersen, and Bahrain National Gas Company (BANAGAS).

Qualification
- B.Sc. in Accounting from University of Bahrain.
- Certified Public Accountant (CPA), from Michigan State Board of Accountancy.
- Attended Leadership Development Program organized by the University of Virginia Darden School Foundation, USA.

Executive Management Profiles

Mohamed Abdulla Abdulrahim
Chief Financial & Strategy Officer

Experience
- Over 23 years of experience in Islamic banking and finance.
- Joined the Group in December 2016.
- Director in Al Baraka Bank Pakistan Limited. Member of the Board Audit Committee; Board Risk Committee; and Board Nomination & Remuneration Committee.
- Chairman of Danaat Al Baraka Company, Chairman of Audit Committee.
- Worked in Khaleeji Commercial Bank, Kuwait Finance House, and Ministry of Finance and National Economy.

Qualification
- B.Sc. in Accounting from University of Bahrain.
- Certified Public Accountant (CPA), licensed from Colorado State Board of Accountancy, a regular member of the American Institute of Certified Public Accountants (AICPA).
- Certified Islamic Professional Accountant (CIPA) from the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).
- Attended Leadership Grooming Program organized by Ivey Business School (University of Western Ontario, Canada), a program sponsored by the Waqf Fund of Central Bank of Bahrain.

Hassan Abdulwahab Al Khan
Head of Operations

Experience
- Over 24 years of experience in retail and banking operations.
- Joined the Group in July 2018.
- Worked in Bahrain Islamic Bank.

Qualification
- MBA from Ahlia University.
- B.Sc. in Accounting from University of Bahrain.
- Certified Islamic Professional Accountant (CIPA) licensed from the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).
- Certified in International Trade Finance (CITF) from London Institute of Banking and Finance.
- Attended Leadership Grooming Program organized by Ivey Business School (University of Western Ontario, Canada), a program sponsored by the Waqf Fund of Central Bank of Bahrain

Executive Management Profiles

Srinivas Nallamothu
Acting Chief Risk Officer

Experience
- Over 20 years of experience in Enterprisewide Risk Management
- Joined the Group in September 2020.
- Worked as a consultant in India and before that worked in Bahrain Islamic Bank.

Qualification
- Masters in Financial Management from Pondicherry University, India
- Masters in Economic from Nagarjuna University, India
- Postgraduate diploma in Computer Science

Fahad Abdulhameed Al-balooshi
Chief Corporate & Institutional Banking Officer

Experience
- Over 22 years of experience in banking industry.
- Joined the bank in January 2020.
- Worked in Bahrain Islamic Bank, and Arab Bank.

Qualification
- MBA from AMA International University.
- B.Sc. in Banking & Finance from University of Bahrain.
- Chartered Financial Analyst (CFA) from the CFA Institute, USA, and member of CFA Bahrain Society
- Professional Risk Manager (PRM) and member in the Professional Risk Managers International Association (PRMIA).
- Attended Leadership Grooming Program organized by Ivey Business School (University of Western Ontario, Canada), a program sponsored by the Waqf Fund of Central Bank of Bahrain

Executive Management Profiles

Ahmed Isa Al-Khayyat
Chief Technology Officer

Experience
- Over 17 years of experience in information technology and digital transformation.
- Joined the Bank in February 2018.
- Worked in Seera Bank, and e-Government Authority.

Qualification
- B.Sc. in Business Information Systems from University of Bahrain.
- Certified Project Management Professional (PMP) from the Project Management Institute.
- Designated as an Oracle Database Administrator Certified Professional (OCP)

Dr. Adel Basha
Chief Legal Officer & Corporate Secretary

Experience
- Over 25 years of working experience in the Islamic Banking industry.
- Secretary of the Board of Directors at Al Baraka Islamic Bank Bahrain .
- Previously served as Head of Legal in Al Barak Group and Director of Al Baraka Bank Sudan's legal department.
- Worked as a lecturer and assistant professor in the faculty of law (University of Khartoum) and many other universities in Sudan for over 15 years.
- Was the Head of Legal Department in Al Baraka Bank (Sudan) before he joined ABG in 2007.
- He also served as part time lecturer in different universities in Sudan including National Ribat University, Sudan University for Science and Technology and Sudan University College for Girls.

Qualification
- He earned his Ph.D. from the University of Khartoum, Sudan in 2004, with his thesis –"Automobile Accident Compensation System in Sudan".
- He has also worked as a lecturer and assistant professor in the faculty of law at multiple universities in Sudan for over 15 years.
- He wrote a book called "The Law of Insurance in Sudan," which was published by the Open University of Sudan.

Executive Management Profiles

Bader Isa Al Shetti
Chief Compliance Officer & MLRO

Experience
- Over 20 years of experience in Regulatory Compliance, Anti-money laundering, and Combating Financial Crimes and Terrorist Financing, Fraud Prevention, Anti Bribery and Corruption, FATCA and CRS Reporting and Customers Complaints.
- Joined the Group in September 2016.
- Worked as Head Country Head of Financial Crimes with HSBC Bahrain, Group Head of Compliance with Al Salam Bank-Bahrain and Consultant with Ernst & Young.

Qualification
- B.Sc. in Financial Management from the University of Arab League in Alexandria (Egypt).
- Certified Compliance Officer (CCO).
- Certified Anti-money Laundering Professional (CAMS).
- Certified Expert in Combating Financing of Terrorism by the Union of Arab Banks.

Raeda Asghar Murad
Head of Special Assets

Experience
- Over 19 years of experience in corporate banking relations, administration management, retail collection and corporate remedial management.
- Joined the Group in June 2008.
- Worked in BMI Bank, Nomura Investment Bank, AXA Insurance, and Aluminum Bahrain (ALBA).

Qualification
- B.Sc. in Business Information Systems from University of Bahrain.
- Advanced Diploma in Islamic Finance from Bahrain Institute of Banking and Finance.
- Attended Graduate Training Program arranged by Bahrain Institute of Banking and Finance

Executive Management Profiles

Duaij Khalifa Abulfateh
Head of Internal Sharia Audit

Experience
- Over 16 years of experience in Islamic banking and finance.
- Joined the Bank in October 2008.

Qualification
- MBA from New York Institute of Technology.
- B.Sc. in Managerial Accounting from New York Institute of Technology
- Certified Sharia Advisor and Auditor (CSAA) licensed from the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).
- Advanced Diploma in Islamic Finance from Bahrain Institute of Banking and Finance.
- Advanced Diploma in Islamic commercial jurisprudence from Bahrain Institute of Banking and Finance

Hassan Al Qassimi
Acting Chief Internal Auditor

Experience
- Over 12 years of experience in Auditing and Assurance Services.
- Joined the Group in July 2017.
- Worked in EY and Seef Properties B.S.C©

Qualification
- B.Sc. in Accounting & Finance from Ahlia University.
- Certified Public Accountant (CPA) – New Hampshire Board of Accountancy.
- Certified Internal Auditor (CIA)

Executive Management Profiles

Mohammed Jasim Ebrahim
Head of Sharia coordination and Implementation

Experience
- 15 years of experience in Islamic banking sector.
- Joined the Group in February 2009.

Qualification
- Bachelor Degree in Islamic Law from College of Sharia of the Islamic University of Al Madinah Al Munawarah.
- Certified Sharia Advisor and Auditor (CSAA) licensed from the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)

Mohamed Ali Qudrat
Chief Treasurer

Experience
- Over 20 years of experience in Islamic banking.
- Joined the Group in March 2016.
- Worked in Bahrain Islamic Bank, and Ithmaar Bank.

Qualification
- Advanced Diploma in treasury and capital markets from Bahrain Institute of Banking and Finance.
- Advanced Diploma in banking and finance from Bahrain Institute of Banking and Finance

Executive Management Profiles

Abdulla Abdulaziz Suwaileh
Head of Human Resources & Administration

Experience
- Over 15 years of experience in human resources and administration.
- Joined the Group in June 2015.
- Worked in Eskan Bank.

Qualification
- MBA from University of Bahrain.
- B.Sc. in Business with Human Resources Management from University of the West of Scotland.
- Chartered Institute of Personnel and Development (CIPD) level 3.
- Chartered Management Institute (CMI) level 5.
- Certified Trainer from International Academy for Training and Consulting (IATC).

Khaled Abdulla Al-Awadhi
Head of Internal Control

Experience
- Over 20 years of experience in Internal Audit, Internal Control and Financial Control.
- Joined the Group in November 2013.
- Worked in Bahrain Islamic Bank.

Qualification
- B.Sc. in Accounting and Finance from Kingdom University.
- Certified Islamic Professional Accountant (CIPA) licensed from the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)

Executive Management Profiles

Khaled Waheed Abdulrahman
Chief Information Security Officer

Experience

- Over 16 years of experience in information security and technology.
- Joined the Bank in April 2021.
- Worked at Al Baraka Banking Group.
- Served as Board member of the institute of Information Systems, Audit and Control association (ISACA).
- Member of Information Systems Security Certification Consortium.

Qualification

- B.Sc. in Information Systems from University of Bahrain.
- Certified Information Security Manager (CISM).
- Certified Information Systems Security Professional (CISSP).
- Certified Control Objectives for Information and Related Technology (COBIT).

Honors and Awards

- Rewarded as "CISO of the Year 2020" from the International Data Cooperation (IDC).

Ali Khalil Al Derzi
Acting Chief Retail Officer

Experience

- Over 21 years of extensive experience.
- He has held the position of Head of Branches and Sales at Al Baraka Islamic Bank, where he spearheaded the execution of sales strategies, managed the VIP unit, monitored targets, and played a pivotal role in the development and enhancement of banking products.
- He has contributed significantly to the expansion of branches and ATM networks.
- Served as a Branch Manager at Bahrain Islamic Bank and as a Senior Supervisor at Kuwait Finance House.

Qualification

- MBA degree from Ahlia University
- A Certified Islamic Professional Accountant (CIPA) accredited by AIOFI.
- Advanced Islamic Banking Diploma from the Bahrain Institute of Banking & Finance
- Specialized diploma in Anti-Money Laundering and Combating Financing Terrorism from the Union of Arab Banks.
- He holds an accredited branch manager certificate from MIF & BIBF.
- B.Sc. degree in Banking & Finance from the University of Bahrain.
- Customer service and leadership courses at the Bahrain Institute of Banking & Finance

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As always, efficient customer service and customer satisfaction are the primary objectives of the Group in its day-to-day operations.

Sharia Supervisory Board's Report

alBaraka

Date: 2nd Shaaban 1445 A.H.
Corresponding to: 12th February 2024

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

Report of the Fatwa and Sharia Supervisory Board
From 01.01.2023 to 31.12.2023

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 1st until the end of December 2023. 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 "PwC".

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: ("137" documents), (audits on "1686" executed transactions), (Sharia training program for staff, trainees), ("738" 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 31st December 2023 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 0.127 per share.

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 & Secretory of Sharia Supervisory Board

Social Responsibility

Throughout their commitment to altruistic pursuits, the group displayed unwavering dedication by generously donating funds and offering financial support to enhance the welfare of the community. Their endeavors encompassed diverse areas such as education, medical expenses, charitable organizations, scientific initiatives, religious institutions, as well as sponsorship and contributions to local clubs and centers.

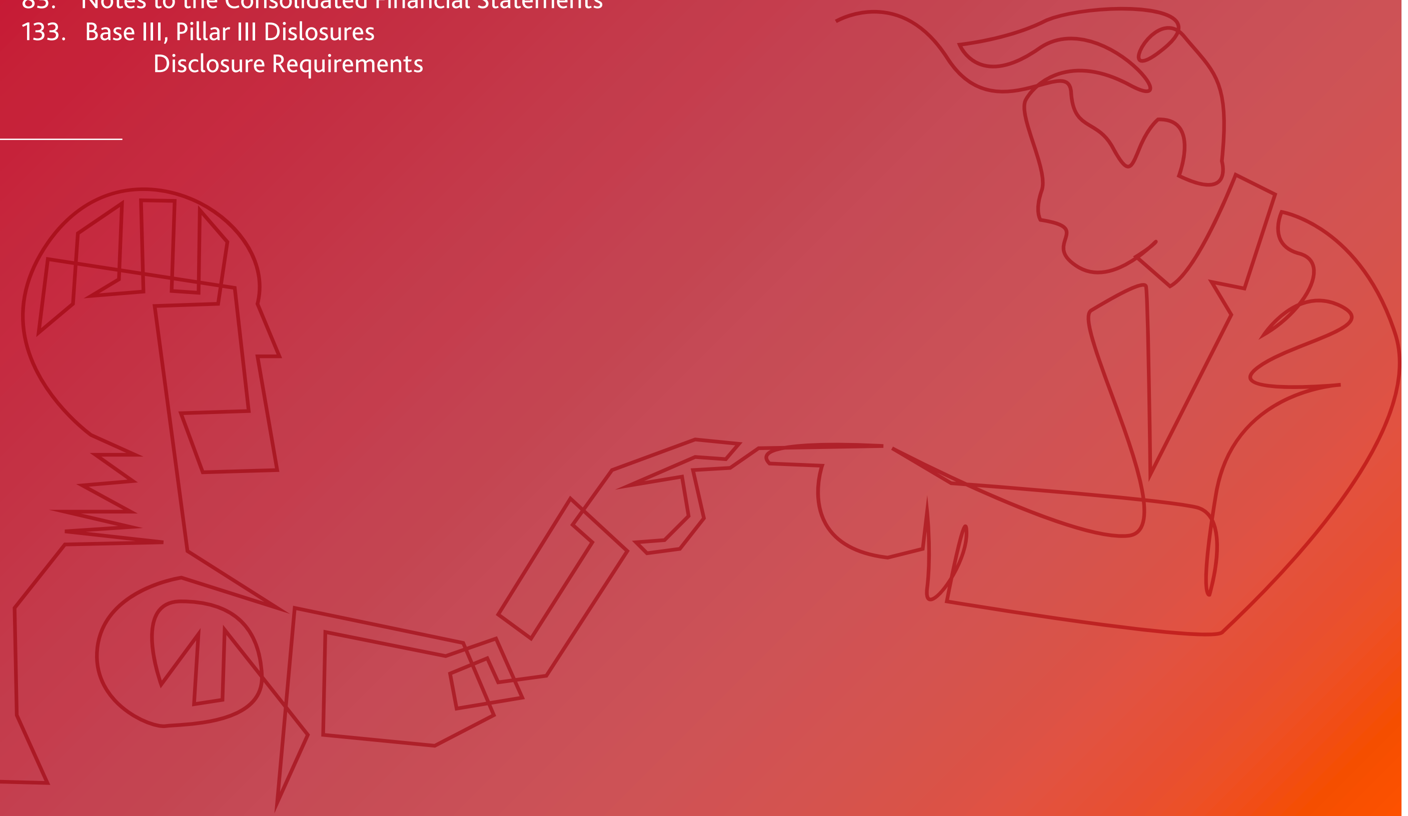
In the year 2023, the group actively engaged in the Al Baraka Sustainability and Social Responsibility Program. This program comprised Economic Opportunities, Social Investments, and Qard Hasan initiatives, each aimed at fostering social welfare and promoting sustainable development. By participating in these programs, the group demonstrated their firm commitment to advancing societal well-being.

The final numbers of amount to be disclosed of CSR and ESG activities and funds in BD:

POOR & NEEDY	BD 108,800
MEDICAL	BD 31,392.30
INDEBTEDNESS	BD 12,620
NEW MUSLIM	BD 8,000
EDUCATION	BD 5,500
GENERAL	BD 5,000

02

CONSOLIDATED FINANCIAL STATEMENTS



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

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 2023, its consolidated financial performance, its consolidated cash flows and consolidated statement of changes in off-balance sheet equity of investment accountholders 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 2023;
- the consolidated statement of income for the year then 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 equity of investment accountholders for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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) 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.

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 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,

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 (continued)

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.

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.

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.

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 (continued)

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

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with 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. Except for the matter described below in connection with the non-compliance with the requirements of the CBB's Rulebook (Volume 2 – Licensing Requirements module – LR-2.5.2A), 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 2023 or its financial position as at that date;

- The total consolidated owners' equity of the Bank as at 31 December 2023 stood less than BD 100 million which is a non-compliance with the requirements of the CBB's Rulebook (Volume 2 – Licensing Requirements module – LR-2.5.2A); 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
20 February 2024

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

	Notes	2023 US $ '000	2022 US $ '000
ASSETS			
Cash and balances with banks and financial institutions	3	**243,376**	162,440
Receivables	4	**449,583**	448,846
Ijara muntahia bittamleek and ijara receivables	5	**634,775**	561,955
Musharaka	6	**158,273**	239,444
Investments	7	**1,056,176**	1,122,139
Investment in joint venture	8	**16,686**	18,430
Investments in real estate	9	**7,722**	8,836
Premises and equipment	10	**92,135**	98,320
Goodwill	11	**7,967**	9,917
Other assets	12	**43,806**	52,274
TOTAL ASSETS		**2,710,499**	2,722,601
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED MUDARABA AND OWNERS' EQUITY			
LIABILITIES			
Current accounts		**258,810**	243,052
Murabaha and other payables		**403,645**	171,796
Other liabilities	13	**113,265**	113,185
Total liabilities		**775,720**	528,033
Equity of investment accountholders (IAH)	14	**1,693,193**	1,912,969
Subordinated mudaraba	15	**11,976**	15,600
OWNERS' EQUITY			
Share capital	16	**151,458**	151,458
Additional tier-1 capital		**96,000**	96,000
Reserves		**(24,138)**	(17,467)
(Accumulated losses) / retained earnings		**(12,926)**	16,153
Equity attributable to parent's shareholders		**210,394**	246,144
Non-controlling interest		**19,216**	19,855
Net owners' equity		**229,610**	265,999
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED MUDARABA AND OWNERS' EQUITY		**2,710,499**	2,722,601
OFF-BALANCE SHEET ITEMS: EQUITY OF INVESTMENT ACCOUNTHOLDERS		**506,536**	830,692
CONTINGENCIES AND COMMITMENTS	17	**256,770**	340,782

Sabah Khalil Al Moayyed	**Akram Yassin**	**Dr. Adel Abdulla Salem**
Chairperson	Vice Chairman	Chief Executive Officer

