

Al Salam Bank B.S.C.

**CONDENSED CONSOLIDATED INTERIM
FINANCIAL INFORMATION**

30 September 2023

Al Salam Bank B.S.C.

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the nine months period ended 30 September 2023

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Independent auditors' report on review of condensed consolidated interim financial information

To the Board of Directors of
Al Salam Bank B.S.C.
Kingdom of Bahrain

Introduction

We have reviewed the accompanying 30 September 2023 condensed consolidated interim financial information of Al Salam Bank B.S.C. (the "Bank") and its subsidiaries (together the "Group"), which comprises:

- the condensed consolidated statement of financial position as at 30 September 2023;
- the condensed consolidated income statement for the three-month and nine-month periods ended 30 September 2023;
- the condensed consolidated statement of cash flows for the nine-month period ended 30 September 2023;
- the condensed consolidated statement of changes in equity for the nine-month period ended 30 September 2023; and
- notes to the condensed consolidated interim financial information.

The Board of Directors of the Bank is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with FAS 41, "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Auditing standards for Islamic Financial Institutions and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 September 2023 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with FAS 41, "Interim Financial Reporting".


12 November 2023

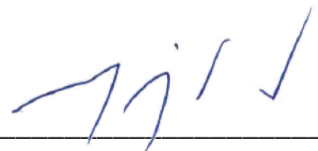
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2023

	<i>30 September</i>	<i>31 December</i>
	<i>2023</i>	<i>2022</i>
	<i>(Reviewed)</i>	<i>(Audited)</i>
<i>Note</i>	<i>BD '000</i>	<i>BD '000</i>
ASSETS		
Cash and balances with banks and central bank	508,602	367,747
Placements with financial institutions	288,790	113,096
Investment in sukuk	968,333	837,381
Financing assets	2,586,496	1,986,465
Non trading investments	104,743	106,796
Takaful and related assets	57,606	51,690
Investment in real estate	77,190	62,462
Investment in associates	228,799	254,006
Other assets	75,111	67,720
Goodwill and other intangible assets	74,697	51,998
TOTAL ASSETS	4,970,367	3,899,361
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, OWNERS' EQUITY AND NON-CONTROLLING INTEREST		
LIABILITIES		
Placements from financial institutions and customers	144,412	187,724
Customers' current accounts	1,037,539	550,281
Murabaha term financing	469,278	320,989
Takaful and related liabilities	96,083	91,741
Other liabilities	102,037	78,798
TOTAL LIABILITIES	1,849,349	1,229,533
EQUITY OF INVESTMENT ACCOUNTHOLDERS		
Wakala from financial institutions	352,272	319,339
Wakala and mudaraba from customers	2,372,077	2,013,134
TOTAL EQUITY OF INVESTMENT ACCOUNTHOLDERS	2,724,349	2,332,473
OWNERS' EQUITY		
Share capital	261,692	249,231
Treasury shares	(12,992)	(12,021)
Share premium	209	209
Retained earnings	37,349	31,691
Reserves	42,780	34,141
Total owners' equity	329,038	303,251
Non-controlling interest	67,631	34,104
TOTAL EQUITY	396,669	337,355
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, OWNERS' EQUITY AND NON-CONTROLLING INTEREST	4,970,367	3,899,361


 H.E. Shaikh Khalid bin Mustahil Al Mashani
 Chairman


 Matar Mohamed Al Blooshi
 Deputy Chairman



 Rafik Nayed
 Group Chief Executive Officer

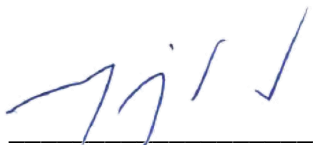
The accompanying notes 1 to 19 form part of the condensed consolidated interim financial information.

Al Salam Bank B.S.C.
CONDENSED CONSOLIDATED INCOME STATEMENT
For the nine months period ended 30 September 2023

	<i>Three months ended</i>	<i>Three months ended</i>	<i>Nine months ended</i>	<i>Nine months ended</i>
	<i>30 September</i>	<i>30 September</i>	<i>30 September</i>	<i>30 September</i>
	<i>2023</i>	<i>2022</i>	<i>2023</i>	<i>2022</i>
	<i>(Reviewed)</i>	<i>(Reviewed)</i>	<i>(Reviewed)</i>	<i>(Reviewed)</i>
Note	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
INCOME				
Finance income	47,473	27,718	124,503	65,146
Income from sukuk	12,402	8,777	34,819	24,032
Income from non trading investments, net	9 27	17	7,975	(1,463)
Fees and commission, net	4,124	1,976	10,940	6,094
Share of profit from associates, net	7 4,342	4,224	15,974	5,119
Income from Takaful operations, net	10 1,554	1,622	5,351	1,622
Other income	1,520	(169)	2,927	497
Total income	71,442	44,165	202,489	101,047
Finance expense on placements from financial institutions	(3,006)	(1,258)	(8,403)	(2,664)
Finance expense on murabaha term financing	(5,956)	(1,517)	(16,068)	(2,675)
Return on equity of investment accountholders before Group's share as a mudarib and wakil	(39,989)	(39,438)	(121,283)	(74,732)
Group's share as a mudarib and wakil	12,759	25,612	48,707	42,753
Share of profit of investment accountholders	(27,230)	(13,826)	(72,576)	(31,979)
Net operating income	35,250	27,564	105,442	63,729
EXPENSES				
Staff cost	8,194	5,839	23,501	15,273
Premises cost	933	591	2,492	1,400
Depreciation and amortization	1,241	832	3,061	1,477
Other operating expenses	8,072	6,576	21,330	12,264
Total expenses	18,440	13,838	50,384	30,414
PROFIT BEFORE IMPAIRMENT ALLOWANCES	16,810	13,726	55,058	33,315
Net impairment charge on financial assets and investments	5 (2,521)	(6,213)	(17,720)	(12,282)
PROFIT BEFORE TAX	14,289	7,513	37,338	21,033
Tax for the period	(1,656)	-	(2,837)	-
PROFIT FOR THE PERIOD	12,633	7,513	34,501	21,033
ATTRIBUTABLE TO:				
- Shareholders of the Bank	10,449	6,769	31,003	20,288
- Non-controlling interest	2,184	744	3,498	745
	12,633	7,513	34,501	21,033
Basic and diluted earnings per share (fils)	4.2	2.9	12.4	8.6


H.E. Shaikh Khalid bin Mustahil Al Mashani
Chairman


Matar Mohamed Al Blooshi
Deputy Chairman


Rafik Nayed
Group Chief Executive Officer

The accompanying notes 1 to 19 form part of the condensed consolidated interim financial information.