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2023

	Notes	2023 US $ '000	2022 US $ '000
INCOME FROM JOINTLY FINANCED ASSETS			
Financings	18	**99,502**	95,244
Investments	19	**52,674**	43,300
Income from jointly financed assets		**152,176**	138,544
Return on equity of investment accountholders before Group's share as a Mudarib		**(143,114)**	(122,331)
Group's share as a Mudarib		**12,401**	20,297
Return on equity of investment accountholders		**(130,713)**	(102,034)
Group's share as a Mudarib and Rabalmal		**21,463**	36,510
INCOME FROM SELF FINANCED ASSETS			
Financings	18	**7,979**	7,898
Share of income from investment in joint venture	8	**1,395**	3,249
Investments	19	**46,559**	40,214
Income from self financed assets		**55,933**	51,361
INCOME FROM BANKING SERVICES AND OTHERS			
Revenue from banking services	20	**8,124**	9,386
Other income	21	**7,387**	4,929
Group's mudarib/agency fee from off-balance sheet equity of investment accountholders		**168**	173
Income from banking services and others		**15,679**	14,488
TOTAL OPERATING INCOME BEFORE OTHER FINANCING COST		**93,075**	102,359
Other financing costs		**(18,994)**	(4,195)
TOTAL OPERATING INCOME		**74,081**	98,164
OPERATING EXPENSES			
Staff expenses		**(31,230)**	(32,658)
Depreciation and amortization	10	**(9,576)**	(8,092)
Other operating expenses	22	**(32,240)**	(30,282)
TOTAL OPERATING EXPENSES		**(73,046)**	(71,032)
NET OPERATING INCOME		**1,035**	27,132
Expected credit losses & allowances for impairment - net	23	**(16,717)**	(5,841)
(LOSS) / INCOME BEFORE TAXATION		**(15,682)**	21,291
Taxation	24	**(8,919)**	(4,852)
(LOSS) / INCOME FOR THE YEAR		**(24,601)**	16,439
Attributable to:			
Equity shareholders of the parent		**(28,568)**	12,791
Non-controlling interest		**3,967**	3,648
		(24,601)	16,439

Sabah Khalil Al Moayyed	**Akram Yassin**	**Dr. Adel Abdulla Salem**
Chairperson	Vice Chairman	Chief Executive Officer

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2023

	Equity attributable to shareholders of the parent											
			Reserves									
	Share capital US $ '000	Additional tier-1 capital US $ '000	Statutory US $ '000	General US $ '000	Employee defined benefit plan US $ '000	Cumulative changes in fair value of investments US $ '000	Revaluation of premises and equipment US $ '000	Foreign exchange US $ '000	Retained earnings / (Accumulated losses) US $ '000	Equity attributable to parent's shareholders US $ '000	Non-controlling interest US $ '000	Total owners' equity US $ '000
Balance at 1 January 2023	**151,458**	**96,000**	**26,119**	**8,687**	**(140)**	**3,964**	**343**	**(56,440)**	**16,153**	**246,144**	**19,855**	**265,999**
Cumulative changes in fair value	-	-	-	-	-	2,918	-	-	-	2,918	911	3,829
Translation of foreign currency operations	-	-	-	-	-	-	-	(9,411)	-	(9,411)	(5,394)	(14,805)
Remeasurement gains on defined benefit plan	-	-	-	-	(149)	-	-	-	-	(149)	(103)	(252)
Deferred tax adjustment on revaluation of premises and equipment	-	-	-	-	-	-	(29)	-	-	(29)	(20)	(49)
Distribution of Zakah	-	-	-	-	-	-	-	-	(511)	(511)	-	(511)
(Loss) / income for the year	-	-	-	-	-	-	-	-	(28,568)	(28,568)	3,967	(24,601)
Balance at 31 December 2023	**151,458**	**96,000**	**26,119**	**8,687**	**(289)**	**6,882**	**314**	**(65,851)**	**(12,926)**	**210,394**	**19,216**	**229,610**
Balance at 1 January 2022	136,458	111,000	24,840	8,687	(99)	4,342	471	(42,988)	5,107	247,818	24,430	272,248
Cumulative changes in fair value	-	-	-	-	-	(378)	-	-	-	(378)	(404)	(782)
Translation of foreign currency operations	-	-	-	-	-	-	-	(13,452)	-	(13,452)	(7,701)	(21,153)
Remeasurement loss on defined benefit plan	-	-	-	-	(41)	-	-	-	-	(41)	(29)	(70)
Deferred tax adjustment on revaluation of premises and equipment	-	-	-	-	-	-	(128)	-	-	(128)	(89)	(217)
Distribution of Zakah	-	-	-	-	-	-	-	-	(466)	(466)	-	(466)
Redemption of AT1 Capital	-	(15,000)	-	-	-	-	-	-	-	(15,000)	-	(15,000)
Issuance of ordinary shares	15,000	-	-	-	-	-	-	-	-	15,000	-	15,000
Income for the year	-	-	-	-	-	-	-	-	12,791	12,791	3,648	16,439
Allocation to statutory reserve	-	-	1,279	-	-	-	-	-	(1,279)	-	-	-
Balance at 31 December 2022	151,458	96,000	26,119	8,687	(140)	3,964	343	(56,440)	16,153	246,144	19,855	265,999

The attached explanatory notes 1 to 34 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	2023 US $ '000	2022 US $ '000
OPERATING ACTIVITIES		
(Loss) / income before taxation	**(15,682)**	21,291
Adjustments for:		
Depreciation and amortization (Note 10)	**9,576**	8,092
Allowances for impairment - net (Note 23)	**16,717**	5,841
Gain on sale of premises and equipment	**(20)**	(31)
Share of income from investment in joint venture	**(1,395)**	(3,249)
Loss / (gain) on sale of investments	**990**	(1,023)
Unrealized loss on revaluation of investment properties	**1,114**	97
Operating profit before changes in operating assets and liabilities	**11,300**	31,018
Net changes in operating assets and liabilities:		
Balances with central banks in mandatory reserves	**(15,190)**	476
Receivables	**76**	6,798
Ijara muntahia bittamleek and ijara receivables	**(76,404)**	(100,432)
Musharaka	**74,222**	86,700
Other assets	**9,469**	8,884
Other liabilities	**(2,721)**	815
Murabaha and other payables	**231,849**	(71,468)
Current accounts	**15,758**	(110,377)
Equity of investment accountholders (IAH)	**(219,774)**	47,552
Taxation paid	**(10,126)**	(2,058)
Net cash generated from / (used) in operating activities	**18,459**	(102,092)
INVESTING ACTIVITIES		
Purchase of investments	**(322,616)**	(298,676)
Investments sold / matured	**390,685**	239,311
Dividend received from joint venture	**3,139**	3,519
Purchase of premises and equipment	**(5,097)**	(2,438)
Sale of premises and equipment	**54**	583
Net cash generated from / (used) in investing activities	**66,165**	(57,701)
FINANCING ACTIVITIES		
Receipt / (repayment) of subordinated mudaraba	**(3,624)**	(3,839)
Zakah distributed	**(511)**	(466)
Net cash used in financing activities	**(4,135)**	(4,305)
Foreign currency translation adjustments	**(8,735)**	(11,355)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**71,754**	(175,453)
Cash and cash equivalents at 1 January	**120,531**	295,984
CASH AND CASH EQUIVALENTS AT 31 DECEMBER (Note 25)	**192,285**	120,531

The attached explanatory notes 1 to 34 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OFF-BALANCE SHEET EQUITY OF INVESTMENT ACCOUNTHOLDERS

For the year ended 31 December 2023

	Balance at 1 January 2023 US $ '000	Net deposits / (withdrawals) US $ '000	Gross income US $ '000	Mudarib's / agency Fee US $ '000	Balance at 31 December 2023 US $ '000
Wakala Bi Al-Istithmar on balance sheet					
jointly financed assets	**640,848**	**(298,524)**	**31,305**	**(11,568)**	**362,061**
Receivables	**162,613**	**(50,521)**	**10,296**	**(168)**	**122,220**
Investments	**27,231**	**(4,976)**	**-**	**-**	**22,255**
	830,692	**(354,021)**	**41,601**	**(11,736)**	**506,536**

	Balance at 1 January 2022 US $ '000	Net deposits / (withdrawals) US $ '000	Gross income US $ '000	Mudarib's / agency Fee US $ '000	Balance at 31 December 2022 US $ '000
Wakala Bi Al-Istithmar on balance sheet					
jointly financed assets	514,685	112,348	24,952	(11,137)	640,848
Receivables	117,137	36,045	9,603	(172)	162,613
Investments	41,390	(14,159)	-	-	27,231
	673,212	134,234	34,555	(11,309)	830,692

The attached explanatory notes 1 to 34 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

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 five commercial branches in the Kingdom of Bahrain. The Bank is 92.81% (2022: 92.81%) owned by Al Baraka Group B.S.C. (the "Ultimate Parent").

The principal activities of the Bank and its subsidiary (the "Group") are taking demand, saving and investment accounts, providing Murabaha finance, 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.

The consolidated financial statements were approved and authorised by the Board of Directors on 20 February 2024.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

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

The consolidated financial statements are presented in United States Dollars, being the reporting currency of the Bank. All values are rounded to nearest US Dollar (US) thousand unless otherwise indicated. However, the functional currency of the Bank is Bahraini Dinars and that of the subsidiary is Pakistani Rupees. Items included in the financial statements of each entity are measured using respective functional currency.

Regulatory non-compliance - CBB rule book volume 2 - High level standards

Rule LR-2.5.2A requires all Bahraini Islamic retail bank licensees to maintain a minimum total equity of BD 100 million (equivalent to US $ 265.3 million). The Bank is in breach of this rule as at 31 December 2023 as the equity stood at USD 229.6 million (BD 86.6 million) as of that date. The Bank has applied for exemption from CBB in its letter dated 3 December 2023 referencing to their meeting held at the CBB premises on 27th November 2023 and as per their discussion as well as earlier communication with CBB related to capital increase, that the Bank are working on action plan that will be delivered by June, 2024 to reinstate the capital position with not later than 31st December 2024. In this regards, the Bank is currently working in collaboration with its major shareholder to develop, submit and implement a comprehensive capitalization plan to cover said breach within timelines prescribed by CBB.

2.2 Statement of compliance

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".

2.3 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 Bank and continue to be consolidated until the date that control ceases. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

2. ACCOUNTING POLICIES (continued)

2.3 Basis of consolidation (continued)

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.

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 Bank 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:

Bank	Ownership for 2023 / 2022	Year of incorporation	Country of incorporation	No. of branches/ offices at 31 December 2023 / 2022
Held directly by the Bank				
Al Baraka Bank (Pakistan) Limited*	59.13%/ 59.13%	2004	Pakistan	170/ 170

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

2.4 New standards, interpretations and amendments adopted by the Group

2.4.1 FAS 39 - Financial Reporting for Zakah

The responsibility for the payment of Zakah is on the 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 "Owners' equity" and accordingly distributed to eligible parties. Nevertheless, the Group has no obligation to collect and pay Zakah on behalf of equity of investment accountholders.

The Group determines said Zakah by using the "Net Equity Method" as prescribed in AAOFI standards and under the guidance and interpretations of Sharia Board. Zakah per share is presented in the Shari'a Supervisory Board Report.

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

2.5.1 FAS 1 (Revised 2021) - General Presentation and Disclosures in the Financial Statements

AAOIFI has issued revised FAS 1 in 2021. The revised FAS 1 supersedes the earlier FAS 1 General Presentation and Disclosures in the Financial Statements of Islamic Banks and Financial Institutions and introduces the concepts of quasi-equity, off-balance-sheet assets under management and other comprehensive income to enhance the information provided to the users of the financial statements. This standard shall be effective for the financial periods beginning on or after 1 January 2024 with early adoption permitted.

The revision of FAS 1 is in line with the modifications made to the AAOIFI conceptual framework for financial reporting. Some of the significant revisions to the standard are as follows:

a) Revised conceptual framework is now integral part of the AAOIFI FAS's;
b) Definition of Quasi equity is introduced;
c) Definitions have been modified and improved;
d) Concept of comprehensive income has been introduced;
e) Institutions other than Banking institutions are allowed to classify assets and liabilities as current and non-current;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

2. ACCOUNTING POLICIES (continued)

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

2.5.1 FAS 1 (Revised 2021) - General Presentation and Disclosures in the Financial Statements (continued)

f) Disclosure of Zakah and Charity have been relocated to the notes;
g) True and fair override has been introduced;
h) Treatment for change in accounting policies, change in estimates and correction of errors has been introduced;
i) Disclosures of related parties, subsequent events and going concern have been improved;
j) Improvement in reporting for foreign currency, segment reporting;
k) Presentation and disclosure requirements have been divided into three parts. First part is applicable to all institutions, second part is applicable only to banks and similar IFI's and third part prescribes the authoritative status, effective date an amendments to other AAOIFI FASs; and
l) The illustrative financial statements are not part of this standard and will be issued separately.

The Group is assessing the impact of adoption of this standard and expects changes in certain presentation and disclosures in its consolidated financial statements.

2.5.2 FAS 40 - Financial Reporting for Islamic Finance Windows

AAOIFI has issued FAS 40 in 2021. The objective of this revised standard is to establish financial reporting requirements for Islamic finance windows and applicable to all conventional financial institutions providing Islamic financial services through an Islamic finance window. This standard improves upon and supersedes FAS 18 "Islamic Financial Services Offered by Conventional Financial Institutions". This standard shall be effective for the financial periods beginning on or after 1 January 2024 with early adoption permitted. As per the Group evaluation, the implementation of this standard will not have any impact on its financial statements.

2.5.3 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. As per the Group evaluation, the implementation of this standard will not have any impact on its financial statements.

2.5.4 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. As per the Group evaluation, the implementation of this standard will not have any impact on its financial statements.

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 equity, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

2. ACCOUNTING POLICIES (continued)
2.6 Summary of accounting policies (continued)

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.

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 Bank recognises the lifetime expected credit losses for these financing with the PD set at 100%.

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;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

2. ACCOUNTING POLICIES (continued)
2.6 Summary of accounting policies (continued)
2.6.4 Impairment, Credit Losses and Onerous Commitments (continued)

Credit-impaired financial assets (continued)
- a breach of contract such as a default or past due event; or
-probability that the debtor 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.
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'.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

2. ACCOUNTING POLICIES (continued)
2.6 Summary of accounting policies (continued)
2.6.4 Impairment, Credit Losses and Onerous Commitments (continued)

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 2 are significantly deviated from the present forecast for the economic conditions, quantitative PD overlay shall be used by the management after analyzing the portfolio.

Incorporating forward-looking information increases the level of judgment as to how changes in these macroeconomic factors will affect the ECL applicable to the stage 1 and stage 2 exposures which are considered as performing (Stage 3 are the exposures under default category). 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

2. ACCOUNTING POLICIES (continued)
2.6 Summary of accounting policies (continued)
2.6.4 Impairment, Credit Losses and Onerous Commitments (continued)

Off-balance sheet EADs **(continued)**

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

2. ACCOUNTING POLICIES (continued)
2.6 Summary of accounting policies (continued)
2.6.4 Impairment, Credit Losses and Onerous Commitments (continued)

Backward transition (continued)

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
- 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.

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

2. ACCOUNTING POLICIES (continued)
2.6 Summary of accounting policies (continued)

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 equity, debt-type instruments at amortised cost, debt-type instruments at fair value through statement of income and debt- type instruments at fair value through equity.

(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 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.

(iv) Equity and non-monetary debt-type instruments at fair value through equity
These investments will be initially recognized at their value plus transaction costs. Subsequent to acquisition, investments designated at fair value through equity 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

2. ACCOUNTING POLICIES (continued)
2.6 Summary of accounting policies (continued)
2.6.5 Investments (continued)

(v) Monetary ane no-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 Bank as "principal /(investor)" shall evaluate the nature of investment as either:
i. Pass through investment; or
ii. Wakala venture.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

2. ACCOUNTING POLICIES (continued)
2.6 Summary of accounting policies (continued)
2.6.6 Financing contracts (continued)

(vi) Wakala receivables (continued)
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 Equity of investment accountholders
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 Bank 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

2. ACCOUNTING POLICIES (continued)
2.6 Summary of accounting policies (continued)
2.6.11 Premises and equipment (continued)

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.

2.6.13 Business combination and goodwill
Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets and liabilities (including contingent liabilities) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the consolidated statement of income in the year of acquisition.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

2. ACCOUNTING POLICIES (continued)
2.6 Summary of accounting policies (continued)
2.6.13 Business combination and goodwill (continued)

combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

2.6.14 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 equity of investment accountholders (as a Mudarib)
The Group's share as a Mudarib for managing equity of investment accountholders 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 equity of investment accountholders
The Group shares profit for managing off-balance sheet equity of investment accountholders based on the terms and conditions of related contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

2. ACCOUNTING POLICIES (continued)
2.6 Summary of accounting policies (continued)
2.6.14 Revenue recognition (continued)

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.

2.6.15 Return on equity of investment accountholders
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, equity of investment accountholders withdrawn before maturity are entitled to income only after deducting a penalty charge.

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 equity of investment accountholders].

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

2.6.17 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.

2.6.18 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.

2.6.19 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;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

2. ACCOUNTING POLICIES (continued)
2.6 Summary of accounting policies (continued)
2.6.19 Derecognition (continued)

(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.

2.6.20 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.

2.6.21 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) Group companies
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 a separate component of owners' equity. 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.

2.6.22 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

2. ACCOUNTING POLICIES (continued)

2.6 Summary of accounting policies (continued)

2.6.22 Employees' end of service benefits (continued)

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.

2.6.23 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.

2.6.24 Joint and self financed

Investments, financing and receivable that are jointly owned by the Group and the equity of investment accountholders are classified under the caption "jointly financed" in the consolidated financial statements. Investments, financing and receivable that are financed solely by the Group are classified under "self financed".

2.6.25 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.

2.6.26 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.

2.6.27 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.

2.7 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

2. ACCOUNTING POLICIES (continued)

2.7 Judgements and estimates (continued)

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.

3. CASH AND BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS

		2023 US $ '000	2022 US $ '000
Cash on hand		**24,982**	22,127
Balances with State Bank of Pakistan			
Current account		**48**	8,295
Mandatory reserves	3.1	**58,047**	50,205
		58,095	58,500
Balances with CBB			
Current account and overnight placements		**59,464**	5,057
Mandatory reserves	3.1	**42,881**	35,533
		102,345	40,590
Balances with other banks and financial institutions		**57,954**	41,223
		243,376	162,440

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

4. RECEIVABLES

	2023			2022		
	Self financed US $ '000	Jointly financed US $ '000	Total US $ '000	Self financed US $ '000	Jointly financed US $ '000	Total US $ '000
Commodities and wakala placements with FIs	49,837	-	49,837	-	43,825	43,825
Salam financing	-	26,101	26,101	-	37,501	37,501
Istisna'a financing	-	102,975	102,975	-	107,883	107,883
Murabaha	1,125	357,973	359,098	1,125	345,670	346,795
Bills receivable and others	-	17,354	17,354	-	15,811	15,811
Gross receivables	50,962	504,403	555,365	1,125	550,690	551,815
Deferred profits (4.1)	-	(42,908)	(42,908)	-	(37,978)	(37,978)
	50,962	461,496	512,457	1,125	512,712	513,837
Allowances for expected credit losses (4.2)	(1,128)	(61,746)	(62,874)	(663)	(64,328)	(64,991)
Net receivables	49,834	399,750	449,583	462	448,384	448,846

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 allowances.

	2023			
	Stage 1: 12-month ECL US $ '000	Stage 2: Lifetime ECL not credit-impaired US $ '000	Stage 3: Lifetime ECL credit-impaired US $ '000	Total US $ '000
Good (1-4)	235,500	19,137	-	254,637
Satisfactory (5-7)	130,257	53,197	-	183,454
Default (8-10)	-	-	74,366	74,366
	365,757	72,334	74,366	512,457

	2022			
	Stage 1: 12-month ECL US $ '000	Stage 2: Lifetime ECL not credit-impaired US $ '000	Stage 3: Lifetime ECL credit-impaired US $ '000	Total US $ '000
Good (1-4)	235,799	22,616	-	258,415
Satisfactory (5-7)	136,579	54,107	-	190,686
Default (8-10)	-	-	64,736	64,736
	372,378	76,723	64,736	513,837

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

4. RECEIVABLES (continued)

4.1 Movements in deferred profit from murabaha contracts:

	2023 US $ '000	2022 US $ '000
Balance at 1 January	37,875	28,833
Murabaha sales	579,707	752,162
Murabaha cost of sales	(554,954)	(728,271)
Profit amortized to consolidated statement of income	(19,109)	(14,248)
Deferred profit written off	(329)	(329)
Foreign exchange (FX) translation	(362)	(272)
Balance at 31 December	42,828	37,875

4.2 Allowances for expected credit losses

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

	2023			
	Stage 1: 12-month ECL US $ '000	Stage 2: Lifetime ECL not credit-impaired US $ '000	Stage 3: Lifetime ECL credit-impaired US $ '000	Total US $ '000
Balance at 1 January	1,628	9,089	54,274	64,991
Changes during the year:				
- transferred to Stage 1: 12 month ECL	56	(50)	(6)	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(117)	201	(84)	-
- transferred to Stage 3: Lifetime ECL credit-impaired	-	(1,369)	1,369	-
Net remeasurement of loss allowance	343	1,223	3,878	5,444
Recoveries	-	-	(251)	(251)
	282	5	4,906	5,193
Amounts written off	-	-	(44)	(44)
Foreign exchange (FX) translation	(4)	(94)	(7,168)	(7,266)
Balance at 31 December	1,906	9,000	51,968	62,874

	2022			
	Stage 1: 12-month ECL US $ '000	Stage 2: Lifetime ECL not credit-impaired US $ '000	Stage 3: Lifetime ECL credit-impaired US $ '000	Total US $ '000
Balance at 1 January	2,075	8,145	65,621	75,841
Changes during the year:				
- transferred to Stage 1: 12 month ECL	1	(1)	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(94)	228	(134)	-
- transferred to Stage 3: Lifetime ECL credit-impaired	-	(28)	28	-
Net remeasurement of loss allowance	(319)	857	5,962	6,500
Recoveries	-	-	(2,920)	(2,920)
	(412)	1,056	2,936	3,580
Amounts written off	-	-	(4,404)	(4,404)
Foreign exchange (FX) translation	(35)	(112)	(9,879)	(10,026)
Balance at 31 December	1,628	9,089	54,274	64,991

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

5. IJARA MUNTAHIA BITTAMLEEK AND IJARA RECEIVABLES

	2023			2022		
	Self financed US $ '000	Jointly financed US $ '000	Total US $ '000	Self financed US $ '000	Jointly financed US $ '000	Total US $ '000
Ijara muntahia bittamleek (5.1)	8,556	585,183	593,739	10,842	517,953	528,795
Ijara receivables (5.2)	3,085	49,149	52,234	3,657	37,322	40,979
	11,641	634,332	645,973	14,499	555,275	569,774
Allowance for expected credit losses (5.3)	(83)	(11,115)	(11,198)	(179)	(7,640)	(7,819)
	11,558	623,217	634,775	14,320	547,635	561,955

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 allowances.

2023	Stage 1: 12-month ECL US $ '000	Stage 2: Lifetime ECL not credit-impaired US $ '000	Stage 3: Lifetime ECL credit-impaired US $ '000	Total US $ '000
Good (1-4)	587,335	131	-	587,466
Satisfactory (5-7)	31,860	9,408	-	41,268
Default (8-10)	-	-	17,239	17,239
	619,195	9,539	17,239	645,973

2022	Stage 1: 12-month ECL US $ '000	Stage 2: Lifetime ECL not credit-impaired US $ '000	Stage 3: Lifetime ECL credit-impaired US $ '000	Total US $ '000
Good (1-4)	541,792	3,284	-	545,076
Satisfactory (5-7)	2,791	6,611	-	9,402
Default (8-10)	-	-	15,296	15,296
	544,583	9,895	15,296	569,774

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5. IJARA MUNTAHIA BITTAMLEEK AND IJARA RECEIVABLES (continued)

5.1 Ijara muntahia bittamleek

	2023			2022		
	Self financed US $ '000	Jointly financed US $ '000	Total US $ '000	Self financed US $ '000	Jointly financed US $ '000	Total US $ '000
Land and building						
Cost	-	713,715	713,715	-	619,760	619,760
Accumulated depreciation	-	(128,542)	(128,542)	-	(101,823)	(101,823)
Net book value	-	585,173	585,173	-	517,937	517,937
Equipment						
Cost	14,876	10	14,886	14,876	16	14,892
Accumulated depreciation	(6,320)	-	(6,320)	(4,034)	-	(4,034)
Net book value	8,556	10	8,566	10,842	16	10,858
TOTAL						
Cost	14,876	713,725	728,601	14,876	619,776	634,652
Accumulated depreciation	(6,320)	(128,542)	(134,862)	(4,034)	(101,823)	(105,857)
Net book value	8,556	585,183	593,739	10,842	517,953	528,795

5.2 Ijara receivables

	2023			2022		
	Self financed US $ '000	Jointly financed US $ '000	Total US $ '000	Self financed US $ '000	Jointly financed US $ '000	Total US $ '000
Ijara receivable	3,085	49,149	52,234	3,657	37,322	40,979
	3,085	49,149	52,234	3,657	37,322	40,979

5.3 Allowances for expected credit losses

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

2023	Stage 1: 12-month ECL US $ '000	Stage 2: Lifetime ECL not credit-impaired US $ '000	Stage 3: Lifetime ECL credit-impaired US $ '000	Total US $ '000
Balance at 1 January	641	109	7,069	7,819
Changes during the year:				
- transferred to Stage 1: 12 month ECL	17	(17)	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(12)	12	-	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(23)	(7)	30	-
Net remeasurement of loss allowance	280	656	3,807	4,743
Recoveries / write-backs	-	-	(1,159)	(1,159)
Allowances for credit losses	262	644	2,678	3,584
FX translation	-	-	(205)	(205)
Balance at 31 December	903	753	9,542	11,198

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At 31 December 2023

5. IJARA MUNTAHIA BITTAMLEEK AND IJARA RECEIVABLES (continued)

5.3 Allowances for expected credit losses (continued)

	2022			
	Stage 1: 12-month ECL US $ '000	Stage 2: Lifetime ECL not credit-impaired US $ '000	Stage 3: Lifetime ECL credit-impaired US $ '000	Total US $ '000
Balance at 1 January	778	45	8,042	8,865
Changes during the year:				
- transferred to Stage 1: 12 month ECL	1	(1)	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(81)	81	-	-
- transferred to Stage 3: Lifetime ECL credit-impaired	-	(4)	4	-
Net remeasurement of loss allowance	(57)	(11)	864	796
Recoveries / write-backs	-	-	(844)	(844)
Allowances for credit losses	(137)	65	24	(48)
Amounts written off	-	-	(495)	(495)
FX translation	-	(1)	(502)	(503)
Balance at 31 December	641	109	7,069	7,819

6. MUSHARAKA

	2023			2022		
	Self financed US $ '000	Jointly financed US $ '000	Total US $ '000	Self financed US $ '000	Jointly financed US $ '000	Total US $ '000
Musharakas	22,913	151,009	173,922	32,019	218,255	250,274
Allowances for expected credit losses (6.1)	-	(15,649)	(15,649)	-	(10,830)	(10,830)
	22,913	135,360	158,273	32,019	207,425	239,444

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 allowances.

	2023			
	Stage 1: 12-month ECL US $ '000	Stage 2: Lifetime ECL not credit-impaired US $ '000	Stage 3: Lifetime ECL credit-impaired US $ '000	Total US $ '000
Good (1-4)	108,727	6,303	-	115,030
Satisfactory (5-7)	2,425	46,973	-	49,398
Default (8-10)	-	-	9,494	9,494
	111,152	53,276	9,494	173,922

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At 31 December 2023

6. MUSHARAKA (continued)

	2022			
	Stage 1: 12-month ECL US $ '000	Stage 2: Lifetime ECL not credit-impaired US $ '000	Stage 3: Lifetime ECL credit-impaired US $ '000	Total US $ '000
Good (1-4)	214,885	10,396	-	225,281
Satisfactory (5-7)	7,091	8,560	-	15,651
Default (8-10)	-	-	9,342	9,342
	221,976	18,956	9,342	250,274

6.1 Allowances for expected credit losses

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

	2023			
	Stage 1: 12-month ECL US $ '000	Stage 2: Lifetime ECL not credit-impaired US $ '000	Stage 3: Lifetime ECL credit-impaired US $ '000	Total US $ '000
Balance at 1 January	1,959	2,041	6,830	10,830
Changes during the year:				
- transferred to Stage 1: 12 month ECL	51	(51)	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(71)	71	-	-
- transferred to Stage 3: Lifetime ECL credit-impaired	-	-	-	-
Net remeasurement of loss allowance	597	1,904	4,447	6,948
	577	1,924	4,447	6,948
FX translation	(330)	(455)	(1,344)	(2,129)
Balance at 31 December	2,206	3,510	9,933	15,649

	2022			
	Stage 1: 12-month ECL US $ '000	Stage 2: Lifetime ECL not credit-impaired US $ '000	Stage 3: Lifetime ECL credit-impaired US $ '000	Total US $ '000
Balance at 1 January	1,717	2,275	6,211	10,203
Changes during the year:				
- transferred to Stage 1: 12 month ECL	86	(86)	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(162)	162	-	-
Net remeasurement of loss allowance	696	190	1,991	2,877
	620	266	1,991	2,877
FX translation	(378)	(500)	(1,372)	(2,250)
Balance at 31 December	1,959	2,041	6,830	10,830

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

7. INVESTMENTS

	2023			2022		
	Self financed US $ '000	Jointly financed US $ '000	Total US $ '000	Self financed US $ '000	Jointly financed US $ '000	Total US $ '000
i) Debt-type instruments at fair value through statement of income						
Quoted						
Sukuk	34,140	10,605	44,745	-	-	-
i) Debt-type instruments at fair value through equity (Note 7.1)						
Quoted						
Sukuk	190,239	198,421	388,660	250,672	225,387	476,059
Unquoted						
Sukuk	-	19,711	19,711	12,323	7,259	19,582
	190,239	218,132	408,371	262,995	232,646	495,641
ii) Debt-type instruments at amortised cost (Note 7.1)						
Quoted						
Sukuk	284,994	196,789	481,783	335,009	167,051	502,060
Unquoted						
Sukuk	-	64,642	64,642	2,717	64,965	67,682
	284,994	261,431	546,425	337,726	232,016	569,742
Allowances for expected credit losses	(473)	(662)	(1,135)	(225)	(89)	(314)
	474,760	478,901	953,661	600,496	464,573	1,065,069
iii) Equity-type instruments at fair value through equity - note (Note 7.2)						
Quoted						
Listed equity shares	30,597	243	30,840	30,276	306	30,582
Unquoted						
Unlisted equity shares	8,918	412	9,330	8,918	513	9,431
Managed funds	1,000	-	1,000	1,000	-	1,000
Real estate funds	-	19,961	19,961	1,636	20,392	22,028
	40,515	20,616	61,131	41,830	21,211	63,041
Provision for impairment	(3,013)	(348)	(3,361)	(4,672)	(329)	(5,001)
	37,502	20,268	57,770	37,158	20,882	58,040
Total Investments	546,402	509,774	1,056,176	636,748	485,391	1,122,139

Within unquoted investments which are held at fair value through equity are investments amounting to US $ 27.9 million (2022: US $ 28.6 million) which are held at cost less provision 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 located in the Gulf Co-operation Council ("GCC"). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

7. INVESTMENTS (continued)

The Group's investments in sukuk held at amortised cost amounting to US $546.4 million (2022: US $ 569.7 million) have a fair value amounting to US $ 530.0 million (2022: US $549.4 million).

Investments stated at a carrying amount of US $ Nil (2022: US $ 481.7 million) are placed in custody of a financial institution to secure a financing line.

7.1 Debt-type instruments at amortised cost

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 allowances.

	2023		
	Stage 1: 12-month ECL US $ '000	Stage 2: Lifetime ECL not credit-impaired US $ '000	Total US $ '000
Good (1-4)	453,115	-	453,115
Satisfactory (5-7)	543,418	3,008	546,426
	996,533	3,008	999,541

	2022		
	Stage 1: 12-month ECL US $ '000	Stage 2: Lifetime ECL not credit-impaired US $ '000	Total US $ '000
Good (1-4)	508,771	-	508,771
Satisfactory (5-7)	556,612	-	556,612
	1,065,383	-	1,065,383

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

	2023		
	Stage 1: 12-month ECL US $ '000	Stage 2: Lifetime ECL not credit-impaired US $ '000	Total US $ '000
Balance at 1 January	314	-	314
Changes during the year:			
- transferred to Stage 2: Lifetime ECL not credit-impaired	(30)	30	-
Net remeasurement of loss allowance	537	287	824
	507	317	824
FX translation	(3)	-	(3)
Balance at 31 December	818	317	1,135

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7. INVESTMENTS (continued)

7.1 Debt-type instruments at amortised cost (continued)

	2022		
	Stage 1: 12-month ECL US $ '000	Stage 2: Lifetime ECL not credit-impaired US $ '000	Total US $ '000
Balance at 1 January	445	-	445
Changes during the year:			
Net remeasurement of loss allowance	(128)	-	(128)
FX translation	(3)	-	(3)
Balance at 31 December	314	-	314

7.2 Provision for impairment on equity type investments

	2023 US $ '000	2022 US $ '000
Balance at 1 January	**5,001**	5,618
Charges for the year	**95**	-
Reversal for the year	**(211)**	(187)
Written-off	**(1,262)**	-
Exchange difference	**(262)**	(430)
Balance at 31 December	**3,361**	5,001

8. INVESTMENT IN JOINT VENTURE

	2023 US $ '000	2022 US $ '000
Balance at 1 January	**18,430**	18,700
Net share of income for the year	**1,395**	3,249
Dividend received for the year	**(3,139)**	(3,519)
Balance at 31 December	**16,686**	18,430

Name	**Nature of Business**	**Ownership**	
		2023	2022
Danaat Al-Baraka	**Real estate development**	**51%**	51%

Summarised statement of financial position

	2023 US $ '000	2022 US $ '000
Non-current assets	**1,860**	5,537
Current assets	**32,535**	31,907
Current liabilities	**(1,680)**	(1,308)
Net assets	**32,715**	36,136
Group's ownership in equity	**16,686**	18,430
Net carrying amount	**16,686**	18,430

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

8. INVESTMENT IN JOINT VENTURE (continued)

Summarised statement of profit and loss

	2023 US $ '000	2022 US $ '000
Total income	**2,751**	7,043
Total expenses	**(16)**	(672)
Total comprehensive income	**2,735**	6,371
Group's net share of profit	**1,395**	3,249

9. INVESTMENTS IN REAL ESTATE

	2023 US $ '000	2022 US $ '000
Balance at 1 January	**8,836**	9,526
Disposals during the year	**-**	(593)
Unrealized loss on remeasurement	**(1,114)**	(97)
Balance at 31 December	**7,722**	8,836

10. PREMISES AND EQUIPMENT

	Land, Building & Right of Use Assets US $ '000	Computer Software & license US $ '000	Office furniture and equipment US $ '000	Vehicles US $ '000	Total US $ '000
Cost:					
At 1 January 2023	**99,218**	**14,270**	**25,292**	**193**	**138,973**
Additions	**2,584**	**2,041**	**2,790**	**127**	**7,542**
Disposals	**(447)**	**(133)**	**(99)**	**(61)**	**(740)**
Exchange difference	**(8,557)**	**(1,581)**	**(2,034)**	**(38)**	**(12,210)**
At 31 December 2023	**92,798**	**14,597**	**25,949**	**221**	**133,565**
Accumulated depreciation:					
At 1 January 2023	**15,071**	**8,189**	**17,233**	**160**	**40,653**
Depreciation for the year	**4,766**	**1,787**	**2,994**	**29**	**9,576**
Related to disposals	**(440)**	**(133)**	**(96)**	**(38)**	**(707)**
Exchange difference	**(5,320)**	**(1,208)**	**(1,533)**	**(31)**	**(8,092)**
At 31 December 2023	**14,077**	**8,635**	**18,598**	**120**	**41,430**
Net book values:					
At 31 December 2023	**78,721**	**5,962**	**7,351**	**101**	**92,135**
At 31 December 2022	84,147	6,081	8,059	33	98,320
Estimated useful life for calculation of depreciation	20-30 years	4-5 years	1-10 years	4-5 years	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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11. GOODWILL

	2023 US $ '000	2022 US $ '000
Balances at 1 January	9,917	12,722
Foreign exchange translation	(1,950)	(2,805)
Balance at 31 December	7,967	9,917

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.

The key assumptions used in estimating recoverable amounts of cash generating units were sensitised to test the resilience of value in use calculations. Accordingly, 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

	2023 US $ '000	2022 US $ '000
Collaterals pending sale	9,590	10,975
Deferred tax (12.1)	12,138	13,340
Advance against capital expenditure	3,374	4,344
Accounts receivable	14,397	20,018
Income receivable	-	2
Prepayments	2,990	3,277
Others	2,913	2,088
Total	45,402	54,044
Provision for impairment	(1,596)	(1,770)
	43,806	52,274

12.1 The above net deferred tax asset has been recognised in accordance with the Group's accounting policy. The management based on financial projections prepared during the year, 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

	2023 US $ '000	2022 US $ '000
Accounts payable	24,273	26,832
Margins received	37,115	23,106
Security deposit against ijara muntahia bittamleek	262	362
Bills payable	20,488	31,699
Provision for employees benefits	7,513	8,901
Charity fund	545	396
Allowance for expected credit losses-unfunded facilities	185	92
Operating Ijarah liability	6,208	8,166
Taxation and duties	4,719	2,466
Advance payments from customers	2,626	3,677
Valuation of foreign exchange contracts	1,751	-
Others	7,580	7,488
	113,265	113,185

14. EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH)

The Group manages and deploys Equity of 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.