Al Salam Bank B.S.C.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN OWNERS EQUITY

For the nine months period ended 30 September 2023 (Reviewed)

BD '000

	Attributable to shareholders of the bank												
	Reserves											Total equity	
	Share capital	Treasury stock	Share premium	Retained earnings	Statutory reserve	Share grant scheme	Investment fair value reserve	Real estate fair value reserve	Foreign exchange translation reserve	Total reserves	Total owners' equity		Non-controlling interest
Balance at 1 January 2023	249,231	(12,021)	209	31,691	21,759	1,934	(8,643)	22,799	(3,708)	34,141	303,251	34,104	337,355
Profit for the period	-	-	-	31,003	-	-	-	-	-	-	31,003	3,498	34,501
Movement in fair value, net	-	-	-	-	-	-	(2,518)	-	-	(2,518)	(2,518)	-	(2,518)
Movement in share of reserve of investment in associate	-	-	-	-	-	-	10,659	-	-	10,659	10,659	-	10,659
Appropriation towards charity fund	-	-	-	(500)	-	-	-	-	-	-	(500)	-	(500)
Movement in FX translation reserve	-	-	-	-	-	-	-	-	312	312	312	(601)	(289)
Total recognised income and expense	-	-	-	30,503	-	-	8,141	-	312	8,453	38,956	2,897	41,853
Bonus shares issued	12,461	-	-	(12,461)	-	-	-	-	-	-	-	-	-
Cash dividend for the year 2022	-	-	-	(12,359)	-	-	-	-	-	-	(12,359)	-	(12,359)
Purchase of treasury shares	-	(2,897)	-	-	-	-	-	-	-	-	(2,897)	-	(2,897)
Shares allocated to staff during the period	-	1,926	-	(25)	-	186	-	-	-	186	2,087	-	2,087
Movements in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	30,630	30,630
Balance at 30 September 2023	261,692	(12,992)	209	37,349	21,759	2,120	(502)	22,799	(3,396)	42,780	329,038	67,631	396,669
Balance at 1 January 2022	241,972	(12,473)	209	19,531	18,600	-	9,532	22,865	(3,985)	47,012	296,251	508	296,759
Profit for the period	-	-	-	20,288	-	-	-	-	-	-	20,288	745	21,033
Movement in fair value, net	-	-	-	-	-	-	(8,465)	(57)	-	(8,522)	(8,522)	-	(8,522)
Reclassified to amortized cost	-	-	-	-	-	-	(4,627)	-	-	(4,627)	(4,627)	-	(4,627)
Movement in share of reserve of investment in associate	-	-	-	-	-	-	(2,829)	-	-	(2,829)	(2,829)	-	(2,829)
Movement in FX translation reserve	-	-	-	-	-	-	-	-	(326)	(326)	(326)	-	(326)
Total recognised income and expense	-	-	-	20,288	-	-	(15,921)	(57)	(326)	(16,304)	3,984	745	4,729
Bonus shares issued	7,259	-	-	(7,259)	-	-	-	-	-	-	-	-	-
Cash dividend for the year 2021	-	-	-	(9,121)	-	-	-	-	-	-	(9,121)	-	(9,121)
Movement of treasury shares, net	-	452	-	106	-	-	-	-	-	-	558	-	558
Movements in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	32,374	32,374
Balance at 30 September 2022	249,231	(12,021)	209	23,545	18,600	-	(6,389)	22,808	(4,311)	30,708	291,672	33,627	325,299

The accompanying notes 1 to 19 form part of the condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine months period ended 30 September 2023

	<i>30 September 2023 (Reviewed) BD '000</i>	<i>30 September 2022 (Reviewed) BD '000</i>
OPERATING ACTIVITIES		
Profit for the period	34,501	21,033
Adjustments:		
Tax for the period	2,837	-
Depreciation and amortisation of intangible	3,061	1,477
Amortisation of premium on sukuk - net	78	1,180
Loss from non-trading investments	366	4,633
Net impairment charge	17,720	12,282
Share of profits from associates	(15,974)	(5,119)
Operating income before changes in operating assets and liabilities	<u>42,589</u>	<u>35,486</u>
Changes in operating assets and liabilities:		
Mandatory reserve with central bank	(2,208)	(59,781)
Financing assets	(615,273)	(139,325)
Takaful and related assets	(5,916)	10,307
Other assets	(5,534)	(44,353)
Placements from financial institutions and customers	(43,312)	9,676
Customers' current accounts	487,258	18,924
Takaful liabilities	4,342	56,363
Other liabilities	(538,649)	(4,784)
Equity of investment accountholders	391,876	(39,822)
Net cash used in operating activities	<u>(284,827)</u>	<u>(157,309)</u>
INVESTING ACTIVITIES		
Acquisition of sukuk, net	(123,473)	(125,627)
Cash acquired as part of business combination	297,407	71,711
Disposal of non-trading investments and real estate	(20,558)	(28,411)
Dividends received from associates	17,477	-
Purchase of premises and equipment	(647)	3,722
Net cash from / (used in) investing activities	<u>170,206</u>	<u>(78,605)</u>
FINANCING ACTIVITIES		
Drawdown of murabaha term financing	148,289	209,520
Dividends paid	(12,359)	(9,121)
Purchase of treasury shares	(2,897)	558
Net cash from financing activities	<u>133,033</u>	<u>200,957</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	18,412	(34,957)
Cash and cash equivalents at 1 January	<u>383,532</u>	<u>395,947</u>
CASH AND CASH EQUIVALENTS AS AT 30 SEPTEMBER	<u>401,944</u>	<u>360,990</u>
Cash and cash equivalents comprise of:*		
Cash and other balances with central bank	11,077	152,189
Balances with other banks **	102,061	96,704
Placements with financial institutions with original maturities of less than 90 days	288,806	112,097
	<u>401,944</u>	<u>360,990</u>

* Cash and cash equivalents is gross of the expected credit loss of BD 185 thousand (2022: BD 78 thousand).

** Balances with other banks is net of restricted cash of BD 3,511 thousand which is not available for day to day operations (2022: BD 5,639 thousand).

The accompanying notes 1 to 19 form part of the condensed consolidated interim financial information.

1 REPORTING ENTITY

Al Salam Bank B.S.C. ("the Bank") was incorporated in the Kingdom of Bahrain under the Bahrain Commercial Companies Law No. 21/2001 and registered with Ministry of Industry and Commerce ("MOIC") under Commercial Registration number 59308 on 19 January 2006. The Bank is regulated and supervised by the Central Bank of Bahrain ("the CBB") and has an Islamic retail banking license and operates under Islamic principles in accordance with all relevant regulatory guidelines for Islamic banks issued by the Central Bank of Bahrain ("CBB").

The Bank's registered office is at Building 935, Road 1015, Block 410, Sanabis, Kingdom of Bahrain. The Bank's ordinary shares are listed in Bahrain Bourse and Dubai Financial Market.

The principal subsidiaries of the Group are as follows:

Name of entity	Country of incorporation	Principal activities	Effective holding %	
			2023	2022
Al Salam Bank- Seychelles	Seychelles	Provide Banking services	70.00%	70.00%
Solidarity Group Holding BSC (c)	Bahrain	Holding Company	55.91%	55.91%
Al Salam Bank Algeria *	Algeria	Provide Banking services	68.03%	-

The Bank and its principal banking subsidiary operates through 16 branches (2022: 23 branches) in the Kingdom of Bahrain, 23 branches in Algeria (2022: Nil) and 1 branch (2022: 1 branch) in Seychelles and offer a full range of Shari'a-compliant banking services and products. The activities of the Bank includes managing profit sharing investment accounts, offering Islamic financing contracts, dealing in Shari'a-compliant financial contracts as principal / agent, managing Shari'a-compliant financial contracts and other activities permitted for under the CBB's Regulated Islamic Banking Services as defined in the licensing framework.

*During the period, the Group has increased its legal shareholding in Al Salam Bank Algeria (ASBA) to 53.13%, thereby establishing control. Furthermore, the Group has firm commitments at agreed pricing terms from other selling shareholders to increase its shareholding by another 14.90%, which is currently under a regulatory approval process. Accordingly, the Bank has present access to 68.03% of the interest in ASBA. The Group has applied the anticipated acquisition method and consolidated the results and financial position of ASBA from 1 April 2023 (refer note 18)

This condensed consolidated interim financial information has been authorised for issue in accordance with a resolution of the Board of Directors dated 12 November 2023.

2 BASIS OF PREPARATION AND PRESENTATION

The condensed consolidated interim financial information of the Group has been prepared in accordance with Financial Accounting Standard FAS 41, Interim Financial Reporting ("FAS 41") issued by the Accounting and Auditing Organisation of Islamic Financial Institutions ("AAOIFI").

The condensed consolidated interim financial information of the Group does not contain all information and disclosures required for the annual consolidated financial statements and should be read in conjunction with the Group's audited annual consolidated financial statements for the year ended 31 December 2022. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2022.

2.1 SIGNIFICANT ACCOUNTING POLICIES

Accounting policies and methods of computation applied by the Group in the preparation of the condensed consolidated interim financial information are the same as those used in the preparation of the Group's annual audited consolidated financial statements as at and for the year ended 31 December 2022.

A. New standards, amendments, and interpretations issued and effective for annual periods beginning on or after 1 January 2023**(i) FAS 39 Financial Reporting for Zakah**

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

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

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

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

The Group has adopted this standard and will provide the necessary additional disclosures in its annual financial statements.

2.1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) FAS 41 Interim financial reporting

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

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

B. New standards, amendments, and interpretations issued but not yet effective.

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

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

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

- a) Revised conceptual framework is now integral part of the AAOIFI FAS's;
- b) Definition of Quasi equity is introduced;
- c) Definitions have been modified and improved;
- d) Concept of comprehensive income has been introduced;
- e) Institutions other than Banking institutions are allowed to classify assets and liabilities as current and non-current;
- f) Disclosure of Zakah and Charity have been relocated to the notes;
- 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 and amendments to other AAOIFI FAS's; and
- l) The illustrative financial statements are not part of this standard and will be issued separately.

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

(ii) FAS 40 Financial Reporting for Islamic Financing Windows

This standard requires conventional financial institutions offering Islamic financial services through an Islamic financing window to prepare and present the financial statements of Islamic finance window in line with the requirements of this standard, read with other AAOIFI FAS's. This standard provides principles of financial reporting including the presentation and disclosure requirements applicable to Islamic finance windows.

(iii) FAS 42 Presentation and Disclosures in the Financial Statements of Takaful Institutions

This standard sets out the principles for the presentation and disclosure in the financial statements of Takaful Institutions and prescribes the set of financial statements that the institutions should periodically publish to satisfy the common information needs of users of financial statements. Further this standard also establishes the general principles of presentation of information and adequately reflecting the rights and obligations of different stakeholders within the Takaful business model. This standard should be read in conjunction with FAS 43 – Accounting for Takaful Recognition and Measurement.

This standard supersedes the existing FAS 12 General presentation and disclosures in the financial statements of Islamic Takaful Companies and introduces following key changes:

- a) the standard is aligned with the AAOIFI Conceptual Framework for Financial Reporting (Revised 2020) and FAS 1 General Presentation and Disclosures in the Financial Statements;
- b) the presentation and disclosure in the standard have been amended to be aligned with the Sharia principles and rules relating to Takaful, whereby the Takaful operator is distinct from the participants' funds (including participants' Takaful fund (PTF) and participants' investment fund (PIF));

2.1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) FAS 42 Presentation and Disclosures in the Financial Statements of Takaful Institutions (continued)

- c) the PTF and PIF are considered to be off-balance sheet assets under management, therefore, separate from the Takaful Operator;
- d) statements for the managed PTF and managed PIF have been introduced, including separate statements for financial position and financial activities of the managed PTF;
- e) disclosures of Zakah, Charity and Qard funds have been relocated to the notes to the financial statements in line with FAS 1; and
- f) new definitions of Takaful, Takaful institution, Takaful operator, PIF and PTF have been introduced.

This standard is applicable to all Takaful institutions regardless of their legal form or size, including Takaful window operations and is effective for the financial reporting periods beginning on or after 1 January 2025 with an option to early adopt.

Based on management assessment for the takaful portfolio of the takaful subsidiary, this standard is not expected to have a material impact on the consolidated financial statements of the Group.

(iv) FAS 43 Accounting for Takaful Recognition and Measurement

This standard supersedes the following FAS; FAS 13 – Disclosure of Bases for Determining and Allocation Surplus or Deficit in Islamic Takaful Companies; FAS 15 – Provisions and Reserves in Islamic Takaful Companies and FAS 19 – Contributions in Islamic Takaful Companies introduces following key changes:

- a) the standard is aligned with the AAOIFI Conceptual Framework for Financial Reporting (Revised 2020) and FAS 1 General Presentation and Disclosures in the Financial Statements;
- b) the principal accounting treatments in respect of Takaful arrangements have been aligned with the globally generally accepted accounting principles and newer regulatory requirements (where applicable);
- c) new accounting treatments have been introduced in respect of matters which were not addressed or superseded standards or were not in line with the global best practices, particularly with regard to the accounting for provisions (or liability, as appropriate) for Takaful arrangements and accounting treatment and presentation for the investment component;
- d) accounting treatments mapped in the standard are mapped to the Sharia principles and rules relating to Takaful, including the rights and obligations of respective stakeholders of Takaful arrangements;
- e) new definitions for the accounting terms in respect of the newly introduced accounting treatments, as well as, improved definitions for earlier used terms, have been incorporated; and
- f) accounting treatments respect to ancillary transactions have been introduced, particularly the transactions and balances between various stakeholders of Takaful institutions, eg. Accounting for Wakala fees and Qard Hassan.

Under the transitional provisions of this standard, following approaches are prescribed upon first time adoption:

- 1) A full retrospective approach – whereby the effects of transition shall be incorporated from the beginning of the earliest period presented in the financial statements; however, the disclosure of the effect of such adoption in each line item and to the basic and diluted earnings per share shall not be mandatory; or
- 2) A modified retrospective approach – whereby effects of transition shall be taken to retained earnings, as well as accumulated surplus or deficit in the respective Takaful funds at the beginning of the current financial period; or
- 3) A fair value option – whereby the Takaful residual margin or loss component of the provision for the remaining entitlement period, at the transition date (beginning of the current period) shall be determined as the difference between fair value of Takaful arrangements at that date and the fair value of the fulfilment cashflows measured at that date, and the corresponding effects shall be adjusted in the retained earnings of Takaful institution, as well as accumulated surplus or deficit in the respective Takaful funds.

This standard shall apply to Takaful institutions (including in their capacity of being Takaful operators) and their managed participants' Takaful fund (PTF) and managed participants investment funds (PIF) in respect of the following, a) Takaful arrangements, including re-Takaful arrangements issued; b) re-Takaful arrangements held; c) investment contracts with or without discretionary features that are issued along with, and part of, the Takaful arrangements; and d) ancillary transactions related to Takaful operations. This standard is effective for the financial reporting periods beginning on or after 1 January 2025 with an option to early adopt.

Based on management assessment for the Takaful portfolio of the Takaful subsidiary, this standard is not expected to have a material impact on the consolidated financial statements of the Group.

2.2 SHARE CAPITAL

The shareholders in their Annual General Meeting held on 20 March 2023 approved to issue 124,615,721 bonus shares of BD 12,462 thousand representing 5% of issued and paid up share capital and approved a cash dividend of BD 12,359 thousand (2022: BD 7,259 thousand) being 5% per share or 5% of the par value of BD 0.100 per share excluding treasury shares. The total outstanding shares as of 30 September 2023 were 2,616,930,150 shares (December 2022: 2,492,314,429 shares). The calculation of basic and diluted earnings per share for previous period has also been adjusted to reflect the impact of bonus shares.

3 INVESTMENT IN SUKUK

	30 September 2023 (Reviewed)			31 December 2022 (Audited)
	Sovereign Sukuk	Corporate Sukuk	Total	Total
	BD '000	BD '000	BD '000	BD '000
Carried at FVTE				
At 1 January	212,708	15,771	228,479	639,688
Profit received	-	-	-	(6,546)
Reclassification to amortised cost	-	-	-	(449,072)
Purchases	226,061	10,090	236,151	131,368
Sale / redemption	(97,319)	(1,970)	(99,289)	(84,061)
Fair value movement	(2,192)	(326)	(2,518)	(6,144)
Profit accrual / Dividend	6,543	75	6,618	3,246
Closing Balance	345,801	23,640	369,441	228,479

This includes sukuk with carrying value of BD 205,309 thousand (2022: BD 76,360 thousand) which are pledged against murabaha term financing.