	2023 US $ '000	2022 US $ '000
IAH - Non-banks	1,415,034	1,370,739
IAH - Banks	277,439	541,819
Profit equalisation reserve (note 14.1)	720	411
	1,693,193	1,912,969

14.1 Movement in profit equalisation reserve

	2023 US $ '000	2022 US $ '000
Balance at 1 January	411	411
Amount apportioned from income allocable to equity of investment accountholders	309	-
Balance at 31 December	720	411

The Group appropriates a certain amount in excess of the profit to be distributed to equity of investment accountholders before taking into consideration the mudarib share of income. This is used to maintain a certain level of return on investment for equity of IAH.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

14. EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH) (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.

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 upto a maximum of 70% (2022: upto 70%) as per the terms of IAH agreements.

The Group has charged a total administrative expense of US $ 7.4 million (2022: US $ 7.5 million) to equity of investment account holders for the year ended 31 December 2023.

14.2 Equity of Investment Accountholders by maturity

	2023 US $ '000	2022 US $ '000
Saving accounts	548,870	686,827
One month investment account	196,890	170,007
Three months investment account	93,061	427,871
Six months investment account	168,780	61,326
Nine months investment account	32,159	5,539
1 Year investment account	468,109	455,324
2 Years investment account	25,266	10,189
3 Years investment account	77,940	49,200
4 Years investment account	3,188	2,824
5 Years investment account	78,930	43,862
	1,693,193	1,912,969

14.3 Equity of investment accountholders by type

	2023 US $ '000	2022 US $ '000
Accounts on demand	548,870	686,827
Accounts on a contractual basis *	1,144,323	1,226,142
	1,693,193	1,912,969

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

15. SUBORDINATED MUDARABA

	2023 US $ '000	2022 US $ '000
Subordinated mudaraba	11,976	15,600
	11,976	15,600

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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15. SUBORDINATED MUDARABA (continued)

Particular	Principal	Profit	Profit rate	Maturity
Al Baraka Pakistan Limited Tier 2 Sukuk Second issue	Bullet	Semi-Annually	6 M Kibor + 0.75%	2024
Al Baraka Pakistan Limited Tier 2 Sukuk Third issue	Bullet	Semi-Annually	6 M Kibor + 1.50%	2031

16. OWNERS' EQUITY

	2023 US $ '000	2022 US $ '000
(i) Share capital		
Authorised 6,000,000 ordinary shares (2022: 6,000,000) of US$ 100 each	600,000	600,000
Issued and fully paid 1,514,578 ordinary shares (2022: 1,514,578) of US $ 100 each	151,458	151,458

Tier 1 Capital amounting to US $ 15m was redeemed on 3 August 2022. The extraordinary general assembly (EGA) of the Ultimate Parent has approved increasing the share capital of Bank by 150,000 shares for the par value of US $ 100 and to amend the memorandum and the articles of association.The CBB has approved the request through their letter dated 6 July 2022 where the issued and paid-up capital is increased from US $ 136,457,800 to US $ 151,457,800 with the full amount of US $ 15,000,000 allocated to the Ultimate Parent. The Ultimate Parent injected the cash relating to the share capital increase on 4 August 2022. The formalities relating to the Ministry of Industry and Commerce around updating of the Commercial Registration are pending finalization.

Additional information on shareholding pattern:
Names and nationalities of the major shareholder having an interest of 5% or more are as follows:

	2023		
Name	**Domicile**	**No. of shares**	**% holding**
Al Baraka Banking Group B.S.C.	Bahrain	1,405,755	92.81%

	2022		
Name	Domicile	No. of shares	% holding
Al Baraka Banking Group B.S.C.	Bahrain	1,405,755	92.81%

The Bank 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:

	2023			2022		
	Number of shares	Number of shareholders	% of total outstanding shares	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	58,823	12	3.88%	58,823	12	3.88%
1% up to less than 5%	50,000	1	3.30%	50,000	1	3.30%
	108,823	13	7.19%	108,823	13	7.19%

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16. OWNERS' EQUITY (continued)

(ii) Additional Tier 1 (AT1) Capital

	2023 US $ '000	2022 US $ '000
Subordinated mudaraba	**96,000**	96,000

The Bank held additional tier 1 capital (subordinated mudaraba) amounted to USD 96 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 USD 81 million against cash consideration and USD 15 million against equity shares.

Summary of terms and conditions are as follows:

- Subordinated mudaraba amounted to US $ 81 million carries expected profit ranging from 6% to 9% per annum, on a semi-annual basis;
- Subordinated mudaraba amounted to US $ 15 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

17. CONTINGENCIES AND COMMITMENTS

	2023 US $ '000	2022 US $ '000
Letters of credit	**61,567**	62,774
Guarantees	**82,524**	107,286
Foreign exchange contracts	**96,298**	156,217
Acceptances	**6,626**	10,430
Taxation	**9,716**	4,054
Others	**39**	21
	256,770	340,782

18. INCOME FROM FINANCINGS

	2023 US $ '000	2022 US $ '000
Sales and other receivables	**37,529**	37,472
Ijarah Muntahia Bittamleek	**34,587**	27,230
Musharaka	**35,365**	38,440
	107,481	103,142

	2023 US $ '000	2022 US $ '000
Income from jointly financed financings	**99,502**	95,244
Income from self financed financings	**7,979**	7,898
	107,481	103,142

19. INCOME FROM INVESTMENTS

	2023 US $ '000	2022 US $ '000
Yield, coupon or return on investments	**98,645**	78,569
(Loss) / gain on sale of investments	**(990)**	1,023
Dividends	**2,482**	3,733
Loss on disposal and revaluation of investment properties	**(1,114)**	(97)
Rental Income	**210**	286
	99,233	83,514

	2023 US $ '000	2022 US $ '000
Income from jointly financed investments	**52,674**	43,300
Income from self financed investments	**46,559**	40,214
	99,233	83,514

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

20. REVENUE FROM BANKING SERVICES

	2023 US $ '000	2022 US $ '000
Fees and commissions	7,026	6,570
Letters of credit and acceptances	634	1,774
Guarantees	464	1,042
	8,124	9,386

21. OTHER INCOME

	2023 US $ '000	2022 US $ '000
Foreign exchange gain - net	4,024	3,773
Others	3,363	1,156
	7,387	4,929

22. OTHER OPERATING EXPENSES

	2023 US $ '000	2022 US $ '000
Administrative expenses	6,573	5,807
Premises costs	6,795	5,744
Business expenses	17,632	17,321
General expenses	1,240	1,410
	32,240	30,282

23. EXPECTED CREDIT LOSSES & ALLOWANCES FOR IMPAIRMENT - NET

	2023 US $ '000	2022 US $ '000
Receivables (note 4)	5,193	3,580
Ijara Muntahia Bittamleek and Ijara Receivables (note 5)	3,584	(48)
Musharakas (note 6)	6,948	2,877
Investments at amortized cost (note 7)	824	(128)
Investments at fair value through equity (note 7.2)	(116)	(187)
Contingencies and commitments	100	(505)
Others	184	252
	16,717	5,841

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

24. TAXATION

Taxation relates to subsidiary in Pakistan and comprise:	2023 US $ '000	2022 US $ '000
Consolidated statement of financial position:		
Advance tax - net	-	-
Deferred tax	12,138	13,340
Consolidated statement of income:		
Current tax	(12,264)	(3,138)
Deferred tax	3,345	(1,714)
	(8,919)	(4,852)

25. CASH AND CASH EQUIVALENTS

For the purpose of cash flows, cash and cash equivalents represent:	2023 US $ '000	2022 US $ '000
Cash on hand	24,982	22,127
Balances with central banks (unrestricted accounts and overnight placements)	59,514	13,352
Balances with other banks and financial institutions	57,954	41,223
Receivables, commodities and wakala placements (with an original maturity of 90 days or less)	49,835	43,829
	192,285	120,531

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 Bank, Shari'a supervisory board and external auditors.

The significant balances with related parties at 31 December were as follows:

	Parent and Other Shareholders		"Other Related Parties"		Total	
Assets:	2023 US $ '000	2022 US $ '000	2023 US $ '000	2022 US $ '000	2023 US $ '000	2022 US $ '000
Cash and balances with banks and financial institutions	4	3	46	46	50	49
Receivables	-	-	1,318	836	1,318	836
Musharaka	-	-	1,522	1,370	1,522	1,370
Investments	26,754	25,443	25,345	26,801	52,099	52,244
Other assets	7,681	6,261	-	-	7,681	6,261
	34,439	31,707	28,231	29,053	62,670	60,760
Liabilities:						
Current account	3,272	6,450	2,132	1,934	5,404	8,384
Other liabilities	4,927	4,927	602	937	5,529	5,864
	8,199	11,377	2,734	2,871	10,933	14,248
Equity of investment accountholders	67,683	33,100	54,811	26,719	122,494	59,819
Off-balance sheet equity of investment accountholders	21,994	27,231	122,481	162,615	144,475	189,846
Contingencies and commitments	2,000	2,000	25	1,049	2,025	3,049

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

26. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

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

	Parent and Other Shareholders		"Other Related Parties"		Total	
	2023 US $ '000	2022 US $ '000	**2023 US $ '000**	2022 US $ '000	**2023 US $ '000**	2022 US $ '000
Income						
Income from jointly financed sales	**-**	-	**79**	71	**79**	71
Income from jointly financed, other financings and investments	**-**	-	**40**	50	**40**	50
Group's income from self financed, other financings	**1,080**	1,040	**1,556**	981	**2,636**	- 2,021
Other income	**2,258**	1,637	**4**	383	**2,262**	2,020
Group's Mudarib share/agency fee off-balance sheet equity of investment accountholders	**29**	325	**57**	32	**86**	357
	3,367	3,002	**1,736**	1,517	**5,103**	4,519
Expenses						
Return on equity of investment accountholders before Group's share as a Mudarib	**1,353**	172	**2,279**	878	**3,632**	1,050
Other expenses	**-**	318	**3,029**	3,270	**3,029**	3,588
	1,353	490	**5,308**	4,148	**6,661**	4,638

Compensation of key management personnel is as follows:

	2023 US $ '000	2022 US $ '000
Salaries	**5,007**	4,866
Other benefits	**2,101**	2,008
	7,108	6,874

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 2023 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

27. RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

	Up to 3 months US $ '000	3 to 6 months US $ '000	6 months to 1 year US $ '000	1 to 3 years US $ '000	3 to 5 years US $ '000	5 to 10 years US $ '000	10 to 20 years US $ '000	Over 20 years US $ '000	No fixed maturity US $ '000	Total US $ '000
ASSETS										
Cash and balances with banks and financial institutions	142,450	-	-	-	-	-	-	-	100,926	243,376
Receivables	161,794	73,146	44,173	68,121	49,314	18,725	4,489	5,035	24,786	449,583
Ijara muntahia bittamleek and ijara receivables	9,825	13,731	14,708	76,476	62,789	120,362	245,963	82,920	8,001	634,775
Musharaka	367	2,319	3,747	80,387	31,007	20,250	20,196	-	-	158,273
Investments	36,894	-	21,118	414,626	356,735	189,248	362	1,000	36,193	1,056,176
Investments in real estate	-	-	-	7,722	-	-	-	-	-	7,722
Investment in Joint Venture	-	-	-	-	-	-	-	-	16,686	16,686
Premises and equipment	-	-	-	-	-	-	-	-	92,135	92,135
Goodwill	-	-	-	-	-	-	-	-	7,967	7,967
Other assets	27,704	17	111	391	2,180	12,499	11	-	893	43,806
Total assets	379,034	89,213	83,857	647,723	502,025	361,084	271,021	88,955	287,587	2,710,499
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS SUBORDINATED MUDARABA AND OWNERS' EQUITY										
Current accounts	258,810	-	-	-	-	-	-	-	-	258,810
Murabaha and other payables	15,206	302,532	78,822	139	460	6,486	-	-	-	403,645
Other liabilities	92,447	1,375	5,605	11,825	1,018	995	-	-	-	113,265
Total liabilities	366,463	303,907	84,427	11,964	1,478	7,481	-	-	-	775,720
Equity of investment accountholders	1,032,269	250,104	235,053	105,111	70,656	-	-	-	-	1,693,193
Subordinated mudaraba	499	-	-	5,448	-	6,029	-	-	-	11,976
Total owners' equity	-	-	-	-	-	-	-	-	229,610	229,610
Total liabilities, equity of investment accountholders, subordinated mudaraba and owner's equity	1,399,231	554,011	319,480	122,523	72,134	13,510	-	-	229,610	2,710,499
Net gap	(1,020,197)	(464,798)	(235,623)	525,200	429,891	347,574	271,021	88,955	57,977	-
Cumulative net gap	(1,020,197)	(1,484,995)	(1,720,618)	(1,195,418)	(765,527)	(417,953)	(146,932)	(57,977)	-	-
Off-balance sheet equity of investment accountholders	184,824	32,554	29,747	154,244	76,167	29,000	-	-	-	506,536

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

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 2022 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 US $ '000	3 to 6 months US $ '000	6 months to 1 year US $ '000	1 to 3 years US $ '000	3 to 5 years US $ '000	5 to 10 years US $ '000	10 to 20 years US $ '000	Over 20 years US $ '000	No fixed maturity US $ '000	Total US $ '000
ASSETS										
Cash and balances with banks and financial institutions	76,702	-	-	-	-	-	-	-	85,738	162,440
Receivables	152,886	114,095	37,675	59,122	38,524	22,676	3,942	5,847	14,079	448,846
Ijara Muntahia Bittamleek and ijara receivables	7,703	6,343	13,381	60,872	55,855	111,431	218,104	79,887	8,379	561,955
Musharaka	15,187	3,590	9,840	58,335	93,973	28,541	28,401	-	1,577	239,444
Investments	49,503	2,717	321	413,343	433,978	186,293	-	1,000	34,984	1,122,139
Investments in real estate	-	-	-	8,836	-	-	-	-	-	8,836
Investment in Joint Venture	-	-	-	-	-	-	-	-	18,430	18,430
Premises and equipment	-		-	-		-	-	-	98,320	98,320
Goodwill	-	-	-	-	-	-	-	-	9,917	9,917
Other assets	25,044	682	9,575	-	15,471	-	-	-	1,502	52,274
Total assets	327,025	127,427	70,792	600,508	637,801	348,941	250,447	86,734	272,926	2,722,601
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS SUBORDINATED MUDARABA AND OWNERS' EQUITY										
Current accounts	243,052	-	-	-	-	-	-	-	-	243,052
Murabaha and other payables	36,818	60,276	64,759	532	189	9,222	-	-	-	171,796
Other liabilities	96,183	853	1,504	10,217	2,478	1,950	-	-	-	113,185
Total liabilities	376,053	61,129	66,263	10,749	2,667	11,172	-	-	-	528,033
Equity of investment accountholders	1,390,187	209,957	212,748	64,635	35,442	-	-	-	-	1,912,969
Subordinated mudaraba	1,314	-	-	6,625	-	7,661	-	-	-	15,600
Total owners' equity	-	-	-	-	-	-	-	-	265,999	265,999
Total liabilities, equity of investment accountholders, subordinated mudaraba and owner's equity	1,767,554	271,086	279,011	82,009	38,109	18,833	-	-	265,999	2,722,601
Net gap	(1,440,529)	(143,659)	(208,219)	518,499	599,692	330,108	250,447	86,734	6,927	-
Cumulative net gap	(1,440,529)	(1,584,188)	(1,792,407)	(1,273,908)	(674,216)	(344,108)	(93,661)	(6,927)	-	-
Off-balance sheet equity of investment accountholders	234,605	221,206	87,316	106,642	60,941	119,982	-	-	-	830,692

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

27. RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

The Risk Management Department ('RMD') of the Bank monitors the liquidity position on a daily basis through ALCO report and measures the Liquidity Coverage Ratio based on the contractual maturity inflow and outflow of funds on a monthly basis. The Bank 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 (an 'Asset and Liability Management Committee') meets on a monthly basis, at a minimum and reviews the Bank's liquidity profile through maturity mismatch statement and available stock of liquid assets as well as funding concentrations; also reviews the Bank's profit and funding rate and accordingly, approves any change in the rates and conisders 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:

	2023 Total equivalent US $ '000
Pakistani Rupees	**101,007**
Euro	**661**
Kuwaiti Dinars	**6**
Pound Sterling	**(5,131)**
Egyptian Pound	**2,660**
Algerian Dinar	**6,000**
Chinese Yuan	**318**

	2022 Total equivalent US $ '000
Pakistani Rupees	105,677
Euro	(15,908)
Kuwaiti Dinars	56
Pound Sterling	(4,705)
Egyptian Pound	2,372
Algerian Dinar	6,000
Chinese Yuan	553

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

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:

Currency 2023	Particular	Change	Exposures in US $ '000	Effect on equity/ Income Statement in US $ '000
Pakistani Rupees	Net long Position	20%	101,007	20,201
Euro	Net long Position	20%	661	132
Kuwaiti Dinars	Net long Position	20%	6	1
Pound Sterling	Net short Position	20%	5,131	(1,026)
Egyptian Pound	Net long Position	20%	2,660	532
Algerian Dinar	Net long Position	20%	6,000	1,200
Chinese Yuan	Net long Position	20%	318	64

Currency 2022	Particular	Change	Exposures in US $ '000	Effect on equity/ Income Statement in US $ '000
Pakistani Rupees	Net long Position	20%	105,677	21,135
Euro	Net short Position	20%	15,908	3,182
Kuwaiti Dinars	Net long Position	20%	56	11
Pound Sterling	Net short Position	20%	4,705	941
Egyptian Pound	Net long Position	20%	2,372	474
Algerian Dinar	Net long Position	20%	6,000	1,200
Chinese Yuan	Net long Position	20%	553	111

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:

	2023		2022	
Market indices	**Change in equity price %**	**Effect on equity / Income Statement US $ '000**	Change in equity price %	Effect on equity / Income Statement US $ '000
Pakistan Stock Exchange	**10%**	143	**10%**	180
Egypt Stock Exchange	**10%**	266	**10%**	237
Jordan Stock Exchange	**10%**	2,675	**10%**	2,544

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

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:

31 December 2023	*GCC US $ '000	Rest of the world US $ '000	Total US $ '000
Banking	646	38,421	39,067
Government	510,058	430,319	940,377
Investment companies	35,628	-	35,628
Manufacturing	-	2,233	2,233
Real estate	11,245	8,633	19,878
Others	14,236	4,757	18,993
	571,813	484,363	1,056,176

31 December 2022	*GCC US $ '000	Rest of the world US $ '000	Total US $ '000
Banking	1,020	36,822	37,842
Government	525,529	474,036	999,565
Investment companies	41,168	-	41,168
Manufacturing	-	5,255	5,255
Real estate	11,409	9,147	20,556
Others	9,112	8,641	17,753
	588,238	533,901	1,122,139

* 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 Sales receivable, Istisna'a receivable, Musharaka, Ijara Muntahia Bittamleek and Salam.