	30 September 2023 (Reviewed)			31 December 2022 (Audited)
	Sovereign Sukuk	Corporate Sukuk	Total	Total
	BD '000	BD '000	BD '000	BD '000
Carried at Amortised cost				
At 1 January	584,471	24,431	608,902	-
Reclassification from FVTE	-	-	-	449,072
Reclassification of cumulative reserve	-	-	-	(4,627)
Purchases	195,440	14,361	209,801	197,106
Acquired through business combination	-	-	-	18,817
Redemptions	(215,984)	(10,457)	(226,441)	(58,143)
Impairment / reversal	(288)	55	(233)	246
Amortisation	(90)	12	(78)	(531)
Profit accrual / Dividend	6,796	145	6,941	6,962
Closing Balance	570,345	28,547	598,892	608,902
	916,146	52,187	968,333	837,381

This includes sukuk with carrying value of BD 277,065 thousand (2022: 332,242 thousand) which are pledged against murabaha term financing.

Sukuk with carrying value of BD 14,393 thousand (2022: BD 16,182 thousand) treated as equity sukuk.

Breakup of Sukuk by type

	2023	2022
	BD '000	BD '000
Sovereign Sukuk	916,146	797,177
Corporate Sukuk	52,187	40,204
	968,333	837,381

Breakup of Corporate Sukuk by rating

	2023	2022
	BD '000	BD '000
Investment grade (AAA - BBB+)	20,480	22,712
High Yielding (Below BBB-)	-	840
Un-rated Sukuk	31,794	16,759
Allowance for credit losses	(87)	(107)
	52,187	40,204

4 FINANCING ASSETS

	30 September 2023 (Reviewed)				Total BD '000
	Stage 1: 12- month ECL	Stage 2: Lifetime ECL not credit-	Stage 3: Lifetime ECL credit- impaired	POCI	
	BD '000	BD '000	BD '000	BD '000	
Finance lease assets	796,436	28,886	33,867	6,456	865,645
Murabaha financing	666,954	45,113	27,329	3,910	743,306
Mudaraba financing	571,717	53,293	13,658	44	638,712
Musharaka financing	28,018	2,169	148	-	30,335
Credit cards	13,987	251	1,212	-	15,450
Salam	275,520	14,938	3,761	1,396	295,615
Istisnaa	38,408	5,668	4,079	498	48,653
Total financing assets	2,391,040	150,318	84,054	12,304	2,637,716
Allowance for credit losses	(14,646)	(11,520)	(17,646)	(435)	(44,247)
Foreign currency translation	(6,351)	(460)	(118)	(44)	(6,973)
	2,370,043	138,338	66,290	11,825	2,586,496

4 FINANCING ASSETS (continued)

	<i>31 December 2022 (Audited)</i>				<i>Total</i>
	<i>Stage 1: 12-month ECL</i>	<i>Stage 2:</i>	<i>Stage 3:</i>		
		<i>Lifetime ECL not credit-impaired</i>	<i>Lifetime ECL credit-impaired</i>		
		<i>POCI</i>			
<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	
Finance lease assets	703,638	42,296	10,843	4,151	760,928
Murabaha financing	629,700	35,664	18,708	5,774	689,846
Mudaraba financing	507,456	23,699	8,555	-	539,710
Musharaka financing	14,725	14,921	276	-	29,922
Credit cards	13,075	456	1,464	-	14,995
Total financing assets	1,868,594	117,036	39,846	9,925	2,035,401
Allowance for credit losses	(17,309)	(12,290)	(19,337)	-	(48,936)
	1,851,285	104,746	20,509	9,925	1,986,465

Movement on allowance for credit losses

	<i>30 September 2023 (Reviewed)</i>				<i>Total</i>
	<i>Stage 1: 12-month ECL</i>	<i>Lifetime ECL not credit-impaired</i>	<i>Stage 3: Lifetime ECL credit-impaired</i>		
		<i>POCI</i>			
		<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	
Balance at 1 January	17,309	12,290	19,337	-	48,936
Movement between stages, net	(3,493)	(1,745)	5,238	-	-
Movement of loss allowance, net	830	975	14,089	(2,317)	13,577
Amounts written off during the period *	-	-	(21,018)	-	(21,018)
Exchange adjustments and other transfers on settlement	-	-	-	2,752	2,752
Balance at 30 September	14,646	11,520	17,646	435	44,247

	<i>31 December 2022</i>			
	<i>Stage 1: 12-month ECL</i>	<i>Stage 2: Lifetime</i>	<i>Stage 3: Lifetime</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Balance at 1 January	15,028	7,279	13,907	36,214
Changes due to receivables recognised in opening balance that have:				
Movement between stages, net	(1,499)	1,067	432	-
Net movement of loss allowance, net	5,196	3,944	4,849	13,989
Exchange adjustments and other transfers on settlement	(1,416)	-	(2)	(1,418)
Amounts written off during the period	-	-	151	151
Balance at 31 December	17,309	12,290	19,337	48,936

*Represents exposures charged off during the period for which recovery effort will continue.

The accumulated depreciation on finance lease assets as of 30 September 2023 amounted to BD 104,342 thousand (2022: BD 104,513 thousand).

The POCI assets are currently carried at 26.5% compared to their original contractual outstanding amounts. On a cumulative basis, the impaired assets (Stage 3 and POCI) have an effective loss coverage of 39.7% compared to their original contractual outstanding amounts.

Murabaha financing is reported net of deferred profits of BD 20,233 thousand (2022: BD 71,281 thousand).

5 MOVEMENT IN NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT

The table below sets out movement on allowance for credit loss on financial assets and commitments.

	30 September 2023 (Reviewed)				
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	POCI	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
Balance at 1 January	18,257	12,327	27,150	-	57,734
Movement between stages:					
- transferred to Stage 1: 12 month ECL	667	(378)	(289)	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(3,823)	4,412	(589)	-	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(695)	(5,645)	6,340	-	-
Net movement of loss allowance	2,778	1,067	14,175	(2,317)	15,703
Recoveries / write-backs	-	-	(461)	-	(461)
Allowance for credit losses	(1,073)	(544)	19,176	(2,317)	15,242
Exposures written off during the period*	-	-	(25,846)	-	(25,846)
Exchange adjustments and other transfers	(62)	13	(68)	2,752	2,635
Balance at 30 September	17,122	11,796	20,412	435	49,765

*Represents exposures charged off during the period for which recovery effort will continue.

	30 September 2023 (Reviewed)				
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	POCI	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
Cash and balances with banks and central bank	64	105	-	-	169
Placements with financial institutions	14	2	-	-	16
Sovereign sukuk	509	10	-	-	519
Corporate sukuk	17	67	-	-	84
Financing assets (note 4)	14,646	11,520	17,646	435	44,247
Loans and advances to customers					
- Assets under conversion	510	10	495	-	1,015
- Other receivables	-	-	2,183	-	2,183
Financing commitments and financial guarantee contracts	1,362	82	88	-	1,532
	17,122	11,796	20,412	435	49,765

	30 September 2023 (Reviewed)	30 September 2022 (Reviewed)
	BD '000	BD '000
Cash and balances with banks and central bank	(35)	54
Placements with financial institutions	(70)	4
Sukuk	357	444
Financing assets (note 4)	13,577	8,747
Other Assets	356	243
Financing commitments and financial guarantee contracts	1,057	(150)
	15,242	9,342

	30 September 2023 (Reviewed)	30 September 2022 (Reviewed)
	BD '000	BD '000
Net impairment charge on financial assets and investment for the period		
Net impairment charge on investments	2,478	2,940
	2,478	2,940
Net impairment charge on financial assets	7,673	9,342
Day 1 ECL on, financing assets acquired (note 18)	7,569	-
	15,242	9,342
	17,720	12,282

5 MOVEMENT IN NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT (continued)

The table below sets out movement on allowance for credit loss on financial assets and commitments.

	<i>30 September 2022 (Reviewed)</i>				
	<i>Stage 1: 12-month ECL</i>	<i>Stage 2:</i>		<i>Stage 3:</i>	
		<i>Lifetime ECL not credit-impaired</i>		<i>Lifetime ECL credit-impaired</i>	
		<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>POCI</i>
Balance at 1 January	15,627	7,332	21,525	-	44,484
Movement between stages					
- transferred to Stage 1: 12 month ECL	802	(801)	(1)	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(1,334)	2,451	(1,117)	-	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(713)	(8)	721	-	-
Net movement of loss allowance	4,877	2,392	2,584	(355)	9,498
Recoveries / write-backs	-	-	(156)	-	(156)
Allowance for credit losses	3,632	4,034	2,031	(355)	9,342
Exchange adjustments and other transfers	(1,416)	-	(3)	355	(1,064)
Exposures written off during the period	-	-	(120)	-	(120)
Balance at 30 September	17,843	11,366	23,433	-	52,642

	<i>30 September 2022 (Reviewed)</i>				
	<i>Stage 1: 12-month ECL</i>	<i>Stage 2:</i>		<i>Stage 3:</i>	
		<i>Lifetime ECL not credit-impaired</i>		<i>Lifetime ECL credit-impaired</i>	
		<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>POCI</i>
Cash and balances with banks and central bank	78	-	-	-	78
Placements with financial institutions	57	-	-	-	57
Sovereign sukuk	439	-	-	-	439
Corporate sukuk	165	-	-	-	165
Financing assets	16,913	11,364	15,386	-	43,663
Loans and advances to customers					
- Assets under conversion	7	2	5,532	-	5,541
- Other receivables	43	-	2,183	-	2,226
Financing commitments and financial guarantee contracts	141	-	332	-	473
	17,843	11,366	23,433	-	52,642

6 TAKAFUL ASSETS AND LIABILITIES

	<i>30 September</i>	<i>31 December</i>
	<i>2023</i>	<i>2022</i>
	<i>(Reviewed)</i>	<i>(Audited)</i>
	<i>BD '000</i>	<i>BD '000</i>
Retakaful share of outstanding claims	9,289	6,837
Retakaful share of unearned contribution	17,167	16,275
Takaful and other receivables	31,150	28,578
Takaful assets	57,606	51,690
Outstanding claims	25,026	23,600
Unearned contributions and other reserves	39,510	39,614
Unearned commission	692	636
Takaful and other payable	30,855	27,891
Takaful liabilities	96,083	91,741

7 INVESTMENT IN ASSOCIATES, NET

The Group has a 20.94% (2022: 20.94%) stake in Gulf African Bank ("GAB"), an Islamic commercial bank incorporated as the first Islamic bank in Kenya in August 2006, licensed by the Central Bank of Kenya.

During 2022, as part of its acquisition of the retail business of Ithmaar Holding, the Group acquired economic interests in a sharia compliant financing arrangement provided to FINCORP W.L.L (formerly Al Salam International W.L.L. ("ASI")), who is the holder of 26.19% stake in Bank of Bahrain and Kuwait B.S.C. ("BBK"), a retail bank incorporated in Bahrain and licensed by the Central Bank of Bahrain. FINCORP W.L.L's investment in BBK forms part of a security package assigned to the Bank under a shariah compliant financing structure. The Bank or its investment accountholders do not directly participate in the underlying business activities of FINCORP W.L.L and are not legal owners of its underlying assets. The returns generated by the Bank are to the extent of the profit and the respective repayment, if any, generated from the sharia compliant financing arrangement only. As per the requirements of the financial accounting standards, the effective economic interest of this arrangement is recognized in these financial statements.

	<i>30 September</i> <i>2023</i> <i>(Reviewed)</i>	<i>31 December</i> <i>2022</i> <i>(Audited)</i>
	<i>BD '000</i>	<i>BD '000</i>
Balance at the beginning of the period	254,006	14,533
Acquisitions during the period	-	217,820
Additional stake acquired during the period	-	19,897
Derecognition of associate due to step-up acquisition (Note 18)	(33,767)	-
Share of profits	15,974	9,329
Share of other changes in equity	10,659	(7,412)
Dividends received from associates	(17,477)	-
Foreign exchange differences	(596)	(161)
Balance at end of the period	228,799	254,006

Summary of financial information of the Group's material investment in associates, which is adjusted for changes in accounting policies and fair value adjustments on acquisition as follows:

Reconciliation of financial information to carrying value of Group's interest in BBK.

	Indirect exposure BBK BD '000
Group's holding	26.19%
Total assets	3,831,783
Total liabilities	3,221,600
Net assets (100%)	610,183
Group's share of recognised net assets	159,807
Acquisition accounting related adjustments	65,202
Carrying amount of interest in associate	225,009
Revenue	118,900
Profit (100%)	54,662
Other change in equity (comprehensive income)	40,699
Total comprehensive income (100%)	104,937
Group's share of profits	14,316
Group's share of other changes in equity	10,659

The market value of BBK stood at BD 229 million as at 30 September 2023. The values for disclosure purposes were determined using market value per share and were not adjusted for any holding of account related adjustments.

For other associates based on the summarized financial statements the Group's share of profit were BD 313 thousand (Q3 2022: 231 thousand).

8 EQUITY OF INVESTMENT ACCOUNTHOLDERS (EIAH)

Equity of investment accountholders comprise:

	<i>30 September 2023 (Reviewed)</i>	<i>31 December 2022 (Audited)</i>
	<i>BD '000</i>	<i>BD '000</i>
Wakala from financial institutions	352,272	319,339
Wakala and mudaraba from customers	<u>2,372,077</u>	<u>2,013,134</u>
	<u>2,724,349</u>	<u>2,332,473</u>

The Group utilizes the funds from EIAH to finance assets.

Asset in which EIAH funds are invested:

	<i>30 September 2023 (Reviewed)</i>	<i>31 December 2022 (Audited)</i>
Asset	<i>BD '000</i>	<i>BD '000</i>
Mandatory reserve with central bank	94,715	92,507
Cash and other balances with central bank	-	40,693
Placements with financial institutions	199,648	113,170
Investment in associate	225,009	217,509
Financing assets	<u>2,204,977</u>	<u>1,868,594</u>
	<u>2,724,349</u>	<u>2,332,473</u>

Equity of investment accountholder's fund is commingled with Group's mudaraba and wakala funds to form one general mudaraba pool. The pooled fund are used to fund and invest in income generating assets, however no priority is granted to any party for the purpose of investments and distribution of profits.

The Group does not allocate non-performing assets to EIAH pool. All the impairment allowances are allocated to owners' equity. Recoveries from non-performing financial assets are also not allocated to IAH accountholders. Only the profits earned on pool of assets funded from IAH are allocated between the owners' equity and IAH. As per the policy of the Group, minimum of 15% of return on assets earned is distributed to investment accountholders and up to 85% is retained by the Group as mudarib share. During the period, the Bank has sacrificed portion of its share of mudarib, in order to maintain a competitive profit distribution to the EIAH. The Group did not charge any administration expenses to investment account holders. The average profit rate attributed to the equity of investment accountholders based on the above ratio for the period ended 30 September 2023 was 3.6% (2022: 2.25%).