Sales receivable
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

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.

Musharaka

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.

	Maximum Exposure to Credit	
	2023 US $ '000	2022 US $ '000
Receivables	**449,583**	448,846
Musharaka	**158,273**	239,444
Ijara muntahia bittamleek and ijara receivables	**634,775**	561,955
Investments in sukuk	**998,406**	1,065,069
Balances with banks and financial institutions	**218,394**	140,313
Other assets	**15,714**	20,338
Contingencies and commitments	**247,015**	180,490
	2,722,160	2,656,455

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

27. RISK MANAGEMENT (continued)

c) Credit risk (continued)

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.

	31 December 2023			
	Neither past due nor non performing US $ '000	**Past due but performing US $ '000**	**Non performing Islamic financing contracts US $ '000**	**Total US $ '000**
Type of Islamic Financing Contract				
Receivables	**410,297**	**27,794**	**74,366**	**512,457**
Musharaka	**157,695**	**6,733**	**9,494**	**173,922**
Ijara muntahia bittamleek and ijara receivables	**628,148**	**585**	**17,239**	**645,972**
	1,196,140	**35,112**	**101,099**	**1,332,351**

	31 December 2022			
	Neither past due nor non performing US $ '000	Past due but performing US $ '000	Non performing Islamic financing contracts US $ '000	Total US $ '000
Type of Islamic Financing Contract				
Receivables	435,268	13,833	64,736	513,837
Musharaka	237,721	3,211	9,342	250,274
Ijara muntahia bittamleek and ijara receivables	553,857	621	15,296	569,774
	1,226,846	17,665	89,374	1,333,885

Aging analysis of past due but performing Islamic financing contracts

	31 December 2023			
	Less than 30 Days US $ '000	**31 to 60 days US $ '000**	**61 to 90 days US $ '000**	**Total US $ '000**
Type of Islamic Financing Contract				
Receivables	**24,841**	**1,419**	**1,534**	**27,794**
Musharaka	**3,473**	**1,725**	**1,535**	**6,733**
Ijara muntahia bittamleek and ijara receivables	**148**	**364**	**73**	**585**
	28,462	**3,508**	**3,142**	**35,112**

	31 December 2022			
	Less than 30 Days US $ '000	31 to 60 days US $ '000	61 to 90 days US $ '000	Total US $ '000
Type of Islamic Financing Contract				
Receivables	10,657	2,990	186	13,833
Musharaka	2,721	124	366	3,211
Ijara muntahia bittamleek and ijara receivables	603	12	6	621
	13,981	3,126	558	17,665

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

27. RISK MANAGEMENT (continued)

c) Credit risk (continued)

Aging of Non-Performing Facilities

	31 December 2023				
	3-6 Months US $ '000	6-12 Months US $ '000	1-3 Years US $ '000	3 Years and above US $ '000	Total US $ '000
Receivable	12,854	11,433	14,186	35,893	74,366
Musharaka	1,228	1,349	1,871	5,046	9,494
Ijara Muntahia Bittamleek and Ijara receivable	2,179	164	1,374	13,522	17,239
	16,261	12,946	17,431	54,461	101,099

	31 December 2022				
	3-6 Months US $ '000	6-12 Months US $ '000	1-3 Years US $ '000	3 Years and above US $ '000	Total US $ '000
Receivable	2,299	4,767	26,708	30,962	64,736
Musharaka	1,814	797	2,275	4,456	9,342
Ijara Muntahia Bittamleek and Ijara receivable	299	1,713	4,450	8,834	15,296
	4,412	7,277	33,433	44,252	89,374

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 beaccepted as collateral.

Collaterals listed hereunder attract capital relief from capital adequacy requirements:

1) Hamish Jiddiyyah (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

27. RISK MANAGEMENT (continued)

c) Credit risk (continued)

Credit Risk Mitigation (continued)

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).

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, unauthorized access, by third parties or employees, etc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

27. RISK MANAGEMENT (continued)

d) Operational risk (continued)

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:

	Assets		Liabilities and Subordinated mudaraba		Equity of investment accountholders	
	2023 US $ '000	2022 US $ '000	**2023 US $ '000**	2022 US $ '000	**2023 US $ '000**	2022 US $ '000
Geographical region						
Middle East	**1,809,515**	1,649,619	**470,973**	216,289	**1,005,028**	1,081,780
Europe	**4,479**	10,826	**188**	1,948	**911**	-
Asia	**873,599**	1,027,545	**313,939**	294,516	**521,036**	660,583
Others	**22,906**	34,611	**2,596**	30,880	**166,218**	170,606
	2,710,499	2,722,601	**787,696**	543,633	**1,693,193**	1,912,969

	Assets		Liabilities and Subordinated mudaraba		Equity of investment accountholders	
	2023 US $ '000	2022 US $ '000	**2023 US $ '000**	2022 US $ '000	**2023 US $ '000**	2022 US $ '000
Industry sector						
Trading and manufacturing	**169,417**	216,283	**70,102**	41,162	**65,082**	85,582
Banks and financial institutions	**411,702**	320,194	**381,676**	205,475	**417,285**	675,851
Construction and real estate	**140,830**	105,460	**68,393**	8,311	**72,677**	20,269
Government	**991,228**	1,051,025	**2,362**	1,424	**227,329**	307,722
Consumer	**726,504**	713,587	**125,786**	106,558	**618,309**	494,977
Agriculture fishing and foresrty	**79,208**	83,320	**1,673**	9,730	**2,526**	2,506
Others	**191,610**	232,732	**137,704**	170,973	**289,985**	326,062
	2,710,499	2,722,601	**787,696**	543,633	**1,693,193**	1,912,969

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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

29. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(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.
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).
Level 3 – Inputs for the investments that are not based on observable market data (unobservable inputs). This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

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 predominantly includes operations in 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 consolidated financial statements as set out in note 2. Transactions between segments are conducted at estimated market rates on an arm's length basis.

The segmental results of the Group were as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

30. Segmental information (continued)

	Middle East		Other Asian Countries	
	2023 US $ '000	2022 US $ '000	**2023 US $ '000**	2022 US $ '000
Assets	**1,806,742**	1,694,302	**903,757**	1,232,387
Liabilities, equity of investment accountholders, and Subordinated mudaraba	**1,651,123**	1,505,805	**829,766**	950,797
Total income	**18,902**	48,717	**55,179**	49,447
Total operating expenses	**(45,023)**	(39,439)	**(28,023)**	(31,093)
Net operating income	**(26,120)**	8,778	**27,155**	18,354
Expected credit losses/Provision for impairment - net and write back of written off	**(8,187)**	(1,264)	**(8,530)**	(4,577)
Taxation	**-**	-	**(8,919)**	(4,852)
Income for the year	**(34,307)**	7,514	**9,706**	8,925

31. SOCIAL RESPONSIBILITY

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

32. Zakah

	2023 US $ '000	2022 US $ '000
Net equity attributable to shareholders	**114,394**	150,144
Employee end of service benefits	**7,513**	8,901
Zakah-able assets	**(114,433)**	(139,209)
Zakah-able amount	**7,474**	19,836
Zakah for the year	**193**	511

33. Fee disclosure

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

	2023 US $ '000	2022 US $ '000
Audit fees	**217**	225
Non-audit fees	**191**	186
	408	411

34. 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 2023 is 213.17%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

34. NSFR REQUIREMENTS AND CALCULATION METHODOLOGY (continued)

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

	Unweighted Values (i.e. before applying relevant factors)				
Item	No specified maturity US $ '000	Less than 6 Months US $ '000	More than 6 Months and less than a Year US $ '000	Over one Year US $ '000	Total weighted value US $ '000
Available Stable Funding (ASF):					
Capital:	**217,811**	**-**	**-**	**11,147**	**228,958**
Regulatory Capital	217,811	-	-	-	217,811
Other Capital Instruments	-	-	-	11,147	11,147
Retail deposits and deposits from small business customers:	**-**	**819,155**	**91,954**	**104,856**	**925,562**
Stable deposits	-	11,851	103	-	11,468
Less stable deposits	-	807,304	91,851	104,856	914,095
Wholesale funding:	**-**	**1,121,601**	**172,593**	**8,076**	**475,026**
Operational deposits	-	-	-	1,120	1,120
Other wholesale funding	-	1,121,601	172,593	6,957	473,906
Other liabilities:	**-**	**-**	**-**	**100,016**	**100,016**
NSFR Shari'a-compliant hedging contract liabilities	-	-	-	-	-
All other liabilities not included in the above categories	-	-	-	100,016	100,016
Total ASF	**217,811**	**1,940,756**	**264,547**	**224,096**	**1,729,562**
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	890,474	-	-	-	45,399
Deposits held at other financial institutions for operational purposes	-	-	-	-	-
Performing financing and sukuk/securities:	-	-	-	-	-
Performing financing to financial institutions secured by Level 1 HQLA	-	-	-	-	-
Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	89,475	-	123,031	136,453
Performing financing to non-financial corporate clients, financing to retail and small business customers, and business customers, and business customers, and central banks and PSEs, of which:	-	288,731	67,385	-	178,058
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	-	-
Performing residential mortgages, of which:					
With a risk weight of less than orequal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	322,985	209,940

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

34. NSFR REQUIREMENTS AND CALCULATION METHODOLOGY (continued)

Item	Unweighted Values (i.e. before applying relevant factors) No specified maturity US $ '000	Less than 6 Months US $ '000	More than 6 Months and less than a Year US $ '000	Over one Year US $ '000	Total weighted value US $ '000
Securities/sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	28,722	24,414
Other assets:					
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	-	-	-	-	-
NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	-	-	-	-
All other assets not included in the above categories	208,235	-	-	-	208,235
OBS items	177,419	-	-	-	8,871
Total RSF	**1,276,128**	**378,206**	**67,385**	**474,739**	**811,369**
NSFR (%)					**213.17%**

Basel III, Pillar III Disclosures

For the year ended 31 December 2023

1. INTRODUCTION

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 Commercial Registration of the Bank was renewed on 7 January 2008 to change the status from exempt closed joint stock company to closed joint stock company. The Bank operates under a Retail Bank's license number RB/025 issued by the Central Bank of Bahrain (CBB). The Bank has five commercial branches in the Kingdom of Bahrain.

The principal activities of the Bank and its subsidiary (the "Group") are taking demand, saving and investment accounts, providing Murabaha finance, Ijara financing 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.

For details on the Group's subsidiary as of 31 December 2023, refer note 2 of the consolidated financial statements of the Group.

The public disclosures under this section have been prepared in accordance with the Central Bank of Bahrain ("CBB") requirements outlined in its Public Disclosure Module ("PD"), Section PD-3: Public Disclosure requirements, CBB Rule Book, Volume II for Islamic Banks.

2. CAPITAL ADEQUACY

To assess its capital adequacy requirements in accordance with the CBB requirements, the Group adopts the standardised approach for its credit risk, basic indicator approach for its operational risk and standardised measurement approach for its market risk. The CBB capital adequacy requirement is minimum accepted level for capital adequacy. The credit committee of the Group identify and approve assets suitable for funding by equity of Investment Accountholders ("IAH"). For the purpose of computing the Capital Adequacy Ratio ("CAR") and preparation of the PIRI form, the Group's consolidates its financial subsidiary (Al Baraka Bank (Pakistan) Limited).

Table – 1. Capital structure

The following table summarises the eligible capital after deductions for Capital Adequacy Ratio (CAR) calculation in accordance with Basel III requirements as of

	31 December 2023			31 December 2022		
	CET 1 US $ '000	AT1 US $ '000	Tier 2 US $ '000	CET 1 US $ '000	AT1 US $ '000	Tier 2 US $ '000
Common Equity Tier 1 (CET1)						
Issued and fully paid ordinary shares	**151,458**			151,458		
General reserves	**8,687**			8,687		
Statutory reserves	**26,119**			26,119		
Retained earnings/ (Accumulated losses)	**17,949**			7,976		
Current year (loss) / profit	**(28,568)**			12,791		
Unrealized gains and losses on available for sale financial instruments	**6,882**			3,961		
Gains and losses resulting from converting foreign currency subsidiaries to the parent currency	**(65,851)**			(56,440)		
Other reserves	**(289)**			(140)		
Total CET1 capital before minority interest	**116,387**			154,413		
Minority interest in banking subsidiaries in tier-1 capital	**9,828**			10,573		
Total CET1 capital prior to regulatory adjustments	**126,215**			164,985		
Less:						
Goodwill	**7,967**			9,917		
Intangible other than mortgage servicing rights	**5,962**			6,081		
Deferred tax assets subject to adjustment	**3,673**			1,411		
Total CET 1 capital after the regulatory adjustments above (CET 1a)	**108,613**			147,576		

Basel III, Pillar III Disclosures

For the year ended 31 December 2023

2. CAPITAL ADEQUACY (continued)

Table – 1. Capital structure (continued)

	31 December 2023			31 December 2022		
	CET 1 US $ '000	AT1 US $ '000	Tier 2 US $ '000	CET 1 US $ '000	AT1 US $ '000	Tier 2 US $ '000
Other Capital (AT1 & T 2)						
Instruments issued to parent company		96,000	-		96,000	-
Instruments issued by banking subsidiaries to third parties		-	3,524		-	4,923
Assets revaluation reserve - property, plant, and equipment		-	314		-	343
Eligibile Expected Credit Losses (ECL) Stages 1 & 2		-	7,383		-	7,316
Total Available AT1 & T2 Capital		96,000	11,221		96,000	12,582
Total CET 1 Capital	108,613			147,576		
Total T1 Capital		204,613			243,576	
Total Capital			215,834			256,158

Table – 2. Capital requirement by type of islamic financing contracts

The following table summarises the capital requirements by type of islamic financing contracts:

	31 December 2023 Capital requirements US $ '000	31 December 2022 Capital requirements US $ '000
Type of islamic financing contracts		
Receivables	14,560	12,898
Ijara Muntahia Bittamleek & Ijara receivables	17,944	13,948
Musharakat	7,839	8,673
	40,343	35,519

Table – 3. Capital requirement for market risk

The following table summarises the amount of exposures subject to standardised approach of market risk and related capital requirements as of:

	31 December 2023		31 December 2022	
	Self Financed US $ '000	Financed by IAH US $ '000	Self Financed US $ '000	Financed by IAH US $ '000
Market risk - standardised approach				
Price risk	480	-	235	-
Equities Position Risk	58	-	87	-
Foreign exchange risk	8,836	-	9,199	-
Total of market risk - standardised approach	9,374	-	9,521	-
Multiplier	12.50	12.50	12.50	12.50
	117,175	-	119,014	-
Eligible Portion for the purpose of the calculation	100%	30%	100%	30%
Risk Weighted Exposures ("RWE") for CAR Calculation	117,175	-	119,014	-
Total market RWE		117,175		119,014
		12.50%		12.50%
Minimum capital requirement		14,647		14,877

Basel III, Pillar III Disclosures

For the year ended 31 December 2023

2. CAPITAL ADEQUACY (continued)

Table – 4. Capital Requirements for operational risk

The following table summarises the amount of exposures subject to basic indicator approach of operational risk and related capital requirements as of:

	31 December 2023 US $ '000	31 December 2022 US $ '000
Indicators of operational risk		
Average gross income	87,088	91,300
Multiplier	12.5	12.5
	1,088,600	1,141,255
Eligible Portion for the purpose of the calculation	15%	15%
Total operational RWE	163,290	171,188
	12.50%	12.50%
Minimum capital requirement	20,411	21,399

Table – 5. Capital adequacy ratios

The following are capital adequacy ratios for total capital and tier 1 capital as of:

	31 December 2023			31 December 2022		
	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio
Group's Capital adequacy ratio	24.78%	23.49%	12.47%	29.26%	27.83%	16.86%
Minimum regulatory requirements*	19.41%	16.45%	12.70%	12.50%	10.50%	9.00%
Al Baraka Bank Pakistan Limited **	19.51%	16.44%	12.70%	19.72%	15.77%	12.30%

* Minimum required by CBB regulations under Basel III
**The subsidiary's Capital adequacy ratio computed in accordance with the CBB requirements.

Legal restrictions on capital and income mobility

Distributing profits by subsidiary to the parent is subject to compliance with applicable laws and regulations in Pakistan. Such distribution should go through the legal and regulatory channels applicable in relevant jurisdiction (i.e. Pakistan). Mobilisation of capital, reserves and equivalent funds out of the subsidiary to the parent is subject to the local rules and regulations. The parent is not subject to any restriction to support its subsidiary in the form of deposits or capital. However, as a procedure and approval has to be obtained from the CBB for increasing investment in subsidiary.

Table - 6. The Group's financial subsidiary capital adequacy ratios

The following is the Group's financial subsidiary capital adequacy ratio prepared on the basis of SBP requirements, which may differ from the CBB requirements, as of:

	31 December 2023			31 December 2022		
	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio
Capital adequacy ratio	19.41%	16.45%	12.70%	15.79%	13.34%	11.83%
Minimum regulatory requirements*	11.50%	7.50%	6.00%	11.50%	7.50%	6.00%

Basel III, Pillar III Disclosures

For the year ended 31 December 2023

3. 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. The Group risk management strategies have been effectively implemented during the year in line with the objective defined.

a. 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.