9 INCOME FROM NON-TRADING INVESTMENTS, NET

	<i>30 September 2023 (Reviewed)</i>	<i>30 September 2022 (Reviewed)</i>
	<i>BD '000</i>	<i>BD '000</i>
Net loss on investments	(7,585)	(1,463)
Gain on bargain purchase (Note 18)	15,560	-
	<u>7,975</u>	<u>(1,463)</u>

10 INCOME FROM TAKAFUL OPERATIONS, NET

	<i>30 September 2023 (Reviewed)</i>	<i>30 September 2022 (Reviewed)</i>
	<i>BD '000</i>	<i>BD '000</i>
Net contribution earned	31,109	10,335
Net commission earned	2,766	517
	<u>33,875</u>	<u>10,852</u>
Less: Net claims incurred	(22,774)	(7,373)
Less: General & Administrative Expenses – Takaful operations	(5,750)	(1,857)
Income from Takaful operations, net	<u>5,351</u>	<u>1,622</u>

11 RELATED PARTY TRANSACTIONS

Related parties comprise major shareholders, directors of the Bank, senior management, close members of their families, entities owned or controlled by them and companies affiliated by virtue of common ownership with that of the Bank. The transactions with these parties were approved by the board of directors.

The balances with related parties at 30 September 2023 and 31 December 2022 were as follows:

	<i>30 September 2023 (Reviewed)</i>				
	<i>Associates and joint ventures</i>	<i>Major shareholders</i>	<i>Directors and related entities</i>	<i>Senior management</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Assets:					
Cash and balances with banks and central bank	-	89	-	-	89
Financing assets	21,698	8,469	1,777	1,147	33,091
Non trading investments	69,342	-	-	-	69,342
Investment in associates	228,799	-	-	-	228,799
Other assets	-	-	24	-	24
Liabilities and equity of investment accountholders:					
Placements from financial institutions	-	-	-	-	-
Customers' current accounts	3,281	573	3,582	479	7,915
Takaful liabilities	360	-	-	-	360
Equity of investment accountholders	3,277	1,094	6,973	2,514	13,858
Other liabilities	-	-	954	-	954
Contingent liabilities and commitments	-	-	151	-	151
	<i>31 December 2022 (Audited)</i>				
	<i>Associates and joint ventures</i>	<i>Major shareholders</i>	<i>Directors and related entities</i>	<i>Senior management</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Assets:					
Cash and balances with banks and central bank	-	120	-	-	120
Financing assets	19,279	8,371	2,079	1,681	31,410
Non-trading investments	71,639	-	-	-	71,639
Investment in associates	254,006	-	-	-	254,006
Other assets	6,789	-	-	-	6,789
Liabilities and equity of investment accountholders:					
Placements from financial institutions	-	1,240	-	-	1,240
Customers' current accounts	2,907	2,208	3,466	865	9,446
Equity of investment accountholders	300	4,913	7,119	2,917	15,249
Other liabilities	19	-	27	12	58
Contingent liabilities and commitments	-	-	148	-	148

The income and expenses in respect of related parties included in the condensed consolidated income statement are as follows:

	<i>30 September 2023 (Reviewed)</i>				
	<i>Associates and joint ventures</i>	<i>Major shareholders</i>	<i>Directors and related entities</i>	<i>Senior management</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Income:					
Finance income	1,022	496	94	42	1,654
Takaful Revenue	8	-	3	-	11
Income from non-trading investments, net	157	-	-	-	157
Share of profit from associates	15,974	-	-	-	15,974
Expenses:					
Share of profits on equity of investment accountholders	89	262	272	62	685
Takaful expense	352	-	-	-	352
Other operating expenses	-	-	-	3,278	3,278
Impairment Allowance	2,296	-	-	-	2,296

11 RELATED PARTY TRANSACTIONS (continued)

	<i>30 September 2022 (Reviewed)</i>				
	<i>Associates and joint ventures</i>	<i>Major shareholders</i>	<i>Directors and related entities</i>	<i>Senior management</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Income:					
Finance income	782	226	140	47	1,195
Fees and commission	18	61	7	6	92
Loss from non-trading investments, net	(1,176)	-	(612)	-	(1,788)
Loss from properties, net	-	-	-	(12)	(12)
Share of profit from associates	5,119	-	-	-	5,119
Expenses:					
Finance expense on placements from financial institutions	-	118	-	-	118
Share of profits on equity of investment accountholders	12	74	195	42	323
Other operating expenses	-	-	970	-	970
Impairment Allowance	1,940	-	612	-	2,552

12 CONTINGENT LIABILITIES AND COMMITMENTS

	<i>30 September 2023 (Reviewed)</i>	<i>31 December 2022 (Audited)</i>
	<i>BD '000</i>	<i>BD '000</i>
Contingent liabilities on behalf of customers		
Guarantees	118,571	60,217
Letters of credit	141,752	12,611
Acceptances	1,145	1,254
	261,468	74,082
Unutilised commitments		
Unutilised financing commitments	344,858	196,652
Unutilised un-funded commitments	5,536	4,912
	350,394	201,564

Letters of credit, guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers contingent upon their failure to perform under the terms of the contract.

Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being utilized, the total contract amounts do not necessarily represent future cash requirements.

13 WA'AD BASED FX TRANSACTIONS FOR RISK MANAGEMENT

The Group entered into Wa'ad based FX transactions to manage its exposures to foreign currency risk. The fair values of FX Wa'ad instruments is as follows:

	<i>30 September 2023 (Reviewed)</i>		<i>31 December 2022 (Audited)</i>	
	Notional Amount	Fair Value	Notional Amount	Fair Value
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
FX Wa'ad instruments				
Assets position	25,628	548	62,926	1,247
Liabilities position	19,175	475	14,509	440

The above contracts have residual maturity of up to six months as at the end of the reporting period.

14 SEGMENT INFORMATION**Primary segment information**

For management purposes, the Group is organised into the following primary business segments:

Banking

Principally managing Shari'a compliant profit sharing investment accounts, and offering Shari'a compliant financing contracts and other Shari'a-compliant products. This segment comprises corporate banking, retail banking, private banking and wealth management in Bahrain and through the Bank's subsidiary in Seychelles. Banking segment also includes the Group's investments in banking associates which are allocated as assets attributable to the jointly financed pool of investment accountholders. Other overseas associate investments form part of the investment segment.

Treasury

Principally handling Shari'a compliant money market, trading, fixed income products and treasury services including short-term commodity murabaha.

Investments

Principally the Group's proprietary portfolio and asset management services to clients with a range of investment products, funds and alternative investments. These also include the Group's investment in certain associates and joint ventures.

Takaful

Represents the Group's investment in Solidarity Group Holding BSC (c) which is primarily involved in the business of offering Shari'a compliant takaful contracts. These comprise motor, non-motor, medical, group life and family takaful products. All activities of this business including its investment activities are reported under this segment as they are managed together along with the Takaful business.

Transactions between banking and other segments are conducted at estimated allocated internal rates. Transfer charges are based on a pool rate which approximates the cost of funds.