Table – 7. Credit risk exposure

The following table summarises the amount of gross funded and unfunded credit exposures and average gross funded and unfunded exposures as of:

	31 December 2023				31 December 2022			
	Self financed		Financed by IAH		Self financed		Financed by IAH	
	Total gross credit exposure US $ '000	*Average gross exposure over the period US $ '000	Total gross credit exposure US $ '000	*Average gross credit exposure over the period US $ '000	Total gross credit exposure US $ '000	*Average gross exposure over the period US $ '000	Total gross credit exposure US $ '000	*Average gross credit exposure over the period US $ '000
Funded								
Cash and balances with banks and financial institutions	218,803	240,715	24,573	1,718	-	31,551	162,440	158,418
Receivables	49,834	12,731	399,749	435,478	462	738	448,384	509,050
Ijara Muntahia Bittamleek and Ijara receivables	11,558	12,974	623,217	620,601	14,320	24,973	547,635	502,049
Musharakat	22,913	23,661	135,360	144,676	32,018	39,848	207,426	239,399
Investments	563,088	575,234	509,774	483,124	655,178	643,616	485,391	454,092
Investments in real estate	7,722	8,557	-	-	8,836	10,285	-	-
Premises and equipment	92,135	91,917	-	-	88,901	76,154	9,419	-
Other assets	43,286	44,090	520	7,153	-	15,472	52,274	43,405
Unfunded exposure								
Contingencies and commitments	150,717	161,262	-	-	180,490	200,474	-	-
	1,160,056	1,171,141	1,693,193	1,692,750	980,205	1,043,111	1,912,969	1,906,413

*Average balances are computed based on quarter end balances.

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For the year ended 31 December 2023

3. RISK MANAGEMENT (continued)

a. Credit risk (continued)

Table – 8. Credit risk – geographic breakdown

The following table summarises the geographic distribution of exposures, broken down into significant areas by major types of credit exposure as of:

	31 December 2023				31 December 2022			
	Self financed *geographic area		Financed by IAH *geographic area		Self financed *geographic area		Financed by IAH *geographic area	
	Middle East US $ '000	Other Asian countries US $ '000	Middle East US $ '000	Other Asian countries US $ '000	Middle East US $ '000	Other Asian countries US $ '000	Middle East US $ '000	Other Asian countries US $ '000
Cash and balances with banks	123,684	95,119	7,333	17,240	-	-	117,708	44,732
Receivables	49,835	-	266,386	133,362	462	-	300,892	147,492
Ijara Muntahia Bittamleek and Ijara receivables	11,558	-	622,927	290	14,321	-	547,156	478
Musharakat	-	22,913	-	135,360	-	32,019	-	207,426
Investments	338,322	224,766	280,654	229,120	388,901	266,277	252,319	233,072
Investment in real estate	7,722	-	-	-	8,836	-	-	-
Premises and equipment	76,002	16,133	-	-	79,154	19,166	-	-
Other assets	22,322	20,963	-	521	(52,934)	43,514	37,488	24,206
	629,445	379,894	1,177,300	515,893	438,740	360,976	1,255,563	657,406

* 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 predominantly includes operations in Pakistan.

Table – 9. Credit risk – counterparty type breakdown

The following table summarises the distribution of funded and unfunded exposure by counterparty type as of:

	31 December 2023				31 December 2022			
	Self financed		Financed by IAH		Self financed		Financed by IAH	
	Funded US $ '000	Unfunded US $ '000	Funded US $ '000	Unfunded US $ '000	Funded US $ '000	Unfunded US $ '000	Funded US $ '000	Unfunded US $ '000
Cash items	27,192	-	-	-	21,438	-	689	-
Claims on Sovereigns	665,188	-	438,811	-	508,061	-	595,347	-
Claims on Public Sector Entities	71,614	-	64,342	-	100,309	-	70,142	-
Claims on banks	67,590	2,899	34,861	-	7,146	10,143	58,157	-
Claims on corporate	23,003	147,740	449,559	-	22,799	170,347	464,024	-
Mortgages	-	-	572,868	-	-	-	529,705	-
Past dues receivables	-	78	33,359	-	463	-	21,886	-
Regulatory Retail Portfolio	-	-	72,298	-	-	-	112,021	-
Equity investment	36,503	-	390	-	35,089	-	426	-
Investment in Funds	1,000	-	-	-	1,000	-	-	-
Holding of Real Estate	88,598	-	19,878	-	92,590	-	23,105	-
Other assets	28,651	-	6,827	-	10,822	-	37,468	-
	1,009,339	150,717	1,693,193	-	799,716	180,490	1,912,969	-

For the purpose of rating, the Group is using External Credit Assessment Institutions (ECAIs) Standard & Poors, Moodys, Capital Intelligence, Fitch and other approved credit rating agencies for assigning risk weight to assets.

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For the year ended 31 December 2023

3. RISK MANAGEMENT (continued)

a. Credit risk (continued)

Table – 10. Credit risk – related party transactions

All transactions with related parties have been made on arms length basis. The following table summarises the balances with related parties as of:

	31 December 2023		31 December 2022	
	Self Financed Funded US $ '000	Financed by IAH Funded US $ '000	Self Financed Funded US $ '000	Financed by IAH Funded US $ '000
Cash and balances with bank	50	-	3	46
Receivables	-	1,318	-	836
Musharakat	-	1,522	-	1,370
Investments	52,099	-	52,244	-
Other Assets	7,681	-	6,261	-
Contingencies and commitments	2,025	-	2,000	-
	61,855	2,840	60,508	2,253

The Group's intra-group transactions are as follows:

	31 December 2023 Self financed US $ '000	31 December 2022 Self financed US $ '000
Assets		
Investment in a subsidiary*	94,201	94,201
	94,201	94,201

*The Bank carries investment in banking subsidiary located in Islamic Republic of Pakistan denominated in Pakistani Rupee. The gains/ losses on translation of such operations are duly reflected in a separate component of consolidated equity of the Group. The Bank is not using any hedging strategy to mitigate the impacts of fluctuation in Pakistani Rupee.

Table – 11. Credit risk – concentration of risk

The Group follows the Central Bank of Bahrain's guidelines with respect to the definition and measurement of large exposures at the consolidated level as stipulated in the Central Bank of Bahrain Rulebook for Islamic Banks.

The following are the balances representing the concentration of risk to individual counterparties as of 31 December 2023:

	Funded US $ '000
Counterparties *	
Counterparty # 1	476,222
Counterparty # 2	325,161
Counterparty # 3	114,573
Counterparty # 4	84,171
Counterparty # 5	40,307
Counterparty # 6	34,551

* These exposures are in excess of individual obligor limits. Further, these exposures are either exempt or undertaken after obtaining due approval from Central Bank of Bahrain.

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For the year ended 31 December 2023

3. RISK MANAGEMENT (continued)

a. Credit risk (continued)

Table – 11. Credit risk – concentration of risk (continued)

The following are the balances representing the concentration of risk to individual counterparties as of 31 December 2022:

	Funded US $ '000
Counterparties *	
Counterparty # 1	467,060
Counterparty # 2	348,059
Counterparty # 3	103,874
Counterparty # 4	64,376
Counterparty # 5	53,797
Counterparty # 6	45,189

* These exposures are in excess of individual obligor limits. Further, these exposures are either exempt or undertaken after obtaining due approval from Central Bank of Bahrain.

Past due and non-performing facilities

Past due represents installments that are not received on the contractual repayments date. The Group defines non-performing facilities as the facilities that are overdue for period of 90 days or more. These exposures are placed on a non-accrual status with income being recognised to the extent that it is actually received/distributed. It is the Group's policy that when an exposure is overdue for a period of 90 days or more, the whole financing facility extended is considered as past due.

Highly leveraged counter parties

Highly leveraged counter parties are determined by the Credit Department on case by case basis according to industry types and credit policies and procedures of the Group. Each industry has clear established leverage ratios set in place internally which are considered threshold for measuring how leveraged is our counterpart (Low, Medium/Acceptable or High). Any excess over such determined ratios, the customer is classified as highly leveraged with high risk. This ratio will have a big impact on Internal Rating / Grading of the customer. In this respect, the high risk exposure classified by the bank is as follows:

2023	US $ '000
Counterparty # 1	8,047
Counterparty # 2	1,878
Counterparty # 3	734
Counterparty # 4	352
Counterparty # 5	162
Counterparty # 6	159
Counterparty # 7	120
Counterparty # 8	69
Counterparty # 9	38
Counterparty # 10	26
Counterparty # 11	24
Counterparty # 12	2

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For the year ended 31 December 2023

3. RISK MANAGEMENT (continued)

a. Credit risk (continued)
Table – 11. Credit risk – concentration of risk (continued)
Highly leveraged counter parties (continued)

2022	US $ '000
Counterparty # 1	8,047
Counterparty # 2	1,735
Counterparty # 3	1,167
Counterparty # 4	730
Counterparty # 5	448
Counterparty # 6	387
Counterparty # 7	276
Counterparty # 8	231
Counterparty # 9	195
Counterparty # 10	140
Counterparty # 11	89
Counterparty # 12	80
Counterparty # 13	37
Counterparty # 14	23

Table – 13. Credit risk – credit quality of Islamic financing contracts by counterparty type
The following table summarises the aging of non performing facilities disclosed by counterparty type as of:

	31 December 2023					31 December 2022				
			Aging of non performing facilities					Aging of non performing facilities		
	Past due but performing US $ '000	Non-performing Islamic financing contracts US $ '000	90 days to 1 year US $ '000	1 year to 3 years US $ '000	Over 3 years US $ '000	Past due but performing US $ '000	Non-performing Islamic financing contracts US $ '000	90 days to 1 year US $ '000	1 year to 3 years US $ '000	Over 3 years US $ '000
Corporates	33,476	86,923	25,676	14,786	46,461	17,114	79,564	7,083	31,917	40,563
Investment Firms	-	555	-	-	555	-	595	-	-	595
Individuals	1,636	13,621	3,531	2,645	7,445	551	9,216	4,605	1,515	3,095
	35,112	101,099	29,207	17,431	54,461	17,665	89,374	11,689	33,433	44,253

Table – 14. Credit Risk – provision against financing facilities by counterparty type
The following table summarises the total provisions against financing facilities disclosed by counterparty type as of 31 December 2023:

	Specific allowances						
	Balance as at '01 January 2023 US $ '000	Charges during the year US $ '000	Net Transit in / (out) Stage3 during the year US $ '000	Write-Back during the year US $ '000	Write-offs during the year US $ '000	Exchange difference on opening balance US $ '000	Balance at 31 December 2023 US $ '000
Corporates	53,345	8,013	1,285	(1,404)	-	(5,840)	55,399
Individuals	4,133	3,802	25	(4)	-	(655)	7,301
Others	10,698	318	-	-	(44)	(2,229)	8,743
	68,176	12,133	1,310	(1,408)	(44)	(8,724)	71,443

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For the year ended 31 December 2023

3. RISK MANAGEMENT (continued)

a. Credit risk (continued)
Table – 14. Credit Risk – provision against financing facilities by counterparty type (continued)

The following table summarises the total provisions against non performing financing facilities disclosed by counterparty type as of 31 December 2022:

	Specific allowances						
	Balance as at '01 January 2022 US $ '000	Charges during the year US $ '000	Net Transit in / (out) Stage3 during the year US $ '000	Write-Back during the year US $ '000	Write-offs during the year US $ '000	Exchange difference on opening balance US $ '000	Balance at 31 December 2022 US $ '000
Corporates	62,797	7,303	(102)	(3,764)	(4,779)	(8,110)	53,345
Individuals	4,230	827	-	-	(88)	(836)	4,133
Others	12,847	687	-	-	(31)	(2,805)	10,698
	79,874	8,817	(102)	(3,764)	(4,898)	(11,751)	68,176

Table – 15. Credit risk – non performing facilities and provisions
The following table summarises the total non performing facilities and provisions disclosed by geographical area as of:

	31 December 2023		31 December 2022	
	Non-performing Islamic financing contracts US $ '000	ECL for Stage 3 US $ '000	Non-performing Islamic financing contracts US $ '000	ECL for Stage 3 US $ '000
Middle East	55,929	30,357	37,501	23,851
Other Asian countries	45,170	41,086	51,873	44,325
	101,099	71,443	89,374	68,176

Table – 16. Credit risk – restructured Islamic financing contracts
The following table summarises the total outstanding Islamic financing contracts that were restructured during the year as of:

	31 December 2023 Total US $ '000	31 December 2022 Total US $ '000
Restructured Islamic financing contracts	26,642	6,541

The amount represents total facilities restructured during the year. Further, there is no significant impact of the renegotiated Islamic financing contracts on the provisions as well as present and future earnings.

The Bank provides support to its customer facing financial difficulties in the form of waiver of profits, extension of repayment dates and even in certain cases discount upon settlement of the financing facilities.

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For the year ended 31 December 2023

3. RISK MANAGEMENT (continued)

a. Credit risk (continued)

Table – 17. Counterparty credit risk exposure

The following table summarises the counterparty credit risk exposure covered by collateral as of:

	31 December 2023		31 December 2022	
	Gross positive FV of contracts US $ '000	* Collateral held US $ '000	Gross positive FV of contracts US $ '000	* Collateral held US $ '000
Cash and balances with banks and financial institutions	243,376	-	162,440	-
Receivables	449,583	263,696	448,846	286,804
Ijara Muntahia Bittamleek and Ijara receivables	634,775	613,155	561,955	495,426
Musharaka	158,273	158,274	239,444	239,444
Investments	1,072,862	-	1,140,569	-
Investment in real estate	7,722	-	8,836	-
Premises and equipment	92,135	-	98,320	-
Other assets	43,806	-	52,274	-
	2,702,532	1,035,125	2,712,684	1,021,674

* Collaterals values have been restricted to outstanding exposure of financing facilities.

Table – 18. Counterparty credit risk exposure

The following table summarises exposure by type of Islamic financing contract that is covered by eligible collateral after the application of haircuts as of:

	31 December 2023		31 December 2022	
	Gross positive FV of contracts US $ '000	Collateral held US $ '000	Gross positive FV of contracts US $ '000	Collateral held US $ '000
Receivables	449,583	12,146	448,846	17,142
Ijara Muntahia Bittamleek & Ijara income receivable	634,775	34,082	561,955	11,727

b. Market risk

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

Table – 19. Market risk capital requirements

The following table summarises the capital requirement for each category of market risk as of:

	31 December 2023			31 December 2022		
	Equity Position Risk US $ '000	Price Risk US $ '000	Foreign exchange risk US $ '000	Equity Position Risk US $ '000	Price Risk US $ '000	Foreign exchange risk US $ '000
RWE	719	6,003	110,453	-	1,092	114,985
Capital requirements (12.5%)	90	750	13,807	-	136	14,373
Maximum value of RWE	748	6,003	110,453	-	1,361	128,405
Minimum value of RWE	627	963	82,581	-	1,063	108,886

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For the year ended 31 December 2023

3. RISK MANAGEMENT (continued)

b. Market risk (continued)

Table – 20. Equity position risk in Banking Book

The following table summarises the total and average gross exposure of equity based structures by type as of 31 December 2023:

	Total gross exposure US $ '000	Average gross exposure over the period US $ '000	Publicly held US $ '000	Privately held US $ '000	Capital requirement US $ '000
Managed funds	1,000	1,000	-	1,000	25
Equity investments	36,893	36,064	30,840	6,053	11,198
Real estate related	36,563	37,981	-	36,563	4,025
	74,456	75,045	30,840	43,616	15,248

The following table summarises the total and average gross exposure of equity based structures by type as of 31 December 2022:

	Total gross exposure US $ '000	Average gross exposure over the period US $ '000	Publicly held US $ '000	Privately held US $ '000	Capital requirement US $ '000
Managed funds	1,000	1,000	-	1,000	25
Equity investments	35,515	41,586	29,613	5,902	10,319
Real estate related	38,985	35,128	-	38,985	1,203
	75,500	77,714	29,613	45,888	11,547

The Bank carries a diversified portfolio of equity investments containing the securities held for trading or short-term capital gains and stakes in a few entities to secure strategic objectives like entrance in certain market or business segment. More specifically, the securities amounted to USD Nil (2022: USD 0.5 million), in such portfolio, were held to generate capital gains.

Table – 21. Equity gains or losses in Banking Book

The following table summarises the cumulative realised and unrealised gains during the year ended:

	31 December 2023 US $ '000	31 December 2022 US $ '000
Cummulative realised (losses) / gains arising from sale or liquidation	(990)	1,023
Total unrealised gains recognised in the balance sheet but not through P&L	6,879	3,961
Unrealised gross gains included in Tier One Capital	6,879	3,961
Assets revaluation reserve - property, plant, and equipment	314	343

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

Profit rate risk

The Bank generates funds mainly through profit sharing arrangements or agency modes. The Bank continously monitor the profit rates prevailing in the domestic/ regional markets (issued by competitors). Further, the following factors also affects the determination of profit rates:

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For the year ended 31 December 2023

3. RISK MANAGEMENT (continued)
b. Market risk (continued)
Table – 21. Equity gains or losses in Banking Book (continued)
Profit rate risk (continued)

- Availability of profitable opportunities in the market;
- Key economic fundamentals and liquidity levels; and
- Policy interest rates promulgated by domestic and leading global monetary agencies.

Table – 22. Profit rate mismatch
The following are the profit rate mismatch between the rate of return on assets and the expected funding due to the sources of finance as of:

	31 December 2023				
	Up to 3 months US $ '000	3 to 6 months US $ '000	6 months to 1 year US $ '000	1 to 3 years US $ '000	Over 3 years US $ '000
Receivables	162,470	73,146	44,173	68,121	101,673
Ijara Muntahia Bittamleek and Ijara Income Receivables	17,826	13,731	14,708	76,476	512,034
Musharaka	367	2,319	3,747	80,387	71,454
Investments-Sukuk	16,316	-	21,118	414,626	546,346
Profit rate sensitive assets	**196,979**	**89,196**	**83,746**	**639,610**	**1,231,507**
Equity of investment accountholders	1,032,269	250,104	235,053	105,111	70,657
Subordinated Mudaraba	499	-	-	5,448	6,030
Profit rate sensitive liabilities	**1,032,768**	**250,104**	**235,053**	**110,559**	**76,687**
Profit rate gap	**(835,789)**	**(160,908)**	**(151,307)**	**529,051**	**1,154,820**
Profit rate sensitivity (200bps)	**(16,716)**	**(3,218)**	**(3,026)**	**10,581**	**23,096**

	31 December 2022				
	Up to 3 months US $ '000	3 to 6 months US $ '000	6 months to 1 year US $ '000	1 to 3 years US $ '000	Over 3 years US $ '000
Receivables	152,886	114,095	37,675	59,122	85,068
Ijara Muntahia Bittamleek and Ijara Income Receivables	7,703	6,343	13,381	60,872	473,656
Musharaka	15,187	3,590	9,840	58,335	152,492
Investments-Sukuk	28,083	3,023	321	413,343	620,300
Profit rate sensitive assets	203,859	127,051	61,217	591,672	1,331,516
Murabaha and other payables	36,818	60,276	64,759	532	9,411
Equity of investment accountholders	1,390,187	209,957	212,748	64,635	35,442
Subordinated debt	1,314	-	-	6,625	7,661
Profit rate sensitive liabilities	1,428,319	270,233	277,507	71,792	52,514
Profit rate gap	(1,224,460)	(143,182)	(216,290)	519,880	1,279,002
Profit rate sensitivity (200bps)	(24,489)	(2,864)	(4,326)	10,398	25,580

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For the year ended 31 December 2023

3. RISK MANAGEMENT (continued)
b. Market risk (continued)
Table – 22. Profit rate mismatch (continued)

This table contains the mismatch amongst profit bearing assets and liabilities to ensure compliance with public disclosure requirements. However, in lieu of inherent nature of Islamic Banking, such mismatches does not exists amongst assets and liabilities carried by the Bank as the bank has profit and loss sharing mudarba agreement with Investment accountholders. Whereby in case of any decrease in profit rates the corresponding impact has to be shared with the customers as per the mudaraba arrangement. It's hereby elaborated that the assets base represents receivable against various modes of sales/ deployment of funds under wakala and mudaraba arrangements, assets and receivables against Ijara and participations in ventures under Musharaka arrangements. While these assets are finance through capital, current accounts, funds received under mudaraba contract, payables against purchase and predominantly through funds received under profit sharing or Mudarba contracts. Therefore, the table given is just indicative of profit mismatches amongst assets and liabilities under various contracts.