Segment information is disclosed as follows:

	<i>30 September 2023 (Reviewed)</i>					
	<i>Banking</i>	<i>Treasury</i>	<i>Investments</i>	<i>Takaful</i>	<i>Unallocated</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Finance income	116,291	7,202	135	875		124,503
Income from sukuk	-	33,921	-	898	-	34,819
Income from non-trading investments, net	15,439	(7,923)	(714)	1,173		7,975
Fees and commission, net	8,828	2,112	-	-	-	10,940
Share of profit from associates, net	14,317	-	1,620	37	-	15,974
Income from Takaful operations, net	-	-	-	5,351	-	5,351
Other income	443	874	1,473	137	-	2,927
Finance expense on placements from financial institutions	(142)	(8,261)	-	-	-	(8,403)
Finance expense on murabaha term financing	-	(16,068)	-	-	-	(16,068)
Share of profit of investment accountholders	(60,245)	(12,145)	(186)	-	-	(72,576)
Net operating income	94,931	(288)	2,328	8,471	-	105,442
Staff cost	16,539	4,194	2,768	-	-	23,501
Premises cost and depreciation	3,505	693	1,355	-	-	5,553
Other operating expenses	11,348	2,742	3,157	4,083	-	21,330
Operating income before impairment allowances	63,539	(7,917)	(4,952)	4,388	-	55,058
Net impairment charge	(14,990)	(252)	(2,478)	-	-	(17,720)
Tax for the period	(2,837)	-	-	-	-	(2,837)
Segment result	45,712	(8,169)	(7,430)	4,388	-	34,501
Segment assets	3,171,091	1,446,812	185,420	127,644	39,400	4,970,367
Segment liabilities, and EIAH	3,286,141	1,134,866	1,096	90,636	60,959	4,573,698

14 SEGMENT INFORMATION (continued)

	30 September 2022 (Reviewed)					Total BD '000
	Banking	Treasury	Investments	Takaful	Unallocated	
	BD '000	BD '000	BD '000	BD '000	BD '000	
Finance income	63,195	1,650	-	301	-	65,146
Income from sukuk	-	23,858	-	174	-	24,032
Income from non-trading investments, net	-	-	(1,480)	17	-	(1,463)
Fees and commission, net	4,178	1,915	1	-	-	6,094
Share of profit from associates, net	3,654	-	1,459	6	-	5,119
Income from Takaful operations, net	-	-	-	1,622	-	1,622
Other income	481	(3)	-	19	-	497
Finance expense on placements from financial institutions	(614)	(2,050)	-	-	-	(2,664)
Finance expense on murabaha term financing	-	(2,675)	-	-	-	(2,675)
Share of profit of investment account holders	(28,214)	(3,765)	-	-	-	(31,979)
Net operating income	42,680	18,930	(20)	2,139	-	63,729
Staff cost	10,266	3,443	1,564	-	-	15,273
Premises cost & depreciation	1,996	635	246	-	-	2,877
Other operating expenses	7,094	2,576	1,534	1,060	-	12,264
Operating income before impairment allowances	23,324	12,276	(3,364)	1,079	-	33,315
Net impairment charge	(8,729)	(613)	(2,940)	-	-	(12,282)
Segment result	14,595	11,663	(6,304)	1,079	-	21,033

Segment information for the year ended 31 December 2022 (Audited) was as follows:

Segment assets	2,211,788	1,286,557	197,264	154,523	49,229	3,899,361
Segment liabilities, and EIAH	2,436,309	937,770	15,739	93,397	78,791	3,562,006

The distribution of assets, liabilities and equity of investment account holders by geographic segment was as follows:

	2023			2022		
	Assets	Liabilities and equity of investment account holders	Contingent liabilities and commitments	Assets	Liabilities and equity of investment account holders	Contingent liabilities and commitments
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
GCC	3,905,843	3,228,291	231,496	3,652,878	3,071,611	266,346
International	1,064,524	1,345,407	380,366	246,483	490,395	9,300
Total	4,970,367	4,573,698	611,862	3,899,361	3,562,006	275,646

15 FAIR VALUE HIERARCHY

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly;

or

Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

Financial instruments measured at fair value

The following table shows an analysis of the non-trading investments and sukuk portfolio carried at fair value in the condensed consolidated statement of financial position:

30 September 2023 (Reviewed)	Level 1	Level 2	Level 3	Total
	BD '000	BD '000	BD '000	BD '000
Sovereign sukuk	249,224	94,715	-	343,939
Corporate sukuk	23,292	348	-	23,640
Equity securities at fair value through income statement	3,416	6,161	80,645	90,222
Equity securities at fair value through equity	11,799	-	2,722	14,521
FX Wa'ad assets position	-	548	-	548
	287,731	101,772	83,367	472,870
FX Wa'ad liabilities position	-	475	-	475
	-	475	-	475

As at 30 September 2023

15 FAIR VALUE HIERARCHY (continued)

31 December 2022 (Audited)	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Sovereign sukuk	71,211	139,635	-	210,846
Corporate sukuk	15,421	350	-	15,771
Investment securities at fair value through income statement	11,898	302	82,915	95,115
Investment securities at fair value through equity	8,881	-	2,800	11,681
FX Wa'ad assets position	-	1,247	-	1,247
	<u>107,411</u>	<u>141,534</u>	<u>85,715</u>	<u>334,660</u>
FX Wa'ad liabilities position	-	440	-	440
	<u>-</u>	<u>440</u>	<u>-</u>	<u>440</u>

The movements in fair value of investments classified in Level 3 of the fair value hierarchy are as follows:

	<i>30 September</i>	<i>31 December</i>
	<i>2023</i>	<i>2022</i>
	<i>(Reviewed)</i>	<i>(Audited)</i>
	<i>BD '000</i>	<i>BD '000</i>
At beginning of the period	85,715	87,173
Transferred from Solidarity	-	2,805
Purchases	-	49
Disposals	-	(23)
Transfers	(78)	-
Fair value changes	26	(275)
Impairment	(2,296)	(4,014)
At end of the period	83,367	85,715

(ii) Sukuk measured at amortized cost**30 September 2023 (Reviewed)**

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total carrying value</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Sovereign sukuk at amortized cost	504,959	65,386	-	570,345
Corporate sukuk at amortized cost	22,828	-	5,719	28,547
	<u>527,787</u>	<u>65,386</u>	<u>5,719</u>	<u>598,892</u>

31 December 2022 (Audited)

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total carrying value</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Sovereign sukuk at amortized cost	496,936	87,535	-	584,471
Corporate sukuk at amortized cost	9,443	-	14,313	23,756
	<u>506,379</u>	<u>87,535</u>	<u>14,313</u>	<u>608,227</u>

The fair value of sukuk carried at amortized cost is BD 685,373 thousand (2022: BD579,528 thousand).

The sensitivity analysis for Level 3 of non-trading investments are summarized below:

Valuation technique used	Key unobservable inputs	Fair value at 30 September 2023	Reasonable possible shift +/- (in average input)	Increase / (decrease) in valuation
		BD'000		
Asset Valuation	Underlying real estate	104,663	+/- 5%	5,233 / (5,233)

The movements on sukuk portfolio carried at amortized cost classified in Level 3 of the fair value hierarchy are as follows:

	<i>30 September</i>	<i>31 December</i>
	<i>2023</i>	<i>2022</i>
	<i>(Reviewed)</i>	<i>(Audited)</i>
	<i>BD '000</i>	<i>BD '000</i>
At 1 January	14,313	-
Reclassified from FVTE	-	11,774
Additions/ redemptions	(8,594)	2,539
	<u>5,719</u>	<u>14,313</u>

15 FAIR VALUE HIERARCHY (continued)**Financial instruments not measured at fair value**

The estimated fair values of other financial assets are not expected to be materially different from their carrying values as of 30 September 2023 and 31 December 2022 due to their short term nature.

The estimated fair values of other financial assets are not expected to be materially different from their carrying values as of 30 September 2023 and 31 December 2022 due to their short term nature.

16 FINANCIAL RISK MANAGEMENT

The Group's financial risk management objectives and policies are consistent with those disclosed in the annual consolidated financial statements for the year ended 31 December 2022.

17 REGULATORY RATIOS**1) Liquidity Coverage Ratio (LCR)**

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

LCR is computed as a ratio of Stock of HQLA over the net cash outflows. The average consolidated LCR for three months calculated as per the requirements of the CBB rulebook, as of 30 September 2023 and 31 December 2022, is as follows:

	<i>Total weighted value BD'000</i>	
	<i>30 September 2023 (Reviewed)</i>	<i>31 December 2022 (Audited)</i>
Stock of HQLA	667,210	538,323
Net cashflows	378,117	219,621
LCR %	177.91%	251.40%
Minimum required by CBB	100%	100%

2) Capital Adequacy Ratio (CAR)

The primary objectives of the Group's capital management policies are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. Capital adequacy for each of the group companies is also managed separately at individual company level. The Group does not have any significant restrictions on its ability to access or use its assets and settle its liabilities other than any restrictions that may result from the supervisory frameworks within which the banking subsidiaries operate.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The regulatory capital and risk-weighted assets have been calculated in accordance with Basel III as adopted by the CBB.

BD'000	<i>As at</i>	
	<i>30 September 2023 (Reviewed)</i>	<i>31 December 2022 (Audited)</i>
CET 1 Capital before regulatory adjustments	328,242	302,173
Less: regulatory adjustments	49,624	34,562
CET 1 Capital after regulatory adjustments	278,618	267,611
AT 1 Capital	3,150	44
T2 Capital adjustments	52,661	38,415
Regulatory Capital	334,429	306,070
Risk weighted exposure:		
Credit Risk Weighted Assets	1,538,627	1,244,559
Market Risk Weighted Assets	1,325	38,237
Operational Risk Weighted Assets	137,610	113,494
Total Regulatory Risk Weighted Assets	1,677,562	1,396,290
Capital Adequacy Ratio	19.94%	21.92%
Tier 1 Capital Adequacy Ratio	16.80%	19.17%

As of 30 September 2023, aggregate of modification loss of BD 16,512 thousand (2022: BD 24,768 thousand) has been added back to Tier 1 capital.

17 REGULATORY RATIOS (continued)**2) Capital Adequacy Ratio (continued)**

As per CBB instructions, the above concessional treatment would be followed for three years ending 31 December 2020, 31 December 2021 and 31 December 2022, thereafter this amount will be proportionately deducted from Tier 1 capital for three years starting 1 January 2023.

3) Net Stable Funding Ratio (NSFR)

The objective of the NSFR is to promote the resilience of banks' liquidity risk profiles and to incentivize a more resilient banking sector over a longer time horizon. The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on-balance sheet and off-balance sheet items, and promotes funding stability.

NSFR is calculated in accordance with the Liquidity Risk Management Module guidelines, issued by CBB and its affective from 2019. The minimum NSFR ratio as per CBB is 100%.

The NSFR (as a percentage) as at 30 September 2023 is calculated as follows:

<i>BD'000</i>	<i>Unweighted Values (before applying relevant factors)</i>				<i>Total weighted value</i>
	<i>No specified maturity</i>	<i>Less than 6 months</i>	<i>More than 6 months and less than one year</i>	<i>Over one year</i>	
Item					
<u>Available Stable Funding (ASF):</u>					
Capital:					
Regulatory Capital	316,309	-	-	52,661	368,970
Retail deposits and deposits from small business customers:					
Stable deposits	-	325,220	19,392	11,506	338,887
Less stable deposits	-	1,112,974	403,786	246,049	1,611,133
Wholesale funding:					
Other wholesale funding	-	1,838,163	289,370	100,283	670,916
Other liabilities:					
All other liabilities not included in the above categories	-	136,318	-	-	-
Total ASF	316,309	3,412,675	712,548	410,499	2,989,906
<u>Required Stable Funding (RSF):</u>					
Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	32,968
Performing financing and sukuk/ securities:					
Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	431,358	1,210	4,528	69,837
Performing financing to non-financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:					
With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	-	-	-	169,200	109,980
Performing residential mortgages, of which:					
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	356,776	231,904
Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	22,586	4,598	3,075	16,206
Other assets:					
All other assets not included in the above categories	754,478	18,405	1,638	94,632	793,421
OBS items	-	611,141	-	-	30,557
Total RSF	754,478	1,915,065	258,598	1,529,320	2,592,179
NSFR (%)	-	-	-	-	115.34%

17 REGULATORY RATIOS (continued)**3) Net Stable funding Ratio (continued)**

The NSFR (as a percentage) as at 31 December 2022 is calculated as follows:

Item	BD'000	Unweighted Values (before applying relevant factors)				Total weighted value
		No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	
<u>Available Stable Funding (ASF):</u>						
Capital:						
Regulatory Capital	279,592	-	-	38,415	318,007	
Retail deposits and deposits from small business customers:						
Stable deposits	-	315,809	21,822	15,879	336,629	
Less stable deposits	-	936,116	233,070	133,844	1,186,111	
Wholesale funding:						
Other wholesale funding	-	1,452,526	184,892	87,198	473,702	
Other liabilities:						
All other liabilities not included in the above categories	-	51,422	-	46,593	46,593	
Total ASF	279,592	2,755,873	439,784	321,929	2,361,042	
<u>Required Stable Funding (RSF):</u>						
Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	34,634	
Performing financing and sukuk/ securities:						
Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	285,379	-	6,496	49,302	
Performing financing to non-financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:						
With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	-	357,123	154,489	1,222,473	1,268,029	
Performing residential mortgages, of which:						
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	134,393	87,356	
Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	221,246	143,810	
Other assets:						
All other assets not included in the above categories	-	12,236	2,458	12,357	17,850	
OBS items	557,037	14,025	-	88,124	652,174	
Total RSF	557,037	944,096	156,947	1,550,696	2,179,566	
NSFR (%)	-	-	-	-	108.33%	

18 BUSINESS COMBINATION**Acquisition of subsidiary**

During the period, the Group has increased its legal shareholding in Al Salam Bank Algeria (ASBA) to 53.13%, thereby establishing control. Furthermore, the Group has binding commitments at agreed pricing terms from other shareholders to acquire further 14.90%, which is currently awaiting regulatory approval. Accordingly, the Bank has present access to 68.03% of the interest in ASBA. The Group has applied the anticipated acquisition method and consolidated the results and financial position of ASBA from 1 April 2023.

The fair value of assets, liabilities, equity interests have been reported in these disclosures on a provisional basis and will be finalized within a period of 12 months from the date of acquisition. In line with the provisions of IFRS 3 “Business Combinations”, if new information, obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date, identified adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised. Revisions to provisional acquisition accounting will be reflected on a retrospective basis.

a) Total consideration

Total cash consideration of BD 18,450 thousand.

b) Fair value of identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed

ASSETS ACQUIRED	<i>BD '000</i>
Cash and bank balances with Central Bank of Algeria	<u>297,407</u>
Financing portfolio	479,418
Investment properties	13,683
Other assets	15,034
Intangible assets	<u>24,476</u>
Total assets (A)	<u>830,018</u>
LIABILITIES ASSUMED	
Customer current accounts	401,096
Other liabilities	<u>35,873</u>
Total liabilities	<u>436,969</u>
Equity of investment accountholders	<u>293,422</u>
Total liabilities and equity of investment accountholders (B)	<u>730,391</u>
Total identifiable net assets acquired (C = A-B)	<u>99,627</u>

The fair value of ASBA's intangible assets (banking license and customer relationships) has been measured provisionally.

c) Gain on bargain purchase

	<i>BD '000</i>
Consideration	<u>18,450</u>
Non controlling interest based on proportionate of identifiable net assets	31,850
Fair value of existing interest in ASBA	33,767
Fair value of identifiable net assets (C)	<u>99,627</u>
Gain on bargain purchase	<u>15,560</u>

In the nine months ended 30 September 2023, ASBA contributed revenue of BD 21,546 thousand and profit of BD 2,900 thousand net of provisional acquisition adjustments to the Group's results. If the acquisition had occurred on 1 January 2023, management estimates that consolidated revenue would have been BD 31,987 thousand. It is impracticable to determine the profit or loss of the combined entity for the current reporting period assuming the acquisition had occurred on 1 January 2023, due to the impact of acquisition accounting adjustments and foreign exchange differences.

19 COMPARATIVE FIGURES

Certain of the prior year figures have been regrouped to conform to the current period presentation. Such grouping did not affect previously reported profit for the period or total equity of the Group.