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.

Table – 23. Foreign currency translation risk
Following is the Group's exposure to different currencies in equivalent US dollars:

	31 December 2023 Total equivalent US $ '000
Pakistani Rupees	101,007
Euro	661
Kuwaiti Dinars	6
Pound Sterling	(5,131)
Egyptian Pound	2,660
Algerian Dinar	6,000
Others	318

	31 December 2022 Total equivalent US $ '000
Pakistani Rupees	105,677
Euro	(15,908)
Kuwaiti Dinars	56
Pound Sterling	(4,705)
Egyptian Pound	2,372
Algerian Dinar	6,000
Others	553

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 assets 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. This is calculated using various percentages based upon the judgement of the management of the Group.

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For the year ended 31 December 2023

3. RISK MANAGEMENT (continued)

b. Market risk (continued)

Table – 24. Foreign currency risk sensitivity analysis
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 owner's equity. The impact of a similar increase / (decrease) in exchange rates will be approximately opposite to the impact disclosed below:

Currency At 31 December 2023	Particular	Change	Exposures in US $ '000	Effect on profit and loss/Equity US $ '000
Pakistani Rupees	Net Long Position	20%	101,007	20,201
Euro	Net Long Position	20%	661	132
Kuwaiti Dinars	Net Long Position	20%	6	1
Pound Sterling	Net Short Position	20%	5,131	1,026
Egyptian Pound	Net Long Position	20%	2,660	532
Algerian Dinar	Net Long Position	20%	6,000	1,200
Others	Net Long Position	20%	318	64

Currency At 31 December 2022	Particular	Change	Exposures in US $ '000	Effect on profit and loss/Equity US $ '000
Pakistani Rupees	Net long Position	20%	105,677	21,135
Euro	Net short Position	20%	15,908	3,182
Kuwaiti Dinars	Net long Position	20%	56	11
Pound Sterling	Net short Position	20%	4,705	941
Egyptian Pound	Net long Position	20%	2,372	474
Algerian Dinar	Net long Position	20%	6,000	1,200
Others	Net long Position	20%	553	111

c. Equity of Investment Accountholders (IAH)
The Group manages and deploys Equity of IAH according to its Article of Association – Chapter 3 on Rules of Business. In this respect, the Bank invests its own funds separately or jointly with amount received from Equity of IAH. 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 Equity of IAH 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.

The composition, characteristics, diversification, and concentration of portfolios are monitored within appropriate risk limits and indicators detailed in the Group's credit risk, liquidity risk, and other risks policies of the group. The strategic objectives of the investments of the funds are:

a) Investment in Shari' a compliant opportunities;
b) Targeted returns;
c) Compliance with credit and Investment policy and overall business plan; and
d) Diversified portfolio.

Funds are invested in Shari' a compliant commercial or consumer financing as well as short, medium, and long term investments excluding strategic investments. A due diligence process is in place which is consistent with business and risk policy guidelines of the Group after deduction of mandatory reserves and making allowance for short-term liquidity requirements.

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3. RISK MANAGEMENT (continued)

c. Equity of Investment Accountholders (IAH) (continued)

Under all the aforesaid arrangement the Group can commingle the IAH funds with funds generated from various sources (Self-Financed). In this regards, the Bank at inception designate each asset separately as "Self" and "Jointly" financed, except liquid assets which are managed collectively. Further, the jointly financed assets are segregated proportionately based on amounts of funds contributed by each category of investors.

The Group's share of profit as a Mudarib for managing equity of IAH and their share of income is based on the terms and conditions of the related Mudarib agreements. These funds are invested in Islamic modes of financing and investments including murabaha, salam, istisna, wakala, musharaka, mudaraba and ijara. The Group is offering these accounts for saving and term accounts ranging from 1 months to 5 years. There are no separate designations for portfolio managers, investment advisors and trustee. IAH accounts are managed at Head Office and subsidiary levels by relevant departments.

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 cost and depreciation. The Group's "mudarib profit" is deducted from investors' share of income before distributing such income. In some cases, equity of IAH withdrawn before maturity and without completing agreed period are entitled to income available for tenror completed by the Investor and after deducting charges as per terms of contract.

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 equity of investment accountholders) times average funds of equity of IAH].

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

Profit equalisation reserve
The Group appropriates a certain amount in excess of the profit to be distributed to equity of investment accountholders before taking into consideration the mudarib share of income. This is used to maintain a certain level of return on investment for equity of IAH.

Displaced commercial 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 Group has mitigated this risk through the setting up of reserves that will be used in case of a drop in IAH profit rates. The policies and procedures for displaced commercial risk are formulated and implemented at the segment level (Pakistan and Bahrain).

Complaint procedure / awareness programs
A complaint management system is established; procedures on handling complaints have been developed, new Complaints form has been introduced, a number of complaints channels are available where customers can communicate through branches, call centre, email, dedicated staff number and web-site. Monitoring procedures have been developed as well.

The Group uses it's website, print and electronic media for consumer awareness program and to inform about new products.

Basel III, Pillar III Disclosures

For the year ended 31 December 2023

3. RISK MANAGEMENT (continued)

c. Equity of Investment Accountholders (IAH) (continued)

Penalty charges	**31 December 2023 US $ '000**	31 December 2022 US $ '000
Central Bank of Bahrain		
Delays in settlement of ATM balances*	**40**	-
Anomalies in standing orders, EFTS and other electronic channels	**78,528**	119
Waiver of penalties on standing orders, EFTS and other electronic channels	**(78,541)**	-
	27	119
State Bank of Pakistan		
Various non-compliances with domestic laws and regulations	**62**	273

Non-Shari'a complaint income

The Group has received US $ 121 thousand (2022: US $ 89 thousand) from customers as penalty for default are other non sharia compliant sources, which was disposed through charity contribution.

Table – 25. Equity of Investment Accountholders

The following table summarises the breakdown of equity of IAH and the analysis of profit equalisation reserve, investment risk reserve and return on equity of IAH as of:

	31 December 2023 US $ '000	31 December 2022 US $ '000
IAH - Non-banks	**1,414,909**	1,370,739
IAH - Banks	**277,564**	541,820
Profit equalisation reserve	**720**	411
	1,693,193	1,912,969

Table – 26. Ratio of reserves to total IAH

The following table summarises the ratio of reserves to the total amount of equity of IAH as of:

	31 December 2023 US $ '000	31 December 2022 US $ '000
PER to IAH (%)	**0.04%**	0.02%
IRR to IAH (%)	**Nil**	Nil

Table – 27. Equity of Investment Accountholders by Islamic financing product type

The following table summarises the percentage of IAH financing for each type of Shari's-compliant contract to total equity of IAH as of:

	31 December 2023 US $ '000	31 December 2022 US $ '000
Receivables	**23.61%**	23.44%
Musharakat	**7.99%**	10.84%
Ijara Muntahia Bittamleek & Ijara income receivable	**36.81%**	28.63%
Investments	**30.11%**	25.37%
Liquidity and others	**1.48%**	11.72%

Basel III, Pillar III Disclosures

For the year ended 31 December 2023

3. RISK MANAGEMENT (continued)

c. Equity of Investment Accountholders (IAH) (continued)

Table – 28. Equity of Investment Accountholders by Counterparty Type

The following table summarises the percentage of equity of investment accountholders for each category of counterparty to total equity as of:

Counterparty type	**31 December 2023**	31 December 2022
Banks	**16.44%**	28.34%
Investment Firms	**6.91%**	6.25%
Corporates	**18.82%**	17.06%
Residentials	**50.74%**	42.79%
Others	**7.10%**	5.55%

Table – 29. Investment Accountholders share of profit

The following table summarises the share of profits earned by and paid out to equity of IAH and the Group as Mudarib for the year ended:

	31 December 2023	31 December 2022	31 December 2021	31 December 2020	31 December 2019
Administrative expenses charged to equity of investment accountholders	**7,355**	7,493	8,052	14,061	8,863
Share of profits earned by IAH, before transfers to/from reserves	**143,114**	122,330	82,941	87,437	84,531
Percentage share of profit earned by IAH before transfer to/from reserves	**8.50%**	6.45%	4.64%	5.37%	6.06%
Share of profit paid out to IAH after Mudarib share and transfer to/from reserves	**130,713**	102,033	58,567	63,761	75,287
Percentage share of profit paid out to IAH after Mudarib share and transfer to/from reserves	**7.70%**	5.38%	3.28%	3.91%	5.40%
Share of profit paid out to Bank as mudarib	**12,401**	20,297	24,374	23,676	9,244
Mudarib share to total Investment Profits	**8.70%**	16.59%	29.39%	27.08%	10.94%

The Bank included the service charges/ fees from credit card operations on a proportionate basis in accordance with instructions and approvals Sharia department for distribution to equity of investment account holders.

Table – 30. Movement in profit equalisation reserve

The following table summarises the movement in profit equilisation reserve during the year ended:

	31 December 2023	31 December 2022	31 December 2021	31 December 2020	31 December 2019
Balance at 1 January	**411**	411	344	229	115
Amount apportioned from income	**309**	-	67	115	114
Balance at 31 December	**720**	411	411	344	229
Percentage of the profit earned on equity of investment accountholders appropriated to profit equilisation reserve	**0.20%**	-	0.08%	0.13%	0.14%

Basel III, Pillar III Disclosures

For the year ended 31 December 2023

3. RISK MANAGEMENT (continued)

c. Equity of Investment Accountholders (IAH) (continued)

Table – 31. Movement in investment risk reserve

The following table summarises the movement in investment risk reserve during the year ended:

	31 December 2023 US $ '000	31 December 2022 US $ '000	31 December 2021 US $ '000	31 December 2020 US $ '000	31 December 2019 US $ '000
Balance at 1 January	-	-	-	-	-
Amount apportioned from income	-	-	277	-	-
Amount apportioned to provision	-	-	(277)	-	-
Balance at 31 December	-	-	-	-	-
Percentage of the profit earned on equity of investment accountholders appropriated to profit equilisation reserve	Nil	Nil	0.33%	Nil	Nil

The profit equalisation reserve and investment risk reserve will revert to IAH as per terms and conditions of the Mudaraba contract.

As IAH 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 IAH is up to a maximum of 70% (31 December 2022: up to 70%) as per the terms of IAH agreements.

Table – 32. Equity of Investment Accountholders rate of return

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the year ended 31 December 2023:

	Opening Actual Allocation US $ '000	Movement US $ '000	Closing Actual Allocation US $ '000
Cash and balances with banks	172,739	(148,166)	24,573
Receivables	448,384	(48,635)	399,749
Ijara Muntahia Bittamleek	547,635	75,582	623,217
Musharaka	207,426	(72,066)	135,360
Investments	485,391	24,383	509,774
Other assets	51,394	(50,874)	520
	1,912,969	(219,776)	1,693,193

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets for the year ended 31 December 2022:

	Opening Actual Allocation US $ '000	Movement US $ '000	Closing Actual Allocation US $ '000
Cash and balances with banks	191,276	(18,537)	172,739
Receivables	484,124	(35,740)	448,384
Ijara Muntahia Bittamleek	426,107	121,528	547,635
Musharaka	276,152	(68,726)	207,426
Investments	452,408	32,983	485,391
Other assets	35,349	16,045	51,394
	1,865,416	47,553	1,912,969

Basel III, Pillar III Disclosures

For the year ended 31 December 2023

3. RISK MANAGEMENT (continued)

c. Equity of Investment Accountholders (IAH) (continued)

Table – 32. Equity of Investment Accountholders rate of return (continued)

	Average 31 December 2022 Rate of return %		
	Bahrain		Pakistan
	BD	US $	
Saving Accounts	0.09%	0.09%	6.55%
One Month Term Deposits	1.41%	1.14%	5.39%
Three Months Term Deposits	2.09%	1.82%	5.80%
Six Months Term Deposits	2.28%	1.95%	6.72%
Nine Months Term Deposits	2.60%	2.30%	-
1 Year Term Deposits	2.85%	2.58%	9.09%
2 Years Term Deposits	2.90%	2.65%	11.38%
3 Year Term Deposits	2.95%	2.72%	12.51%
4 Years Term Deposits	3.00%	2.79%	12.25%
5Years Term Deposits	3.05%	2.84%	12.92%

Table – 33. Equity of Investment Accountholders by type of assets

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the twelve months period ended 31 December 2023:

	Opening Actual Allocation US $ '000	Movement US $ '000	Closing Actual Allocation US $ '000
Cash and balances with banks	-	24,573	24,573
Receivables	545,611	(145,862)	399,749
Ijara Muntahia Bittamleek	635,480	(12,263)	623,217
Musharaka	149,719	(14,359)	135,360
Investments	387,500	122,274	509,774
Other assets	753	(233)	520
	1,719,063	(25,870)	1,693,193

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the twelve months period ended 31 December 2022:

	Opening Actual Allocation US $ '000	Movement US $ '000	Closing Actual Allocation US $ '000
Cash and balances with banks	197,274	(24,535)	172,739
Receivables	431,127	17,257	448,384
Ijara Muntahia Bittamleek	491,275	56,360	547,635
Musharaka	239,299	(31,873)	207,426
Investments	487,655	(2,264)	485,391
Other assets	26,984	24,411	51,395
	1,873,614	39,355	1,912,969

Basel III, Pillar III Disclosures

For the year ended 31 December 2023

3. RISK MANAGEMENT (continued)

c. Equity of Investment Accountholders (IAH) (continued)

Table – 34. Equity of Investment Accountholders profit earned and paid

The following table summarises the amount and percentage of profits earned and paid out to profit sharing investment accounts over the past five years:

	Profit earned		Profit paid to IAH	
	US $ '000	%age	US $ '000	%age
2023	**143,114**	**8.50%**	**130,713**	**7.70%**
2022	122,330	6.45%	102,033	5.38%
2021	82,941	4.64%	58,567	3.28%
2020	87,437	5.37%	63,761	3.91%
2019	84,531	6.06%	75,287	5.40%
2018	69,629	4.83%	53,151	3.68%

Table - 35. Treatment of assets financed by Equity of Investment Accountholders

The following table summarises the treatment of assets financed by IAH in the calculation of risk weighted assets (RWA) for capital adequacy purposes as of 31 December 2023:

	RWA US $ '000	RWA for capital adequacy purposes US $ '000	Capital charges US $ '000
Type of Claims			
Claims on Sovereign	438,811	131,643	16,455
Claims on PSEs	64,342	19,303	2,413
Claims on Banks	34,861	10,458	1,307
Claims on Corporates	449,559	134,868	16,858
Mortgage	572,868	171,860	21,483
Regulatory Retail Portfolio	72,298	21,689	2,711
Past due facilities	33,359	10,008	1,251
Investment in securities	390	117	15
Holding of Real Estates	19,878	5,963	745
Other Assets	6,827	2,048	256
	1,693,193	507,957	63,494

Basel III, Pillar III Disclosures

For the year ended 31 December 2023

3. RISK MANAGEMENT (continued)

c. Equity of Investment Accountholders (IAH) (continued)
Table - 35. Treatment of assets financed by Equity of Investment Accountholders (continued)

The following table summarises the treatment of assets financed by IAH in the calculation of risk weighted assets (RWA) for capital adequacy purposes as of 31 December 2022:

	RWA US $ '000	RWA for capital adequacy purposes US $ '000	Capital charges US $ '000
Type of Claims			
Claims on Sovereign	595,347	178,604	22,326
Claims on PSEs	70,142	21,043	2,630
Claims on Banks	58,157	17,447	2,181
Claims on Corporates	464,024	139,207	17,401
Mortgage	529,705	158,911	19,864
Regulatory Retail Portfolio	112,021	33,606	4,201
Past due facilities	21,886	6,566	821
Investment in securities	426	128	16
Holding of Real Estates	23,105	6,931	866
Other Assets	37,467	11,240	1,405
	1,912,280	573,683	71,711

d. Off-balance sheet equity of Investment Accountholders

Off-balance sheet equity of Investment accountholders is invested and managed in accordance with Shari'a requirements.

The Group is not engaged in investment management activities or in managing funds. Therefore, the investments policies or risk parameters related to funds management are not relevant amid with specific nature of such business. The exposures given above are raised predominantly under agency arrangements/ syndications with specified institutional customers . In this respect, the respective nature, associated risks and returns measures are duly disclosed.

The Group has appropriate procedures and controls in place commensurate to the size of its portfolio which includes:

(a) Organizing its internal affairs in a responsible manner, ensuring it has appropriate internal controls and risk management systems and procedures and controls designed to mitigate and manage such risks;

(b) Observing high standards of integrity and fair dealing in managing the scheme to the best interest of its investors; and

(c) Ensuring that the Group has the requisite level of knowledge and experience for the tasks that is undertaken and is competent for the work undertaken.

Basel III, Pillar III Disclosures

For the year ended 31 December 2023

3. RISK MANAGEMENT (continued)

d. Off-balance sheet equity of Investment Accountholders (continued)

Table – 36. Off-balance sheet equity of Investment Accountholders by Islamic product type
The following table summarises the breakdown of Off-balance sheet equity of IAH by type of islamic financing contracts as of:

Islamic products	31 December 2023	31 December 2022
On balance sheet jointly finanaced assets*		
Others		
Receivables	**84.60%**	85.66%
Investments	**15.40%**	14.34%

* Funds received under "Wakala" contracts are commingled or invested under multi level arrangements in " On Balance Sheet Equity of Investment Accountholders. In this regards, the distribution of such assets is duly given in section "C".

Table – 37. Off-balance sheet equity of Investment Accountholders by counterparty type
The following table summarises the percentage of financing for each category of counterparty to total financing as of:

Counterparty type	31 December 2023	31 December 2022
On balance sheet jointly finanaced assets*		
Others		
Banks	**38.00%**	49.06%
Corporate	**53.70%**	40.88%
Sovereigns	**8.30%**	10.06%

* Funds received under "Wakala" contracts are commingled or invested under multi level arrangements in " On Balance Sheet Equity of Investment Accountholders. In this regards, the distribution of such assets is duly given in section "C".

Table – 38. Off-balance sheet equity of Investment Accountholders by type of assets
The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the period ended 31 December 2023:

	Opening actual allocation US $ '000	Movement US $ '000	Closing actual allocation US $ '000
Wakala Bi Al-Istithmar on balance sheet jointly finanaced assets	**640,848**	**(278,787)**	**362,061**
Receivables	**170,744**	**(40,393)**	**130,351**
Investments	**19,101**	**(4,976)**	**14,125**
	830,693	**(324,156)**	**506,537**

Basel III, Pillar III Disclosures

For the year ended 31 December 2023

3. RISK MANAGEMENT (continued)

d. Off-balance sheet equity of Investment Accountholders (continued)
Table – 38. Off-balance sheet equity of Investment Accountholders by type of assets (continued)

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the year ended 31 December 2022:

	Opening actual allocation US $ '000	Movement US $ '000	Closing actual allocation US $ '000
Wakala Bi Al-Istithmar on balance sheet jointly finanaced assets	514,684	126,163	640,848
Receivables	125,268	45,476	170,744
Investments	33,259	(14,159)	19,101
	673,211	157,480	830,693

Table – 39. Off-balance sheet equity of Investment Accountholders historical returns
The following table summarises the historical returns over the past five year:

	December 2023 US$ '000	December 2022 US$ '000	December 2021 US$ '000	December 2020 US$ '000	December 2019 US$ '000	December 2018 US$ '000
Gross Income	**41,601**	34,555	25,593	17,153	23,830	1,175
Mudarib share / agency fee.	**(11,736)**	11,310	(9,945)	(3,821)	(11,563)	91

The Group's share of profit as a Mudarib for managing Off-balance sheet equity of Investment accountholders and their share of income is based on the terms and conditions of the related mudarib agreements. These mudarib agreements are done at the individual Counter party level.

e. 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 regular basis. The liquidity management policy at a minimum includes the following:

a.Provide clear guidance on the composition and role of the asset/liability committee or such other committee or department responsible for managing liquidity.

b. Establish approval processes to ensure adherence to liquidity risk management processes.

c. Require periodic calculations to determine the extent to which the segments are funding long-term assets with short-term liabilities.

d. Establish liquidity ratio benchmarks, e.g. parameters for the funding of long-term assets with short-term liabilities to guide liquidity management and the method for computing liquidity indicators.

e. Establish limits on the degree of concentrations that are deemed acceptable. This should:

i) Ensure diversification of funding by origin and term structure by, for example, guarding against concentration by individuals or groups of depositors, types of deposit instruments, market sources of deposit, geographical sources, term to maturity, and deposit currencies. Where concentrations occur, the segments manage their assets and liquidity profile to mitigate the risk; and

Basel III, Pillar III Disclosures

For the year ended 31 December 2023

3. RISK MANAGEMENT (continued)

e. Liquidity risk (continued)

ii) Set procedures for the orderly restoration of the liquidity position in the event of loss of funding where such concentrations are unavoidable. In addition, the segments conduct an impact analysis on its dependency on any such concentrations.

f. Provide for periodic review of the deposit structure. The review should include the volume and trend of various types of deposits offered, maturity distributions of time deposits, profit rate paid on each type of deposit, prevailing market profit rate, limits on large time deposits, public funds, and non-resident deposits.

g. Provide for the review of alternate funding sources including stand-by facilities and lines of credit.

h. Establish a framework for the composition of assets.

i. Assess the acceptable mismatch in combination with currency commitments. The segments undertake separate analysis of their strategy for each currency individually. They set and regularly review limits on the size of cash flow mismatches over particular time horizons for foreign currencies in aggregate, and for each significant currency.

Table – 40. Liquidity ratios

The following table summarises the liquidity ratios as of:

	31 December 2023	31 December 2022
Liquid assets to total assets	**10.82%**	7.58%
Short term assets to short term liabilities	**24.29%**	23.21%

Table – 41. Quantitative indicators of financial performance and position

	December 2023*	December 2022	December 2021	December 2020	December 2019	December 2018
Return on average equity	**-9.9%**	6.1%	4.7%	2.8%	2.0%	-8.2%
Return on average assets	**-0.9%**	0.6%	0.5%	0.3%	0.2%	-0.8%
Cost to Income Ratio	**98.6%**	72.4%	70.8%	67.7%	75.6%	82.8%

* Return based on total income and equity (including non-controlling interest)

4. OTHERS

The Bank pays Zakat on behalf of shareholders on their funds while the responsibility for such obligation lies on investment accountholders. While, in Pakistan, Zakah is deducted at source from the Equity of Investment accountholders as required by local laws.

The Group has dedicated staff and hires services of professional firms to ensure compliance with applicable laws and regulations. Further, the legal cases are actively followed in collaboration of legal councils and directly monitored by the strategic management.

Subject to the provisions thereof, deposits held with the Bahrain office of Al Baraka Islamic Bank B.S.C.(c) are covered by the Deposit Protection Scheme established by the Central Bank of Bahrain regulation concerning the establishment of a Deposit Protection Scheme and a Deposit Protection Board.

Basel III, Pillar III Disclosures

For the year ended 31 December 2023

4. OTHERS (continued)

External Auditors

The Board Audit Committee has continued to review the work carried out by the external auditors during the year, in particular timeliness of reporting, quality of work and related fees. Overall the Audit Committee believes that the work of the external auditors has been of a sufficiently high standard and that the fees are reasonable and therefore recommended to the Board and accordingly to the annual general meeting (AGM) to re-appoint the external auditors as auditor for the 2023 financial year. The AGM has approved the reappointment of the external auditor for the year 2023 on 27 March 2024 and the related regulatory approval were taken.

For the year 2023, annual audit and quarterly review services amounted to US$ 176,658 and other non-audit services amounted to US$ 54,775.

CBB - Composition of Capital Disclosure Requirements
PD-1 Regulatory Capital Reconciliation

As at 31 December 2023

	Common Disclosure Template	PIRI	Reference
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital plus related stock surplus	151,458	E
2	Retained earnings	(12,926)	G
3	Accumulated other comprehensive income (and other reserves)	(22,145)	H-M
4	Not applicable	-	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	9,828	O
6	**Common Equity Tier 1 capital before regulatory adjustments**	**126,215**	
	Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments		
8	Goodwill (net of related tax liability)	7,967	B
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	5,962	A
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	C1
11	Cash-flow hedge reserve	-	
12	Shortfall of provisions to expected losses	-	
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	-	
14	Not applicable	-	
15	Defined-benefit pension fund net assets	-	
16	Investments in own shares	-	
17	Reciprocal cross-holdings in common equity	-	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	
20	Mortgage servicing rights (amount above 10% threshold)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	3,673	C2
22	Amount exceeding the 15% threshold	-	
23	of which: significant investments in the common stock of financials	-	
24	of which: mortgage servicing rights	-	
25	of which: deferred tax assets arising from temporary differences	-	
26	CBB specific regulatory adjustments	-	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	Total regulatory adjustments to Common equity Tier 1	17,602	
29	**Common Equity Tier 1 capital (CET1)**	**108,613**	
	Additional Tier 1 capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	96,000	F
31	of which: classified as equity under applicable accounting standards	96,000	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-	P
35	of which: instruments issued by subsidiaries subject to phase out	-	
36	**Additional Tier 1 capital before regulatory adjustments**	**96,000**	

CBB - Composition of Capital Disclosure Requirements
PD-1 Regulatory Capital Reconciliation

As at 31 December 2023

	Common Disclosure Template	PIRI	Reference
	Additional Tier 1 capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	-	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
41	CBB specific regulatory adjustments	-	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43	Total regulatory adjustments to Additional Tier 1 capital	-	
44	Additional Tier 1 capital (AT1)	96,000	
45	Hair Cut due to shortage in CET-1 Capital	-	
46	Net Available Capital after regulatory adjustments and haircut	96,000	
47	**Tier 1 capital (T1 = CET1 + AT1)**	**204,613**	
	Tier 2 capital: instruments and provisions		
48	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
49	Directly issued capital instruments subject to phase out from Tier 2	-	
50	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	3,524	D
51	of which: instruments issued by subsidiaries subject to phase out	-	
52	Assets revaluation reserve - property, plant, and equipment	314	Q
53	Provisions	7,383	S
54	**Tier 2 capital before regulatory adjustments**	**11,221**	
	Tier 2 capital: regulatory adjustments		
55	Investments in own Tier 2 instruments	-	
56	Reciprocal cross-holdings in Tier 2 instruments	-	
57	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	
58	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
59	National specific regulatory adjustments	-	
60	**Total regulatory adjustments to Tier 2 capital**	**-**	
61	**Tier 2 capital (T2)**	**11,221**	
62	**Total capital (TC = T1 + T2)**	**215,834**	
63	**Total risk weighted assets**	**870,903**	
	Capital ratios and buffers		
64	Common Equity Tier 1 (as a percentage of risk weighted assets)	12.47%	
65	Tier 1 (as a percentage of risk weighted assets)	23.49%	
66	Total capital (as a percentage of risk weighted assets)	24.78%	
67	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk weighted assets)	12.5%	
68	of which: capital conservation buffer requirement	2.5%	

CBB - Composition of Capital Disclosure Requirements
PD-1 Regulatory Capital Reconciliation

As at 31 December 2023

	Common Disclosure Template	PIRI	Reference
	Capital ratios and buffers		
69	of which: bank specific countercyclical buffer requirement	N/A	
70	of which: D-SIB buffer requirement	N/A	
71	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	6.0%	
	National minima including CCB (where different from Basel III)		
72	CBB Common Equity Tier 1 minimum ratio	9%	
73	CBB Tier 1 minimum ratio	10.5%	
74	CBB total capital minimum ratio	12.5%	
	Amounts below the thresholds for deduction (before risk weighting)		
75	Non-significant investments in the capital of other financials	-	
	Amounts below the thresholds for deduction (before risk weighting)		
76	Significant investments in the common stock of financials	-	
77	Mortgage servicing rights (net of related tax liability)	-	
78	Deferred tax assets arising from temporary differences (net of related tax liability)	11,229	
	Applicable caps on the inclusion of provisions in Tier 2		
79	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	19,593	R
80	Cap on inclusion of provisions in Tier 2 under standardised approach	7,383	
81	N/A		
82	N/A		
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2019 and 1 Jan 2023)		
83	Current cap on CET1 instruments subject to phase out arrangements	-	
84	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	
85	Current cap on AT1 instruments subject to phase out arrangements	-	
86	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	
87	Current cap on T2 instruments subject to phase out arrangements	-	
88	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	

CBB - Composition of Capital Disclosure Requirements
Statement of Financial Position

As at 31 December 2023

Appendix PD-2		
Step-1		
	As per published financial statements 31 December 2023 US $ '000	**As per Consolidated PIRI Return** 31 December 2023 US $ '000
Assets		
Cash and balances with banks and financial institutions	243,376	243,376
Receivables	449,584	460,491
Ijara Muntahia Bittamleek &I jara receivables	634,775	636,429
Musharaka	158,273	163,985
Investments	1,056,176	1,057,312
Investments in real estate	7,722	7,722
Investment in joint venture & associates	16,686	16,686
Premises and equipment	92,134	92,134
Goodwill	7,967	7,967
Other assets	43,806	43,806
Total Assets	**2,710,499**	**2,729,908**
Liabilities		
Current accounts	258,810	258,810
Murabaha and other payables	403,645	403,645
Other liabilities	113,265	114,557
Total liabilities	**775,720**	**777,012**
Equity of Investment Account Holders	**1,693,193**	**1,693,193**
Subordinated debt	**11,976**	**10,500**
Shareholders' Equity		
CET 1		
Share capital	151,458	151,458
Perpetual Tier1 capital	96,000	96,000
Retained earnings	(12,926)	(12,926)
Reserves	(24,138)	(24,138)
Expected credit losses	-	19,593
Total Shareholders' Equity	**210,394**	**229,987**
Non controlling interest	19,216	19,216
Total Liabilities, URIA and shareholders' equity	**2,710,499**	**2,729,908**

CBB - Composition of Capital Disclosure Requirements
Statement of Financial Position

As at 31 December 2023

Appendix PD-2	PIRI	Reference	
Step-2			
	As per published financial statements 31 December 2023 US $ '000	As per Consolidated PIRI Return 31 December 2023 US $ '000	
Assets			
Cash and balances with banks and financial institutions	243,376	243,376	
Receivables	449,584	460,491	
Ijara Muntahia Bittamleek & Ijara income receivable	634,775	636,429	
Musharaka	158,273	163,985	
Investments carried at fair value through profit & loss	44,737	44,745	
Investments carried at amortized cost	546,433	546,433	
Investments carried at fair value through equity	465,006	466,135	
Investments in real estate	7,722	7,722	
Investment in joint venture & associates	16,686	16,685	
Premises and equipment	92,134	92,134	
of which intangibles	5,962	5,962	A
Goodwill	7,967	7,967	B
Other assets	43,806	40,133	
of which deferred tax subject to direct deduction		-	C1
of which deferred tax subject to threshold deduction		3,673	C2
Total Assets	**2,710,499**	**2,729,908**	
Liabilities			
Current accounts	258,810	258,810	
Murabaha and other payables	403,645	403,645	
Other liabilities	113,265	114,557	
Total liabilities	**775,720**	**777,012**	
Equity of Investment Account Holders	**1,693,193**	**1,693,193**	
Subordinated debt	**11,976**	**10,500**	
of which allowed as T2		3,524	D
Shareholders' Equity			
CET 1			
Share capital	151,458	151,458	E
Perpetual AT1 Capital	96,000	96,000	F
Retained Earnings	(12,926)	(12,926)	G
Statutory reserve	26,119	26,119	H
General reserves	8,687	8,687	I
Foreign exchange reserve	(65,851)	(65,851)	J
Revaluation reserve on investments	6,882	6,882	K
Other reserves	(289)	(289)	L
Add back of modification losses	-	2,307	M
Non controlling interest	19,216	19,216	N
NCI CET1		9,828	O
NCI AT1		-	P
Tier 2			
Revaluation reserve on premises and equipment	314	314	Q
Expected credit losses for stage1 and stage2	-	19,593	R
of which allowed as T2		7,383	S
Total Shareholders' Equity	**229,610**	**249,203**	
Total Liabilities, URIA and shareholders' equity	**2,710,499**	**2,729,908**	

CBB - Composition of Capital Disclosure Requirements
Disclosure template for main features of regulatory capital instruments

As at 31 December 2023

Appendix PD-3

Issuer	Al Baraka Islamic Bank	Al Baraka Islamic Bank	Al Baraka Islamic Bank	Al Baraka Bank (Pakistan) Limited	Al Baraka Bank (Pakistan) Limited
Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA	NA	NA	NA
Governing law(s) of the instrument	Kingdom of Bahrain	Kingdom of Bahrain	Kingdom of Bahrain	All applicable laws and regulations of the Islamic Republic of Pakistan	All applicable laws and regulations of the Islamic Republic of Pakistan
Regulatory treatment					
Transitional CBB rules	CET 1	AT1	AT1	Tier 2	Tier 2
Post-transitional CBB rules	CET 1	AT1	AT1	Tier 2	Tier 2
Eligible at solo/group/group&solo	Both solo and Group	Both solo and Group	Both solo and Group	GROUP	GROUP
Instrument type (types to be specified by each jurisdiction)	Ordinary shares	Subordinated Mudaraba debt	Subordinated Mudaraba debt	Unrestricted Mudaraba Sukuk	Unrestricted Mudaraba Sukuk
Amount recognised in regulatory capital (Currency in USD K, as of most recent reporting date)	151,458	81,000	15,000	499	11,477
Par value of instrument	100	Not Applicable	Not Applicable	NA	NA
Accounting classification	Equity	Equity	Equity	Liability - amortized cost	Bullet Payment after 7 Years
Original date of issuance	Various	2018	2019	2014	2017
Perpetual or dated	Perpetual	Perpetual	Perpetual	Dated	Dated
Original maturity date	Not Applicable	Perpetual	Perpetual	2021	2024
Issuer call subject to prior supervisory approval	Not Applicable	Yes	Yes	Yes	Yes
Optional call date, contingent call dates and redemption amount	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Subsequent call dates, if applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Coupons / dividends					
Fixed or floating dividend/coupon	As decided by shareholder	Fixed	Fixed	Floating	Floating
Coupon rate and any related index	Not Applicable	Various	Various	KIBOR	6 Month Kibor + 0.75%
Existence of a dividend stopper	Not Applicable	Yes	Yes	No	No
Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary	Fully discretionary	Mandatory	Mandatory
Existence of step up or other incentive to redeem	Not Applicable	No	No	Not Applicable	Not Applicable
Noncumulative or cumulative	Not Applicable	Non-cummulative	Non-cummulative	Non-cummulative	Non-cummulative
Convertible or non-convertible	Not Applicable	Non-convertible	Non-convertible	Non-convertible	Non-convertible
If convertible, conversion trigger (s)	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
If convertible, fully or partially	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
If convertible, conversion rate	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
If convertible, mandatory or optional conversion	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
If convertible, specify instrument type convertible into	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
If convertible, specify issuer of instrument it converts into	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Write-down feature	Not Applicable	Yes	Yes	No	No
If write-down, write-down trigger(s)	Not Applicable	If regulatory requires to meet the minimum capital requirements as per laws applicable in country of incorporation.	If regulatory requires to meet the minimum capital requirements as per laws applicable in country of incorporation.	Not Applicable	Not Applicable
If write-down, full or partial	Not Applicable	Full	Full	Not Applicable	Not Applicable
If write-down, permanent or temporary	Not Applicable	Permanent	Permanent	Not Applicable	Not Applicable
If temporary write-down, description of write-up mechanism	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to all liabilities	Senior to common equity and subordinate to all liabilities	Senior to common equity and subordinate to all liabilities	Subordinate to all liabilities	Subordinate to all liabilities
Non-compliant transitioned features	Not Applicable	No	No	No	No
If yes, specify non-compliant features	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable