You Inspire We Empower

Annual Report 2023

بنك السلام
Al Salam Bank

#WhyStopHere

Licensed and regulated as an Islamic Retail Bank by the Central Bank of Bahrain

His Royal Majesty
King Hamad bin Isa Al Khalifa
The King of the Kingdom of Bahrain

His Royal Highness
Prince Salman bin Hamad Al Khalifa
The Crown Prince and Prime Minister

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Corporate Profile

Establishing its headquarters in the Kingdom of Bahrain in 2006, Al Salam Bank has since cemented its reputation as the fastest growing Bank in the Kingdom and a highly influential force in the Islamic banking industry on a regional level. Leveraging on its robust financial standing as the industry's strongest in asset capital, the Bank has a proven track record in risk mitigation and effectively shifting to market dynamics, through its agile and aggressive growth strategy.

The Bank has adopted a digital-first mindset to meet the modern-day needs of its clientele, delivering curated financial solutions and a seamless, transformative customer experience. Harnessing the power of data-backed insights and state-of-art technology, Al Salam Bank offers a comprehensive range of innovative and unique Shari'a-compliant financial products and services through its extended network of branches and ATMs. In addition to its diverse range of retail banking services, the Bank also provides corporate banking, private banking, asset management, international transaction banking as well as treasury services.

Al Salam Bank's competitive edge lies in its unrivalled approach to nurturing client relationships, fuelled by a deeply-rooted ethos in humanizing the customer journey through personalization, convenience, and efficiency, creating a refined and rewarding client experience. The Bank prides itself on its solution-oriented philosophy, curating tailored solutions with its clients' financial needs at the epicenter of everything they do.

With a Bahrainization rate of 92%, Al Salam Bank considers its people to be its most valued asset. The Bank has prioritized the wellbeing of its human capital, empowering them with the requisite tools, training and opportunities to create an inspired workforce dedicated to the pursuit of excellence. Championing a highly energetic and collaborative work environment, Al Salam Bank fosters a culture of innovation which celebrates collective achievements.

Encouraging a socially responsible culture from within to drive positive change, the Bank is committed to supporting the social and financial wellbeing of the community in which it resides. Driven by the shared passion of its people to form deep relationships with clients, the Bank aims to create solutions to help its customers meet their financial goals in a sustainable manner.

Our Brand Promise

We nurture relationships by enriching experiences.

Our Values

- We are empowered by our human desire to make a difference
- We are passionate by nature in all that we do
- We have an innovative and solution-driven mindset
- We are dedicated to the pursuit of excellence across all fronts

Our Guiding Principles

We Enchant our Clients

We go over and above to deliver an enriching experience by simplifying and humanizing the customer journey through personalization, convenience and rewards.

We are driven by a shared passion to form deep relationships with our clients and curate tailored solutions to help them meet their financial goals efficiently and seamlessly.

We stand by our promise to continuously deliver a refined service offering that places our clients at the core.

We are Digitally Native

At Al Salam Bank, we believe in smart, efficient banking. We adopt a digital-first mindset to meet the banking needs of our clients for convenience, simplicity and efficiency. Digital is never an afterthought with us - it lies at the core of our identity. By nature, we are technologically proficient, harnessing the insights derived from data to deliver curated financial solutions and seamless banking to our customers.

We Act with Empathy

We are committed to support the social and financial wellbeing of our community.

We encourage a socially responsible culture from within to drive positive change externally.

We Inspire our People

We prioritize the wellbeing of our people and empower them to promote Al Salam Bank's distinct culture of collaboration, dedication to the pursuit of excellence, and passion for execution.

We celebrate a highly energetic and supportive work environment founded on the principles of teamwork, transparency and mutual respect.

We enable our people with tools, resources and opportunities to play an integral role in Al Salam Bank's mission and to feel engaged, connected, and proud of what they collectively achieve.

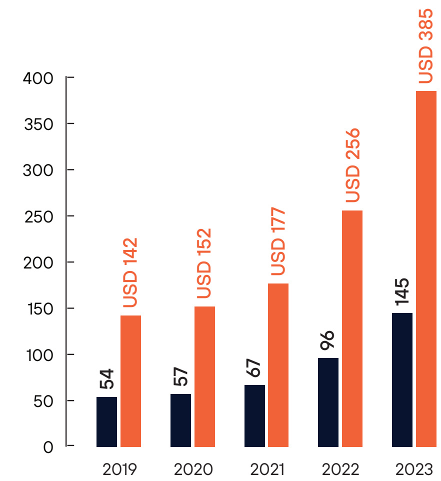
We Do the Right Thing

We live by our values of integrity, fairness, transparency and ethical conduct.

We have made a commitment to stay attentive to customers' needs throughout their journey; whilst providing confidential, secure and ethical banking services.

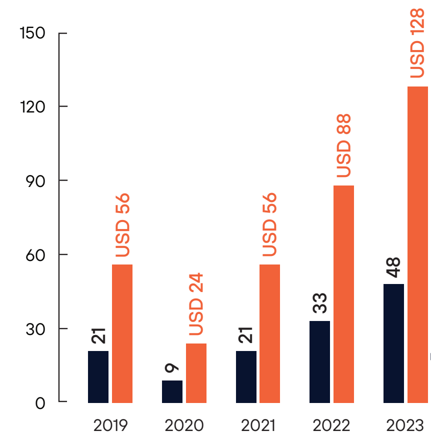
Financial Highlights

Net Operating Income (Million)



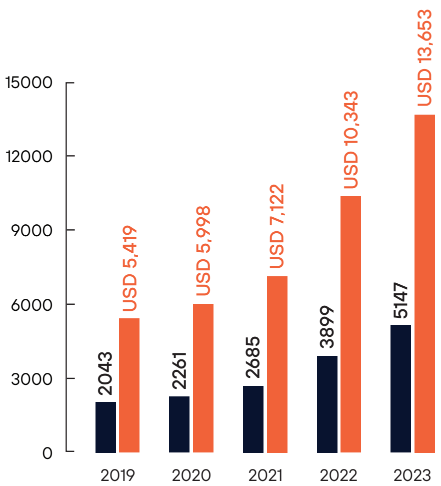
BD
145m

Net Profit (Million)



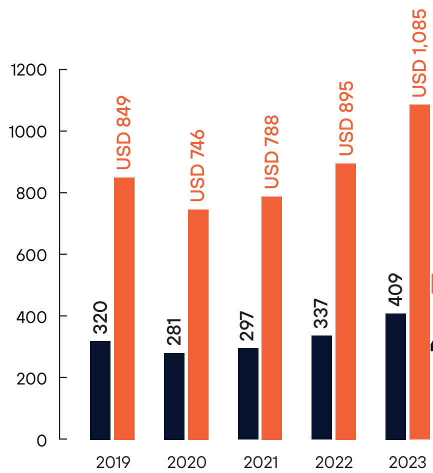
BD
48m

Total Assets (Million)



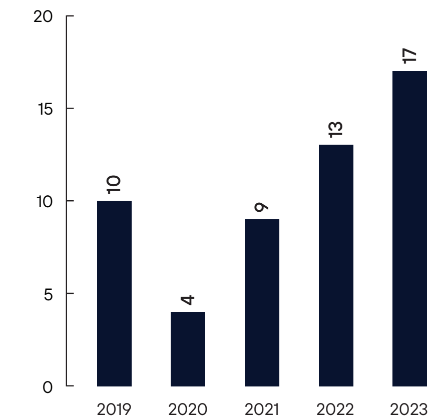
BD
5,147m

Total Equity (Million)



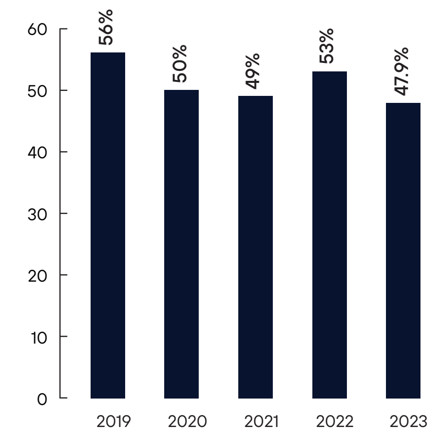
BD
409m

Earning Per Share (Fils)



Fils
17

Cost to Income Ratio (Percentage)



47.9%

Operational Highlights

Retail Banking:

- Reported a 45% increase in new asset bookings, demonstrating significant growth and market adaptability.
- Maintained a dominant position in the Mazaya social housing financing scheme, controlling 75% of all property financing.
- Deposits increased by 36.2%, largely driven by the Danat Savings Scheme and Wakala accounts.
- Received awards as 'Cross-Border Spend Growth Leaders in Bahrain for 2023' and 'CIF Growth Champions in Bahrain for 2023', reflecting outstanding card business performance.
- Introduced several card-related initiatives, achieving high conversion rates of 96.7% for credit cards, 83.95% for debit cards, and 96.99% for prepaid cards.
- Launched comprehensive MSME solutions, significantly enhancing support for Micro, Small, and Medium-sized Enterprises through digital services and strategic partnerships.

Private Banking:

- Witnessed a 217% increase in profits, unaderscoring its strategic significance and robust growth.
- Expanded client base by onboarding more than 265 new relationships, including international high net worth individuals.
- Enhanced fee income through diversified products, improving the division's financial stability.

Corporate Banking:

- Achieved a 4% growth in assets to BD 697 million, demonstrating stable growth.
- Increased net profit to BD 15.4 million, supported by strong asset bookings and fee income.
- Saw extensive digital engagement with over 90% of corporate clients actively using the online banking platform.

Treasury & Financial Institutions:

- Contributed to a 32% increase in the bank's total assets through effective asset and liability management.
- Expanded the Sukuk portfolio by 20%, enhancing investment income.
- Employed diverse funding sources including Islamic repos and term financing for syndication activities.

International Transaction Banking:

- Increased total funds to BD 438 million, enhancing liquidity and reducing funding costs.
- Experienced significant growth in trade finance instruments and foreign exchange volumes.
- Raised structured trade funding to US$110 million to bolster financial position and trade capabilities.

Digital Channels:

- Launched AI-driven instant financing solutions, efficiently processing over 50,000 applications.
- Boosted customer acquisition significantly through targeted digital marketing campaigns, adding over BD 50 million in deposits.
- Facilitated a large number of digital re-carding applications, enhancing customer convenience and satisfaction.

Innovation:

- Implemented AI-based solutions for asset sales and digital deposits, advancing full digitization.
- Introduced preferential digital deposit rates for specific client segments, significantly increasing digital transaction volumes.
- Enhanced client interactions and operational efficiency through automation in asset management.

Information Technology:

- Achieved critical security certifications and implemented advanced security modules in compliance with regulatory standards.
- Advanced cloud adoption to enhance service delivery and operational agility.
- Deployed cutting-edge technologies in customer service centers, including AI chatbots and advanced IVR systems.

Operations:

- Streamlined SME onboarding and operations using APIs and robotic process automation.
- Enabled rapid onboarding for various client segments, significantly reducing turnaround times.
- Enhanced regulatory compliance and operational cost-efficiency through integration of new digital solutions.

Human Resources:

- Launched impactful training initiatives such as the Retail Academy, enhancing skills across retail banking operations.
- Developed leadership through the Qaedat Al Salam program, focusing on empowering female employees and identifying high-potential individuals.
- Led numerous community outreach and well-being programs, enhancing the bank's social impact and employee engagement.

Board of Directors

H. E. Shaikh Khalid bin Mustahail Al Mashani

Chairman

Non-executive
Director since: 5 May 2014
Current Term started: 17 March 2021
Experience: more than 28 years

H.E. Shaikh Khalid bin Mustahail Al Mashani offers the Bank over 28 years of in-depth experience. He is the Chairman of the Board of Directors of: Al Salam Bank, Solidarity Group and Solidarity Bahrain in Bahrain, He is also the Chairman of the Board of Bank Muscat S.A.O.G. and Dhofar International Development & Investment Holding Company S.A.O.G. in Oman. Additionally, H.E Shaikh Khalid is Director of: Al Omaniya Financial Services Company, Dhofar Food and Investment Co S.A.O.G. in Oman and Maalem Holding in Bahrain.

H.E. Shaikh Khalid has a BSc. in Economics, and a Master's Degree in International Boundary Studies from the School of Oriental and African Studies (SOAS), from the University of London.

Mr. Matar Mohamed Al Blooshi

Deputy Chairman

Non-executive
Director since: 22 March 2018
Current Term started: 17 March 2021
Experience: more than 26 years

Mr. Matar Mohamed Al Blooshi has over 26 years of experience in the financial and fund management industries. Beginning his career in 1992 with the Central Bank of the United Arab Emirates as a Dealer in the Treasury department, he joined Abu Dhabi Investment Company as a Portfolio Manager in 1995. In 1998, he joined First Gulf Bank as the Head of Treasury & Investment, moving to National Bank of Abu Dhabi in 2001 as Head of Foreign Exchange and Commodities.

In February 2005, Mr. Matar Al Blooshi became the Head of Domestic Capital Market Group and the General Manager of Abu Dhabi Financial Services (a subsidiary of National Bank of Abu Dhabi) and was given the title of Senior Manager, Asset Management Group in October 2006. Mr. Matar Al Blooshi is Group Chief Investment Officer at Das Holding LLC, a Member of the Board of Directors of Al Salam Bank and member of SAYACORP in Bahrain, Etisalat Misr. Air Arabia, Chief investment officer and Member of Emirates Strategic Investment Company in Emirates and Chairman of Maalem Holdings in Bahrain.

Mr. Matar Al Blooshi holds a BA in Banking & Financial Management from University of Arkansas, US.

Mr. Salman Saleh Al Mahmeed

Board Member

Non-executive
Director since: 15 February 2010
Current Term started: 17 March 2021
Experience: more than 36 years

Mr. Salman Saleh Al Mahmeed is a prominent business figure with experience exceeding 36 years. He is the Chairman of Board's Audit Committee at Al Salam Bank, Chairman of Burj Al Jewar and Burj Al Safwa, the Deputy Chairman of Solidarity Bahrain and Deputy Chairman of Dar Albilad, Chairman of Coca Cola Bottling Company Bahrain and Owner's Representative of Global Express and the Movenpick Hotel in Bahrain.

Previously, he was a Board Member and member of the Investment, Executive and Strategic Options Committee for the Bahraini Saudi Bank, CEO of Bahrain Airport Services and the Investment Director of Magna Holdings.

Mr. Salman Al Mahmeed holds an MBA in Business Administration, a Diploma in Hotel Management and a BSc in Management.

Board of Directors (continued)

Mr. Salim Abdullah Al Awadi

Board Member

Independent
Director since: 22 March 2018
Current Term started: 17 March 2021
Experience: more than 34 years

Mr. Salim Abdullah Al Awadi is the Board member of Al Salam Bank Bahrain, Board member of Al Salam Bank - Seychelles and Deputy CEO of Al Omaniya Financial Services S.A.O.G., Oman. He is also a Director of Dhofar Food and Investment Company S.A.O.G., Oman, Chairman of Dhofar Poultry S.A.O.G., Oman and Director of Dhofar International Development & Investment Holding S.A.O.G., Oman. Chairman of Rital Travel LLC, Oman.

Mr. Salim Al Awadi holds a Bachelor Degree in Business Administration, a Post Graduate Diploma in Accounting from Strathclyde University, UK and an MBA from Lincoln University, UK.

Mr. Khalid Salem Al Halyan

Board Member

Independent
Director since: 24 February 2015
Current Term started: 17 March 2021
Experience: more than 41 years

Mr. Khalid Salem Al Halyan is a business professional with over 41 years of senior level experience spanning a number of industries. Mr. Khalid Al Halyan is currently the Group Chief Audit Executive at Dubai Aviation City Corporation (DACC). His career has seen him hold senior positions at the UAE Central Bank, the Department of Economic Development (DED), Dubai, and in the aviation industry where he played a key role in the establishment of the new Dubai Airport Free Zone (DAFZA) and head up the Finance Department, before moving on to establish the Group Internal Audit and Risk Assessment (GIARA) function at DACC.

Mr. Khalid Al Halyan has also supported the establishment of DED, Emaar Properties, the UAE Internal Audit Association, the UAE Golf Association and restructured projects for DUBAL, Dubai World Trade Centre, Dubai Civil Aviation, UAE Central Bank Banking Supervision, and realized the construction of a new facility for the Al Noor Special Needs Centre in Dubai. He currently serves as Vice President of the UAE Internal Audit Association (affiliated to the Institute of Internal Auditors (IIA), USA), is Chairman of Al Noor Special Needs Centre in Dubai, Chairman of Emaar South, Dubai, Board Member of Amlak Real Estate and member at the Board of Trustees of American University in the Emirates.

Mr. Khalid Al Halyan holds an MBA degree from Bradford University in the UK, and a BBA from the UAE University, Al Ain.

Mr. Zayed A. R. Al-Amin

Board Member

Non-executive
Director since: 22 March 2018
Current Term started: 17 March 2021
Experience: more than 25 years

Mr. Zayed Al-Amin is a Bahraini Businessman with over 25 years of experience in the finance and investment sectors. Currently serving as Executive Director of Investments at Ali Rashid Al-Amin Group, he is also a Board Member of various organizations including Board Member of Al Salam Bank, Vice Chairman of Solidarity Group Holding, Board Member of Esterad Investment Co., Chairman of Bahrain Gourmet, Board Member of Gulf African Bank "Kenya", Board Member of SAYACORP. And a former Board Member of MIDAD Gulf Energy, Board Member of RAMAKAZA Logistics "Qatar" and Board Member of Food Storage Co. Ltd. "KSA". Prior to his current responsibilities at Al-Amin Group, he worked for National Bank of Bahrain and Towry Law International.

Mr. Zayed Al-Amin holds a Post Graduate Degree in Finance and Investment from the London School of Business & Finance. He has also attended many executive courses in management, finance and investment.

Mr. Alhur Mohammed Al Suwaidi

Board Member

Independent
Director since: 22 March 2018
Current Term started: 17 March 2021
Experience: more than 19 years

Mr. Alhur Mohammed Al Suwaidi is a well-rounded investment strategist with over 19 years of experience in investments, portfolio management at both listed and private equities. He is currently serving as a Director in Al Salam Bank in Bahrain, he is also a Director in Al Salam Bank Seychelles and Chairman of BHM Capital in UAE. Beginning his career in 2004, Mr. Alhur Al Suwaidi held senior positions at Abu Dhabi Investment Authority (ADIA), UAE. as a Portfolio manager, a Fund manager and Investment manager. He also served in a number of Advisory Boards of General Partners and International Private Equity Firms that includes Leonard Green and Partners, The Blackstone Group, Carlyle Group, Apollo Global Management, Ares Management and Silver Lake Partners.

Mr. Alhur Al Suwaidi holds a Bachelor degree in Business Administration from Chapman University, California, USA.

Board of Directors (continued)

Mr. Hisham Al-Saie

Board Member

Non-executive
Director since: 17 March 2021
Current Term started: 17 March 2021
Experience: more than 25 years

Mr. Hisham Al-Saie has over 25 years of experience in Investment Management (financial investments, real estate asset management and corporate finance). He is a member of the Board and Executive Committee at Al Salam Bank. Mr. Al-Saie, is currently the Deputy Group Chief Executive Officer at Premier Group, he also serves as Board member at McLaren Group Limited where he also Chairs the Board Audit & Risk Committee. In addition, he is a member of the Board of Investcorp Holdings B.S.C, South City W.L.L., Diyar Al Muharraq W.L.L., and Bahrain Bay Development W.L.L.

Furthermore, Al-Saie is the Chairman of the Board's Remuneration Committee and a member of the Board Audit and Risk Committee at Nass Corporation B.S.C Bahrain, he is also the Vice Chairman of the Board at LAMA Real Estate W.L.L. Bahrain, and a Board member of Solidarity Group.

Mr. Hisham Al-Saie holds an MBA from London Business School, has completed the INSEAD YMP Executive Management Program, and holds a BA in Accounting from the University of Texas.

Mr. Tariq Abdul Hafidh Salim Al- Aujaili

Board Member

Independent
Director since: 17 March 2021
Current Terms started: 17 March 2021
Experience: more than 22 years

Mr. Tariq Al-Aujaili is a Board Member at Al Salam Bank. He is currently Deputy Chairman at Dhofar International Development and Investment Holding Co. SAOG, Dhofar Insurance SAOG and Oman Investment and Finance Co. SAOG. Mr. Al- Aujaili additionally serves on the Board at Bank Dhofar SAOG, Solidarity Bahrain and Chairman at Garden Hotel, Muscat, Oman.

Mr. Tariq Al-Aujaili holds a BSc in Accounting and Finance from the London School of Economics and Political Science.

Fatwa & Shari’a Supervisory Board

Sheikh Adnan Abdullah Al Qattan

Chairman

Sheikh Adnan Al Qattan holds Master’s degree in the Quran and Hadith from the University of Um Al-Qura, Makka, Kingdom of Saudi Arabia; and Bachelor’s degree in Islamic Shari’a from the Islamic University, Madeena, Saudi Arabia. Shaikh Al Qattan is also a Judge in the Supreme Sharia Court of Appeals, Ministry of Justice – Kingdom of Bahrain. Shaikh Al Qattan is a Member of Shari’a Supervisory Boards for several Islamic banks and he is also Chairman of Al Sanabil Orphans Protection Society, Chairman of the Board of Trustees of the Royal Charity Establishment under the Royal Court – Kingdom of Bahrain, and President of the Kingdom of Bahrain Hajj Mission. In addition, he is a Friday sermon orator at Al Fateh Grand Mosque. Shaikh Al Qattan contributed to drafting the Personal Status Law for the Ministry of Justice and is a regular participant in Islamic committees, courses, seminars and conferences.

Dr. Fareed Yaqoub Al Meftah

Member

Dr. Fareed Almeftah is the Undersecretary – Court of Cassation, Supreme Judicial Council – Bahrain, the Former Undersecretary of the Ministry of Justice & Islamic Affairs – Bahrain, member of the Supreme Council of Islamic Affairs and a former judge of the high Shari’a Court. Dr. Fareed is the Chairman of the Shari’a Supervisory Board of Khaleeji Commercial Bank (KHCB) and a former Lecturer at the University of Bahrain and wrote a lot of research papers. Dr. Fareed holds PhD in Islamic Philosophy from University of Edinburgh – United Kingdom.

Dr. Nedham Mohammed Yaqoobi

Member

Sheikh Dr. Nedham Mohammed Yaqoobi is an internationally acclaimed Shari’a scholar in the Islamic banking industry. He has a background in both Traditional Islamic sciences with senior scholars from different parts of the Muslim World. He holds a PhD in Islamic studies also a degree from McGill University in Canada. Sheikh Nedham has taught Islamic Subjects in Bahrain and lectured all over the world. He is a member of many International Boards: the Shari’a Council of AAOIFI, Dow Jones Islamic Index, Central Bank of Bahrain Shari’a Committee and IIFM Shari’a Council. He is also a member of several local and International Shari’a Boards. Sheikh Nedham has edited several Arabic manuscripts and has more the 500 audio-visual lectures and lessons in both Arabic and English.

Dr. Osama Mohammed Bahar

Member

Sheikh Dr.Osama Mohammed Bahar is a recognized Shari’a scholar in Islamic banking and financing. He has extensive experience in the structuring of financial and Islamic products and Islamic contracts, in addition to his contributions to a number of research papers on Islamic finance and banking. Sheikh Osama Bahar holds a Bachelor’s degree from Prince Abdul Qader University for Islamic Studies in Algeria and he has a Master’s degree in the Islamic economy from ‘Al Awzai University’ in Lebanon and PhD in Islamic Financial Engineering from Islamic University of Europe. He is also a member of many Shari’a Supervisory Boards.

Executive Management

Mr. Rafik Nayed

Group Chief Executive Officer

Experience: more than 31 years

Mr. Rafik Nayed is a seasoned banker with over 31 years of experience. He joined Al Salam Bank from Deutsche Bank where he held several positions, including Vice Chairman of the MENA region, Chief Country Officer for the UAE and Senior Executive Officer of Deutsche Bank AG Dubai (DIFC). Before joining Deutsche Bank, Mr. Nayed was the Chief Executive Officer of the Libyan Investment Authority and prior to that worked for many years in the oil and gas and financial services industries in a variety of senior international positions. He currently serves as a Chairman of Gulf African Bank and a board member of Solidarity Group.

Mr. Anwar Mohammed Murad

Deputy Chief Executive Officer – Banking

Experience: more than 30 years

Mr. Anwar Murad is a proficient Banker with over 30 years of experience in the areas of Private Banking, Treasury, Market Risk Management and Retail Banking. Prior to his current appointment with the Bank, Mr. Murad served as the Executive Vice President - Head of Private Banking at Al Salam Bank since May 2006. Previous to joining Al Salam Bank, he was the Head of Private Banking at BMI Bank, Bahrain and Regional Market Risk Manager for the MENA region at ABN AMRO Bank where he also headed the Bank's Treasury Operations in Bahrain and he held various senior positions at CitiBank – Bahrain. Mr. Murad has extensive knowledge and experience in Global Consumer Banking, Treasury and Investment products including Money Market, Foreign Exchange, Debt Derivatives, and Structured Products.

Mr. Eihab Abdellatif Ahmed

Deputy Chief Executive Officer - Corporate Affairs

Experience: more than 28 years

Mr. Eihab Ahmed has a wide range of professional experience that spans over 28 years covering all major legal disciplines including but not limited to Investment Banking, Corporate Banking and Criminal, Labour, Public and Private International Laws. Prior to joining Al Salam Bank, he was the General Counsel - Corporate Secretary & Money Laundering Reporting Officer (MLRO) Legal & Compliance of First Energy Bank - Bahrain. He was the focal point of communication between the Board of Directors and Senior Management as well as between the Bank and its Shareholders, providing advisory and guidance on Corporate Governance principles and practices. Mr. Ahmed had worked at the International Investment Bank - Bahrain (IIB) as Head of Legal and Compliance, MLRO and for Khaleej Finance & Investment as the Head of Legal, MLRO and Corporate Secretary. He also worked for a number of reputed firms in the Kingdom of Bahrain. Before coming to Bahrain 20 years ago, he served the Ministry of Justice, Sudan as a Legal Counsel. Mr. Ahmed holds L.L.B degree from the Faculty of Law - University of Khartoum, Sudan. In January 2017, he obtained his International Diploma in Governance, Risk and Compliance from the ICTA and University of Manchester, UK. He also holds the Sudanese Bar certificate from Sudan and he is a registered member of the Sudanese Advocates Association as a Proper Advocate before various Courts of Law. Mr. Ahmed is a Certified Compliance Officer (CCO) from the American Academy of Financial Management - Dubai, UAE. In 2014, Mr. Eihab was awarded the GCC MLRO of the year.

Executive Management (continued)

Mr. Yousif Ahmed Ebrahim

Chief Financial Officer

Experience: more than 30 years

Mr. Yousif Ebrahim is a proficient banker with over 30 years of experience in the areas of finance and audit. He is primarily responsible for directing and overseeing the financial and fiscal management of the Bank and its subsidiaries that includes contributing to the Bank's strategy planning, leading and directing the budget process, maintaining appropriate accounting framework and establishing effective system of cost management and internal control. Prior to joining Al Salam Bank, he served as the Chief Financial Officer at First Energy Bank for more than 9 years. He also worked at Gulf International Bank as a Vice President of Internal Audit and he was also in the Audit & Business Assurance services at PricewaterhouseCoopers. Mr. Ebrahim is a Certified Public Accountant (USA) and a member of the American Institute of Certified Public Accountant.

Mr. Abdulkarim Turki

Chief Operating Officer

Experience: more than 43 years

Mr. Abdulkarim Turki is a well-rounded banker with more than 43 years of experience spanning Treasury, Operations, Audit, Internal Controls, Remedial and Risk Management. Mr. Turki worked in the incorporation and structuring of the Bank's Operation and he was appointed as a key member in the Selection and Implementation Committee of the Bank's core banking system responsible for the integration and business transfer of BMI Bank to Al Salam Bank in addition to being a member in the Bank's major management committees. Prior to joining the Bank in 2006, Mr. Turki was Vice President - Head of Treasury Support at Citibank Bahrain where he headed various departments and business units and was a key player in the launch of Citi Islamic Investment Banking. Mr. Turki holds an MBA in Investment & Finance from the University of Hull, UK.

Mr. Ahmed Abdulla Saif

Head of Strategy and Planning

Experience: more than 17 years

Mr. Ahmed Saif brings over 17 years of experience in the banking sector. Prior to joining Al Salam Bank in 2008 as an Associate in the Investment Team, Mr. Saif worked with DBS Singapore as an Investment Analyst. In 2012, he was appointed as the Head of the Investment Middle Office Department, and in 2016 took the reigns as the Head of Strategic Acquisition and Investment Management. Mr. Saif sits on the Board of a number of the Bank's affiliate and subsidiary companies, including Al Salam Bank-Seychelles, NS Real Estate Holding, and SAMA Investment Company. He holds an MSc in Finance and Financial Law with Honors from SOAS University of London, UK, and a BSc with Honors in Commerce, majoring in Finance & Economics, from DePaul University, USA.

Mr. Hussain Abdulhaq

Head of Treasury and Capital Markets

Experience: more than 23 years

Mr. Hussain Abdulhaq is an experienced Treasurer in the area of Islamic Banking and Financial Markets. His 23 years banking career as a treasury specialist has been very focused in Islamic liquidity management, Islamic capital markets, the development of Islamic compliant investment products and hedging instruments as well as Financial Institutions relationships. Mr. Abdulhaq joined Al Salam Bank in 2007 as a senior member in the treasury team, and has led the treasury integration process of Al Salam Bank and Bahrain Saudi Bank in 2010 and the same for BMI Bank in 2014. Prior to joining Al Salam Bank, he was in charge of dealing room activities for Kuwait Finance House Bahrain for a period of 5 years. Mr. Abdulhaq holds an MBA degree in Banking & Islamic Finance with honors from University of Bahrain and is a Chartered Financial Analyst (CFA).

Executive Management (continued)

Mr. Ahmed Jasim Murad

Head of Corporate Banking

Experience: more than 27 years

Mr. Ahmed Murad brings over 27 years of experience in the banking sector covering areas that include Retail, Commercial and Corporate Banking. Prior to joining Al Salam Bank B.S.C., he served as Head of Corporate Banking and also a member of the Credit Committee at National Bank of Bahrain BSC. Mr. Murad holds a Bachelor degree in Business Marketing from St. Edward's University – Austin, Texas, USA, Associate Diploma in Commercial Studies from University of Bahrain, and Executive Diploma from University of Virginia, USA. Moreover, he attended number of banking training courses inside the Kingdom of Bahrain and abroad.

Mr. Ali Habib Qassim

Head of Private Banking

Experience: more than 24 years

Mr. Ali Habib Qassim is a banking expert with more than 24 years of experience covering Corporate, Investment and Private Banking; developing new products, locally and throughout GCC and capitalizing on his investment experience. Previous to his appointment with the Bank's Private Banking division in 2011, he marketed the Bank's Corporate Banking products and services in local markets after which he handled financial institutions and government relationships. He holds a Master Degree in Science from Emerson College, Boston, USA.

Mr. Krishnan Hariharan

Chief Risk Officer

Experience: more than 39 years

Mr. Krishnan Hariharan is a versatile Banker with over 39 years of experience in conventional and Islamic banks in the region and India. Prior to joining Al Salam Bank in 2019 he worked with Ithmaar Bank, Bahrain as Chief Risk Officer. Before joining Ithmaar Bank, he was part of the founding team of Alizz Islamic Bank, Sultanate of Oman. He holds twin Bachelor degrees one in Commerce and the other in Economics from Universities in India, he also holds a Master degree in Financial Management from Jamanalal Bajaj Institute of Management Studies, Mumbai – India.

Mr. Mohammed Yaqoob Buhijji

Head of Retail Banking

Experience: more than 22 years

Mohammed Buhijji is an accomplished executive of multi-cultural environments with superb organizational skills and has enjoyed an exceptional career to date with more than 22 years of high-level management in banking and consultancy. His skillset embraces superb hallmarks of understanding business restructuring and development processes within an organization. An initial period with Ernst & Young became the baseline for his audit and consultancy skills with exposure to international business practices in major financial institutions and government bodies. He moved to the nascent Al Salam Bank in 2007 to establish the Internal Audit division and various departmental policies and procedures. His essential role in driving the two acquisitions and subsequent mergers with Bahraini Saudi Bank and BMI Bank covered integration and conversion of significant areas of business-related processes. Mr. Buhijji has been resolute in the delivery of operational and financial targets as evidenced by the seamless and impressive Retail Banking transformation within Al Salam Bank resulting in a major contribution to the Bank's asset book and profitability. Mr. Buhijji holds MBA degree from the University of Strathclyde, Glasgow, and completed two Executive Management Programs at Harvard Business School, Boston, and Ivey Business School in Canada.

Executive Management (continued)

Ms. Muna Al Balooshi

Head of Human Resources and Administration

Experience: more than 24 years

Ms. Muna Al Balooshi is a practiced HR professional with over 24 years of industry experience and vast knowledge of HR policies and Labor Law regulations. Prior to her appointment with Al Salam Bank in 2006, Ms. Al Balooshi was the Head of Human Resources at the Court of HRH the Crown Prince prior to this served as HR Associate with KPMG Bahrain. She has played a major role in the Bank's two acquisitions of the Bahraini Saudi Bank and BMI Bank where she managed the merger of the Bank's Human Resources. She holds an MBA from De Paul University, Chicago, and is a CIPD Associate.

Mr. Qassim Taqawi

General Counsel

Experience: more than 21 years

Mr. Qassim Taqawi is a skilled legal counsel with over 21 years of experience covering Investment Banking, Islamic Banking, Retail Banking, Finance, Company Law, Labor Law, Real Estate and Construction. Mr. Taqawi has handled legal matters covering the GCC, USA, Europe and MENA region. Prior to his appointment with Al Salam Bank, Mr. Taqawi held a number of senior executive positions with various Banking and Financial Institutions throughout the region. In addition to his current executive responsibilities as General Counsel, Mr. Taqawi is a member of the Bank's Investment Committee and Remedial Committee. Mr. Taqawi holds a Bachelor degree (LLB) in Law, and is a registered lawyer with the Ministry of Justice & Islamic Affairs in the Kingdom of Bahrain.

Dr. Mohammed Burhan Arbouna

Head of Shari'a Compliance

Experience: more than 26 years

Dr. Mohammed Burhan Arbouna is a well versed Islamic banking and finance expert with over 26 years of Islamic banking experience. Prior to joining Al Salam Bank, Dr. Arbouna was the Shari'a Head and Shari'a Board Member of Seera Investment Bank B.S.C Bahrain, Head of the Shari'a department at Kuwait Finance House Bahrain, and has worked as a Shari'a researcher and consultant for the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) in Bahrain. He is a respected lecturer on Islamic banking and finance, and provides consultancy on orientation and professional programs for a number of professional and educational institutions. Dr. Arbouna was also a member of the Islamic Money Market Framework (IMMF) steering committee, a committee initiated by the Central Bank of Bahrain for the management of liquidity amongst Islamic banks. He holds a PhD in comparative law with a specialization in Islamic banking and finance and a Masters in Comparative Laws with specialization in Law of Evidence from the International Islamic University Malaysia, a BA degree in Shari'a, and Higher Diploma in Education from the Islamic University, Medina.

Mr. Ali Al Khaja

Head of Compliance and MLRO

Experience: more than 15 years

Mr. Ali Al Khaja brings more than 15 years of Compliance experience to the Bank. Prior to joining Al Salam Bank, he worked with Kuwait Finance House Bahrain, where he was responsible for various regulatory aspects including ensuring that transactions, investments and general dealings with the public were in compliance with the Central Bank of Bahrain (CBB) regulations and applicable laws. Previous to this he was employed by the CBB, where he held responsibility for the oversight of various local Islamic Banks in the Kingdom of Bahrain. Mr. Al Khaja holds a Bachelor degree in Banking and Finance from the University of Bahrain and an International Diploma in Compliance from the International Compliance Association (ICA).

Executive Management (continued)

Sheikh Ahmed Abdulrahim Al Mahmood

Head of Internal Shari'a Audit

Experience: more than 17 years

Sheikh Ahmed Al Mahmood has around 17 years of professional experience in the field of Shari'a supervision and auditing in Islamic financial institution. Prior to joining Al Salam Bank, he established the Shari'a department in BMI Bank and GBCORP in addition to join the Shari'a department of Abu Dhabi Islamic Bank (ADIB). He also played an essential role in the integration and conversion phases of the Bank's acquisition of BMI Bank; serving as a member in the Conversion Committee. He serves in multiple professional entities as member e.g Member of scientific committee in Shari'a Professional Association – Dubai and member of Shari'a Committee in Mawarid Finance – Dubai. He holds an MBA degree in Islamic Finance from University of Bolton – UK, in addition to BA in Islamic Studies from University of Bahrain. He holds various professional qualifications that includes Certified Shari'a Advisor and Auditor (CSAA) from AAOIFI along with Advanced Diploma in Islamic commercial Jurisprudence (ADICJ) from BIBF. He also provided several training workshops on the principles of Islamic banking and Shari'a governance and wrote a lot of researches and published articles about Islamic banking & products.

Mr. Mahmood Qannati

Head of Marketing & Communications & ESG Officer

Experience: more than 22 years

With over 22 years of extensive experience in Marketing, Communications and Branding on both local and regional levels, Mahmood Qannati is a veteran of the communications industry; having worked across various sectors including banking, telecommunications, automotive and aviation. During his time in the United Arab Emirates, Mr. Qannati worked in prominent and established institutions, leading Standard Chartered Bank as the Regional Head of Marketing & Branding for the entire Middle East, Africa and Pakistan region, as well as serving as the Middle East Chief Marketing Officer at Cigna Insurance. He has also held several senior positions on a local level, gaining experience in marketing and communications at HSBC Bank, Bahrain International Airport and Batelco. Most recently, Mr. Qannati served as the Chief Corporate Communications and Marketing Officer at Bahrain Islamic Bank (BisB), after which he joined Al Salam Bank as Head of Marketing and Communications. Mr. Qannati holds a Master's degree in Marketing Information Systems from the University of Sunderland and a Bachelor's degree in Marketing from the University of Bahrain.

Mr. Hemantha Wijesinghe

Chief Technology Officer

Experience: more than 23 years

Mr. Hemantha Wijesinghe is the Chief Technology Officer at Al Salam Bank, possessing over 23 years of experience in Information Technology management in the banking and finance sector in international markets globally. Prior to his UK based global roles, he had also covered multiple regions including Asia, Middle East, North America and Europe. He carries various international qualifications covering systems engineering and other areas of information technology, in addition to his higher IT studies in NCC Education (UK). Further to the Chartered institute of IT (UK), Mr. Wijesinghe also holds a MSc in Strategic Business Information Technology from the University of Portsmouth – UK.

Mr. Essa Abdulla Bohijji

Chief Auditor

Experience: more than 23 years

Mr. Essa Bohijji has more than 23 years of consulting and industry experience covering financial services, commercial entities, governmental bodies, and internal audit. Prior to joining Al Salam Bank, Mr. Bohijji was the Chief Auditor and Board Secretary of an Islamic Investment Bank in Bahrain and held senior positions at Ernst & Young where he worked in the Audit and Assurance Services Group and Business Advisory Services responsible for the Internal Audit and Risk Management assignments. Mr. Bohijji has previously served as a Board and Audit Committee member of Al Salam Bank-Algeria, a non-executive Audit Committee member in Manara Developments B.S.C. (c), as a Board member of BMI Bank, as a Board and Audit Committee member of Bahraini Saudi Bank, and an interim Board member in BMIO Bank in Seychelles. Mr. Bohijji is a Certified Public Accountant (CPA), licensed from the state of New Hampshire and is a member of the American Institute of Certified Public Accountants. He also holds a B.Sc. in Accounting from the University of Bahrain.

Executive Management (continued)

Mr. Mohammed Alshehabi

Head of Innovation

Experience: more than 17 years

Mohammed AlShehabi has over 17 years of experience in banking covering multiple areas including Capital Markets, Corporate Banking as well as Treasury and Trade Services. He is the Head of Innovation at Al Salam Bank. Mohammed is responsible for the Bank's digital strategy and fintech initiatives with an objective to maintain the Bank's pioneering role in offering digitally native Shari'a-compliant digital products & services in the Kingdom of Bahrain. Prior to joining Al Salam Bank in 2018, he was part of the Corporate Banking team at Citi Bahrain with a business coverage role after spending several years at Citi's Treasury & Trade Solutions unit covering Bahrain and Saudi Arabia. He started his career at the Arab Banking Corporation as part of the Debt Capital Markets team as well as ABC Islamic Bank before moving to the Bahrain Economic Development Board's Business Development team with a focus on Financial Services. Mohammed holds dual Bachelor degrees with a B.Sc. in Accounting and a B.B.A. in E-Business from Texas Christian University, Fort Worth Texas.

Mr. Haitham Alhaddad

Head of Digital Channels

Experience: more than 21 years

Haitham Al Haddad is a seasoned banking professional with over 21 years of experience in the banking and finance sector. As the Head of Digital Channels at Al Salam Bank, he spearheads the development and execution of the bank's digital strategy and implementation roadmap. With a keen focus on innovation and client-centricity, Haitham is responsible for driving the digital channels' business and ensuring their alignment with the overall business objectives. Prior to his current role, Haitham served as the Head of Business Development at Al Salam Bank, where he managed strategic business relationships and developed retail banking products and services. Haitham also led the management of e-channels, ensuring seamless client experiences across various touchpoints. Before joining Al Salam Bank, Haitham served as the Head of Product Development at BMI Bank, where he was responsible for product development, market analysis, and strategic planning. He holds a Master of Business Administration from the University of Texas Pan American and a Bachelor of Business Administration in Finance from the University of Texas at Brownsville.

#WhyStopHere

Board of Directors' Report to the Shareholders

H. E. Shaikh Khalid
bin Mustahail Al Mashani

The Bank posted a total operating income for the year ended 31 December 2023 of BD 279.3 million, reflecting a significant 79.7% increase.

The Bank reported a net profit attributable to shareholders of BD 42.2 million

While economies appeared to stabilize in 2023 as inflation readings followed a downward trend and consumer confidence posted an increase, a sentiment of cautious optimism was overshadowed towards the end of the year with the rise of new geopolitical tensions. Despite the economic challenges brought by these tragedies, GCC countries exhibited resilience supplemented by high oil prices and growing government investment in national development programs.

Accordingly, the GCC is estimated to grow by 1.0% in 2023 before picking up again to 3.6% and 3.7% in 2024 and 2025, respectively (World Bank, 2023). Bahrain's GDP growth is set to surpass the global – and even regional – average in 2023 with projected growth of 2.7% supported by non-oil sectors which are forecasted to grow by 3.2% (IMF, 2023). While S&P revised Bahrain's outlook to "stable" from "positive", the agency maintained its "B+/B" ratings as it expects the Government to implement measures to reduce its budget deficit.

Al Salam Bank effectively addressed the macroeconomic challenges that characterized 2023, controlling costs and maintaining ample liquidity throughout the year. We continued to grow core banking operations and capture additional market share in line with our strategy to become a regional force within the Islamic banking industry. The Bank continues to be one of the country's largest and one of the fastest growing in the Middle East and North Africa, positioning us to capitalize on further opportunities that arise in 2024 and beyond.

The Bank posted a total operating income for the year ended 31 December 2023 of BD 279.3 million (US$ 740.7 million), reflecting a significant 79.7% increase compared to BD 155.4 million (US$ 412.2 million) for the same period in 2022. Through organic and inorganic expansion of key business lines, the Bank reported a net profit attributable to shareholders of BD 42.2 million (US$ 112.0 million), compared to BD 31.6 million (US$ 83.8 million) in 2022, reflecting a substantial increase of 33.7%. The Bank's total assets also increased by 32.0% to BD 5.1 billion (US$ 13.7 billion) on a year-on-year basis. Asset quality continues to be market leading with the Bank's NPF ratio standing at 3.8% in 2023 (2022: 2.5%). One highlight was the acquisition of a majority stake in Algeria's fastest growing bank, with total assets of US$ 2.5 billion as of YE 2023, and consolidating during the year.

Other highlights from 2023 include improved ROAE and ROAA, which closed the year at 13.2% and 1.1%, respectively, compared to 10.5% and 1.0%, respectively in 2022. The Bank's improved operational efficiency through controlling costs and increasing total operating income which led to a better cost-to-income ratio of 47.9%, representing a 8.8% reduction in 2022. The Bank's financing book and customer deposits posted substantial increases of 34.7% and 36.2% respectively, closing the year at BD 2.7 billion and BD 3.5 billion respectively.

The Bank achieved growth across its verticals throughout 2023, while maintaining a robust capital adequacy ratio of 20.4% despite the marked inorganic growth, the 5% increase in the domestic financing portfolio and the 19% increase in the fixed income portfolio to BD 1 billion in 2023.

Based on the Bank's strong performance in 2023, the Board of Directors recommended a dividend distribution of 12% of the Bank's issued and paid-up share capital (7% cash dividends and 5% stock dividends), aggregating BD 31.0 million (US$ 82.3 million). This recommendation is subject to AGM and regulatory approval.

Board of Directors' Report to the Shareholders (continued)

The Bank viewed 2023 as an opportunity to build on its new people-centric brand DNA launched in 2021. Key to this journey is ensuring our growth is sustainable and in line with current trends. We continued to uplift our offerings to address our clients' requirements. The Bank launched a Buy Now, Pay Later service, introduced Samsung Wallet to its clients and rolled out several digital offerings including an advance salary product. Furthermore, the Bank launched its newest ATM service enabling clients to use their identification cards to complete their banking transactions. These initiatives aim to keep pace with changing consumer demands but also technological advancements.

Similarly, Al Salam Bank expanded its digital investment platform, Al Salam Invest, by launching Bahrain Trade as part of its trading services, enabling retail clients to digitally trade in Bahrain Bourse securities online. The Bank also introduced an e-signature service to enable clients to complete virtual banking transactions without needing to visit a physical branch. This initiative, amongst others, reinforces our ongoing sustainability efforts, which includes the Inspired to Grow campaign aiming to increase green areas in Bahrain by planting 20,000 trees.

As we step forward into 2024, Al Salam Bank is committed to delivering sustainable value for all stakeholders, including shareholders, clients, employees and communities. We remain poised to tackle challenges, keep pace with changes and seize opportunities in an unpredictable and fast-moving market. On behalf of the Board of Directors, I wish to take this opportunity to thank our shareholders for their continued confidence.

Moreover, in line with the Commercial Companies Law No. (21) of 2001 and its amendments, and pursuant to the provisions of Article No. (188) of the Commercial Companies Law and Article No. (125) of the Executive Regulations of Resolution No. (3) for the year 2023, we are pleased to attach the table below that shows the remuneration of members of the Board and the Executive Management for the year ending 31 December 2023.

Disclosure forms for the remuneration of members of the board of directors and the executive management in the report of the board of directors

First: Board of Directors' remuneration details:

Name	Fixed remunerations					Variable remunerations					End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
	Remunerations of the chairman and BOD	Total allowance for attending Board and committee meetings	Salaries	Others*	Total	Remunerations of the chairman and BOD	Bonus	Incentive plans	Others**	Total			
First: Independent Directors:													
1 Mr. Salim Abdullah Al Awadi	105,000	52,000	-	-	157,000	-	-	-	-	-	-	157,000	-
2 Mr. Alhur Mohammed Al Suwaidi	105,000	64,000	-	-	169,000	-	-	-	-	-	-	169,000	-
3 Mr. Tariq Abdul Hafidh Al- Aujaili	105,000	64,000	-	-	169,000	-	-	-	-	-	-	169,000	-
4 Mr. Khalid Salem Al Halyan	105,000	68,000	-	-	173,000	-	-	-	-	-	-	173,000	-
Second: Non-Executive Directors:													
1 H. E. Shaikh Khalid Al Mashani	125,000	75,000	-	-	200,000	-	-	-	-	-	-	200,000	-
2 Mr. Matar Mohamed Al Blooshi	105,000	52,000	-	-	157,000	-	-	-	-	-	-	157,000	-
3 Mr. Salman Saleh Al Mahmeed	105,000	56,000	-	-	161,000	-	-	-	-	-	-	161,000	-
4 Mr. Zayed Ali Al-Amin	105,000	44,000	-	-	149,000	-	-	-	-	-	-	149,000	-
5 Mr. Hisham Saleh Al-Saie	105,000	44,000	-	-	149,000	-	-	-	-	-	-	149,000	-
Total	965,000	519,000	-	-	1,484,000	-	-	-	-	-	-	1,484,000	-

Note: All amounts must be stated in Bahraini Dinars. The Bank does not have any Executive Directors

Other remunerations:

* No in-kind benefits.

** No share of the profits.

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

Second: Executive management remuneration details:

Executive management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/ in kind remuneration for 2023	Aggregate Amount
Top 6 remunerations for executives, including CEO* and Senior Financial Officer**	1,753,000	1,543,387	230,028	3,526,415

Note: All amounts must be stated in Bahraini Dinars.

* The highest authority in the executive management of the company, the name may vary: (CEO, President, General Manager (GM), Managing Director…etc) .

** The company's highest financial officer (CFO, Finance Director, …etc)

Notes:

1. Paid salaries and allowances exclude indirect staff expenses such as GOSI contributions, leave and indemnity accruals, medical insurance and air travel reimbursements.
2. Remuneration details include other board remuneration earned by executive management from their role in investee companies or other subsidiaries.
3. In addition to the benefits reported above, during the year, the Bank operates a long-term share incentive plan (LTIP) that allows employees to participate in a share-ownership plan. Under the terms of the LTIP, employees allocated shares, would vest and acquired by employees over a performance period of 5-6 years. The non-cash accounting charge for the LTIP is assessed under IFRS 2 - Share-based payment and recognized over the vesting period of 5 years. Refer to the Remuneration related disclosures in the Annual Report for a better understanding of the Bank's variable remuneration framework components.

H.E. Shaikh Khalid Bin Mustahil Al Mashani
Chairman
13 February 2024
Manama, Kingdom of Bahrain


#WhyStopHere

You Inspire
We Empower

Management Review of Operations and Activities

Global Macro Financial Environment Overview

The global economy has shown resilience and signs of recovery in 2023. Risks for 2024 is expected to be more stable than they were in 2023, but the outlook is still uncertain due to factors such as the ongoing conflict between Russia and Ukraine and the increasing probability of a global economic slowdown. According to the October 2023 World Economic Outlook (WEO) released by the IMF, the global economy continues to recover from the COVID-19 pandemic, with varying growth trajectories across the world. The global economic landscape will be shaped by factors such as the lingering impacts of the pandemic, geopolitical tensions, and cyclical factors.

Global headline inflation reached around 6.9% in 2023 and is expected to decline to 5.8% in 2024 on the back of lower commodity prices. The IMF expects that its unlikely for Inflation to return to targets before 2025. Monetary policy actions remain important to keep inflation expectations anchored with returning inflation to targets. The successful calibration of monetary policy, and the course of global developments will determine the course of recovery of the global economy. As for financial stability, concerns still remain as high global profit rates are also affecting the cost of financing, especially in emerging markets and developing economies. Prolonged high profit rates will put strains on borrowers to meet debt payments and also affect the repayment capacity of corporate and household borrowers as defaults are rising, especially in the real estate markets.

In the GCC, Inflation is contained and current account surpluses are high. Fiscal balances remain healthy, supported by fiscal reforms and high oil prices. The primary non-oil deficits are expected to decrease to 24 percent of GDP by 2028, with higher non-oil revenue reflecting sustained fiscal and structural reforms and contained expenditures.

The GCC countries have embarked in wide-ranging reforms to achieve socio-economic transformation. Implementation has been progressing well and has accelerated after the pandemic. Main progress areas are social and business-friendly reforms, efforts to enhance fiscal sustainability and resilience, investments in strategic industries and digital and green infrastructure. Going forward, stepped up implementation of these reforms will be critical to enhance productivity, diversify the economies, and prepare for the energy transition.

Business development

Bahrain's economic outlook are positive and is linked to the oil market prospects and the results of the accelerated implementation of its structural reforms' agenda under the revised Fiscal Balance Program. Bahrain's position as a regional financial center is essential to the development of its economy where the financial sector plays a significant role in economic activity and employment creation. Bahrain's GDP recorded a growth of 2.4% year-on-year in real terms in 2023 as per the National accounts estimates issued by the Information and eGovernment Authority . This growth was primarily driven by a 4.5% expansion in the Non-oil sector.

Financial Performance

The Group reported a net profit attributable to shareholders of BD 42.2 million as compared to BD 31.6 million in 2022, reflecting an increase of 33.7% driven by organic and inorganic expansion of key business lines. The impairment charge increased to BHD 23 million from BHD 12.7 million mainly due to acquisition of a subsidiary in Algeria.

Total operating income for the year was BD 279.3 million reflecting an 80% increase compared to BD 155.4 million for the year 2022. Total assets increased by 32% to BD 5.1 billion in December 2023 compared to BD 3.9 billion in December 2022, partly driven by the acquisition of a majority share and consolidation of Al Salam Bank Algeria. The Group's financing book and customer deposits posted substantial increases of 34.7% and 36.2% respectively, closing the year at BD 2.7 billion and BD 3.5 billion respectively. Total shareholders' equity increased by 11.3% from BD 303.3 million in 2022 to BD 337.4 million for the year ended 31 December 2023.

Capital Adequacy

The Group continued to enjoy strong financial solvency and liquidity in 2023 and, in accordance with the Basel III capital adequacy guidelines, achieved a Capital Adequacy Ratio of 20.4% against a mandatory Central Bank of Bahrain minimum requirement of 12.5%.

Asset Quality

The Group maintained its conservative approach to asset selection for financing and investments, as of 31 December 2023, 96.2% of the financing portfolio was classified under the 'good & satisfactory' category (2022: 98%), with the nonperforming facilities ratio maintained as low as 3.8%.

Strategy

2023 marked a period of significant strategic milestones and initiatives for Al Salam Bank underscored by growth in its Core Banking operations and the robust performance of its Strategic Assets.

Amidst an environment of exceptionally high rates and pressure on profit spreads, Al Salam Bank implemented various initiatives across all business lines to solidify its growth trajectory. These measures contributed to a stronger and more efficient funding base enabling deployment in high quality assets generating attractive returns. The Bank was able to increase and diversify the Private Banking deposit base, source funding opportunities from its vast FI network, and significantly grow the Danat Saving Scheme portfolio. Additionally, the Bank streamlined the client's experience through automating processes for various offerings, which were further supported by digital enhancements and the launch of several key retail banking propositions .

Strategic Assets continue to be a key contributor to the Bank's profitability. Following the acquisition of a majority stake in Al Salam Bank Algeria (ASBA) and its subsequent consolidation, ASBA continued delivering robust balance sheet and profitability growth metrics. Solidarity Group Holding remains active in the M&A space as it cements its position as Bahrain's largest takaful group. The Bank's associate in Kenya, Gulf African Bank, and the Bank's subsidiary in Seychelles, Al Salam Bank Seychelles, continued their transformation journeys and have recorded substantial improvements in performance during 2023.

As part of its efforts to reduce exposure to Real Estate and Non-Core Banking Assets, the Bank continued to execute strategies aimed at monetizing exposures whilst maximizing cash flows from these portfolios.

Retail Banking

As the recipients of the Visa "Cross-Border Spend Growth Leaders in Bahrain for 2023" and "CIF Growth Champions in Bahrain for 2023" Awards, Al Salam Bank has showcased a tremendous performance in its cards business across Visa card issuers in the Kingdom of Bahrain, as well as continuous strides in the Islamic banking industry supported by its Retail division growth.

In 2023, Al Salam Bank's asset portfolio reported a 45% growth in new asset bookings compared to last year despite facing several market pricing hikes. The bank successfully navigated these challenges, which account for a substantial part of the Bank's financing book.The Bank also sustained its leadership position in the Mazaya social housing financing scheme, with Mazaya facilities accounting for 75% of all property financing in 2023, which accounts for 24% of the market share among all participating banks in the Kingdom.

The Bank's liabilities portfolio continued on its upward trajectory throughout 2023, reporting a growth of 9% YTD. This notable growth was fueled by the Bank's Danat Savings Scheme which contributed 54% to the Retail Banking depository position growth, in addition to Wakala deposits contributing 41%.

As part of the Ithmaar card migration, the Bank reported an average YoY growth in card utilization of 82% for Credit Cards and 94% for Prepaid Cards. The growth in card use generated nearly 10 times the net contribution compared to last year's card business performance. In the same vein, Al Salam Bank introduced several card-related initiatives designed to boost the migration of Ithmaar Bank clients. This resulted in a high conversion percentage of active cardholders of 96.7% in Credit Cards, 83.95% in Debit Cards, and 96.99% in Prepaid Cards.

In line with its commitment to client-centricity and elevating the overall banking experience, throughout 2023, Al Salam Bank focused on integrating a simplified user experience across all offerings through an automated, digital approach. Of the many initiatives, Al Salam Bank became the first and only bank in the Kingdom to launch an ATM service whereby clients could utilize their ID cards to complete their banking transactions. The Bank also enhanced its Self-Service Kiosks by introducing paperless processing for instant onboarding for Micro, Small, and Medium-sized Enterprises (MSMEs), in addition to a video call feature and Straight-Through Processing (STP) for personal finance bookings.

Building on its digitally-native and personalized offerings, the Bank enriched its card features by incorporating the UAE Dirham into its Multi-Currency Prepaid VISA Card, to meet the evolving needs of its client base.

2023 was a year filled with strategic partnerships as Al Salam Bank launched its MSME solutions whereby businesses could benefit from digital services from Odoo, business solutions from STC, POS/Soft POS services from the Arab Financial Services Company (AFS), insurance products from Solidarity, payment gateway management solutions from Ottu, and financial auditing services from Grant Thornton.

The Bank also collaborated with Solidarity Bahrain, through a Bancatakful arrangement, to launch 'Al Salam Takaful' with the aim of providing a comprehensive lineup of Sharia-compliant Takaful insurance products for its clients, in addition to partnering with Informa Markets as the official sponsor and exclusive banking and finance institution at select Informa Markets exhibitions.

Following the acquisition of Ithmaar Bank's retail division, Al Salam Bank continued to rationalize its network of branches through the revamping of 5 of its migrated branches.

Management Review of Operations and Activities (continued)

Private Banking

2023 witnessed the Bank's Private Banking division achieve a record growth of BD 436 million (2022: 369 million), reflecting a 217% increase in profit. By maintaining its standing as a strong pillar of growth for Al Salam Bank, the division continued to book high grade financing facilities for key Private Banking clients exceeding BD 81 million.

Despite the challenges fuelled by rising global interest rates, the Private Banking division fortified its position as the leading liquidity provider for the Bank and successfully increased its liability base from BD 1.144 billion in 2022 to BD 1.152 billion in 2023. The unit's optimal mix of liability product offerings has reduced the Bank's overall funding costs and, in turn, has boosted its overall profitability.

The department onboarded more than 265 new relationships in 2023, including 89 international ultra-high net worth Private Banking clients, in line with the Bank's ongoing strategy to diversify and build the sustainable long-term growth of its Private Banking portfolio. The division continues to ensure a steady increase in its fee income by broadening its client base and product offerings. As a result, the Bank has also diversified its fee income through contingent liability, foreign exchange and financing linked income.

The Private Banking team strives to address the evolving needs of its client base by delivering quality solutions supported by a robust risk management and compliance framework. Their focus is geared towards promoting a simple but effective process for all clients, while also contributing to the Bank's ongoing business transformation efforts backed by digitization and a commitment to operational excellence.

Corporate Banking

The Corporate Banking Unit continued to witness a reasonable yet cautious return to business during 2023. Despite the challenging market outlook and rising interest rates, Al Salam Bank achieved a total asset growth of BD 697 million in 2023, reflecting a 4% increase compared to the same period in 2022. Decent growth was also facilitated by a major government syndication during the first half of 2023. The division's liability position also showed a flat trend line when compared to 2022 at BD 333 million.

In terms of profitability, Corporate Banking continues to exhibit a healthy focus on both fee income and profit income due to an increase in asset bookings. In 2023, the Bank reported a total net profit, including profit and fee income, of BD 15.4 million against BD 14.8 million during the same period in 2022.

The Corporate Banking division's QCC unit continued its ongoing efforts to launch initiatives that seek to simplify the client service experience. The push for online banking grew with more than 90% of the Bank's client base signing up to the online banking platform. The Bank reported 43 new sign ups in 2023 alone.

Al Salam Bank has also implemented the BONSAI system whereby corporate clientele are provided with automatic bank statements, IBAN certificates, tracking payment issues, credit documentation archives, and more. In order to further develop this system, the Bank plans to implement salary automation and special FX rates by the first half of 2024.

As the market reported cash flow issues in 2023, the unit continues to engage with its clients and identify areas where the Bank could assist them with flexible repayment terms. With the market outlook remaining volatile, the Corporate Banking division will continue to demonstrate prudent lending strategies in 2024 along with robust client management, ESG initiatives and liquidity management measures.

Treasury and Financial Institutions

The Treasury and Financial Institutions Department at Al Salam Bank has maintained its position as the Bank's primary asset and liability manager. In 2023, the department played an instrumental role in supporting the Bank's growth strategy, which led to a 32% increase in its total assets base. The division's significant contributions towards the Bank's success were especially prevalent through the use of numerous funding sources and tools to support its focus on large syndication activities developed for crucial Bahrain-based clients.

Despite the highly volatile market conditions associated with unprecedented fast-paced rate raises, the Treasury and Financial Institutions department applied extraordinary control measures to ensure sustainable liquidity, profitability, and seamless business delivery.

On the other hand, the department continued to grow and diversify its fixed income portfolio, with the Sukuk witnessing a 20% increase on a full year basis, exceeding the BHD 1 billion mark driven by new Sukuk acquisitions in excess of BHD 180 million, which was associated with careful use of leverage that ultimately supported the Bank's liquidity profile and overall profitability.

Al Salam Bank has also supported Bahrain's sovereign requirements by distributing local and international CBB Sukuk issuances to domestic and regional client bases. Moreover, the department successfully placed several tranches of Investment Gateway Bahrain (IGB) Sukuk; a corporate issuance originating from the Kingdom of Bahrain with a distribution mandate issued to the department.

In addition to overseeing the Bank's Asset and Liability management functions, the Treasury and Financial Institutions division expanded and developed its institutional relationships with several local, regional, and international financial institutions. This was due in part to the division's successful engagement with new counterparties across the MENA region, as well as the development of a wide-reaching network of intrabank relationships.

Following the Executive Management's mandate, the department successfully structured several Shari'a-compliant hedging products including FX Wa'ad and Cross Currency Swaps, in addition to supporting the Group (Seychelles and Kenya) with relevant products in their respective treasury units.

In the face of a challenging year, the Treasury and Financial Institutions team achieved further diversification of liquidity sources, utilizing a variety of tools, including Islamic repos and term financing acquired from multiple sources. In addition to successfully accomplishing a 95% growth in FX income by utilizing increased client flow and heightened market volatility.

As the Bank continues to implement its growth strategy and amasses core assets, the focus remains on enhancing liquidity sources through international diversification, in addition to implementing fixed-income structures and leveraged products offered by international banks. The Treasury and Financial Institutions division will continue to assume its leading role in assisting business units within the Group to strategically deploy their liquidity while simultaneously ensuring adherence to regulatory liquidity ratios.

International Transaction Banking

Al Salam Bank's International Transaction Banking business has maintained a positive performance despite various market challenges throughout 2023. Total funds increased from BD 316 million in 2022 to BD 438 million in 2023, registering a growth of 39%. This growth has enabled the Bank to raise its liquidity as a result of the increase in current and call account funds, which has reduced the overall cost of funds for the entire portfolio to approximately 2% during the year. Total funds have also witnessed a growth of 173% over the past three years generated from across different regions and markets, reflecting a fast-growing portfolio with more growth potential in the years to come. In 2023, the department achieved a healthy ancillary trade forex volume over US$ 5.23 billion (2022: US$ 3.42 billion), resulting in a growth of 53% from FX volumes and cash management services.

Al Salam Bank has pioneered in spite of ongoing political conditions, remaining a core financial institution for international transactions.

Over the years, the Bank has proudly positioned itself as a client service provider in the trade finance sector and has heavily engaged in several jurisdictions across Asia and Africa, as well as new parties from Europe, including commodity traders. Furthermore, overall trade finance instruments, particularly, documentary credits, achieved a growth of 77.6% during 2023.

Fee Income

In 2023, the Bank's International banking business continued to expand its cash and trade services and generate a decent fee income resulting from overseas banking growth and increased engagement with global banks and trade finance businesses.

Funding and Trade Loans

Al Salam Bank remains one of the few banks in the region to raise structured trade funding against its FI trade book to US$110 million in 2023. This is largely due to the Bank's overall financial position and the ongoing trust of its partners, including strategic partnerships with reputable organizations such as ABC London, Rakbank, Standard Chartered, Arab Monetary Fund, and more. In 2024, Al Salam Bank will set across a new pipeline of more than US$ 150 million as new avenues for growth for the Bank's trading book will be driven by growing interest from the Bank's regional and international partners.

Strategic Funds

In 2023, the division successfully completed a medium-term financing worth US$140 million. The business has also engaged with several development banks and introduced new funding formats expected to be finalized during 2024. In the year ahead, the Bank plans on establishing further business relations that will contribute to expanding current account and fee levels. Al Salam Bank will also focus on selective lending opportunities in the region to enhance the Bank's profit income against the expected interest rate decline in 2024 and beyond.

Digital Channels

Powered by its digitally-native approach, Al Salam Bank's Digital Channels division has been primarily responsible for commercializing the Bank's digital channels by developing digitally exclusive offerings and digitizing existing banking services.

In 2023, the Digital Channels unit has successfully enhanced the Bank's mobile banking application with the introduction of three instant financing solutions, including: Advanced Salary, Buy Now Pay Later, and the Personal

Management Review of Operations and Activities (continued)

Finance Top-Up service. These products rely on Artificial Intelligence to assess the applicant's creditworthiness in both financing offers and facility execution. This has resulted in a digital review of over 50,000 applications and the disbursement of more than 4,700 financing facilities without any human intervention.

The Bank also ran a number of digitally exclusive promotional campaigns that contributed to boosting digital customer acquisition by more than 210% compared to the same period last year, in addition to growing customer deposits by over BD 50 million.

In order to enhance the digital experience, Al Salam Bank's Self-Service Kiosks are now available in all branches and include several first-of-its-kind functionalities including: smart card cash withdrawals, SME onboarding for both existing and under formation accounts, issuing bancatakaful policies, as well as issuing and replacing cards.

As part of the Ithmaar portfolio integration strategy, digital channels played a pivotal role in delivering a seamless re-carding experience as 79.4% of all re-carding applications were initiated by clients through the Bank's various digital channels with 40% of digital applications coming through the mobile application and 60% through the Self-Service Kiosks. This has enabled the Bank to successfully deliver a first-class client migration journey.

Innovation

Throughout 2023, the Innovation team at Al Salam Bank has developed and launched numerous initiatives that center around enhancing the user experience and client journey across all banking channels. This began with the introduction of a new AI model that would handle client feedback and measure their overall experience.

The Bank also enhanced its Wakala Digital Deposit processing by offering preferential rates based on each client segment. With this update launched in Q4 of 2023, Al Salam Bank reported a remarkable 370% increase in digital deposits compared to the previous year. From a retail onboarding perspective, the Bank reported its most successful digital onboarding numbers with a 113% increase in onboarding in Q4 compared to the same period in 2022, and an overall 88% increase throughout the year.

Powered by AI technologies, the Bank launched its digital financing top-up feature, enabling the Bank to provide top-ups on existing facilities in a fully digital manner. In the first month of the launch, the Bank reported 77 successful applications without human intervention, totaling BD 856,071. In December, the Innovation team also recorded the first AI-instigated asset sale in the Bank's history, in which the AI model was able to identify the ideal opportunity for the client and successfully execute the transaction. AI-powered bookings accounted for 15% of Al Salam Bank's new digital sales in 2023.

In 2023, Al Salam Bank introduced a new cloud-based decision engine capable of analyzing over 250 data parameters to provide instant credit approvals for new financing products such as Advanced Salary, Buy Now Pay Later, and Personal Financing Top-Ups. With an objective to provide elevated client servicing, the Bank's CRM was strengthened with 14 new digital services to be rendered instantly by branch or call center employees. The services ranged from account management, card management, and client contact information updates.

The Innovation unit also introduced enhanced security measures through the Bank's mobile application as a response to the increased phishing attacks across the Kingdom. Al Salam Bank has now implemented ID Scanning and Liveliness checks with AI tools to ensure that the user identification process is resilient against any fraudulent attempts.

Moreover, the Bank hosted Bahrain's first-ever paperless mall activation for the Danat Savings Scheme, which enabled clients to register and participate strictly through the Bank's mobile application. The campaign attracted BHD 2.6 million in new deposits, 3,000 engagements, and 7,500 participants in over 3 days.

The division also made significant progress with its Big Data initiative, which focused on completing a series of interactive workshops alongside the Professional Data team at Amazon Web Services. The workshops introduced the Bank's new self-service data analytics and reporting portal, which can now be accessed by all employees.

Additionally, with the aim of building a proactive and data-driven culture, the Innovation team developed a new digital opportunities and lead management system that would house bank-wide sales efforts. This initiative would enable all employees to participate in generating innovative business opportunities where leads are seamlessly routed to the applicable business team.

Operations

In 2023, driven by an increase in business activities, the Operations Department focused on launching digital initiatives that aligned with the Bank's portfolio growth and ensured regulatory compliance and optimum controls.

With the support of bespoke APIs from the Ministry of Industry and Commerce, SME onboarding was successfully enabled across all Al Salam Bank branches, including the issuance of capital letters for Commercial Registrations under formation. As a result of implementing Robotic Process Automation in operational processes, the overall onboarding turnaround time for local SMEs was reduced to under 10 minutes. Following the onboarding process, business owners are now able to issue a variety of cards from the Bank's Self-Service Kiosks. Al Salam Bank also utilizes these APIs to update its records for existing companies on a weekly basis.

The Bank's digital channels, especially its Kiosks, serve to uplift its various client segments. This includes automating and digitizing manual processes that were once carried out in branches, the card center and more. As part of these updates, Al Salam Bank is now one of the few banks in the Kingdom to offer instant onboarding for Youth clients across its network of branches. In addition to a number of kiosk services such has instant KYC updates, IBAN certificate issuance, debit card and prepaid card onboarding and issuance, and card replacement. Through the kiosks, Al Salam Bank also achieved a significant number of instant re-carding requests to migrated clients from Ithmaar Bank.

Furthermore, the division has successfully migrated a number of its client services to a more paperless, digitized workflow to save on overall turnaround time and physical archival costs. This included the integration of DocuSign, an e-signature solution designed to process certain client requests remotely.

To further position the Bank as a one-stop-shop for MSMEs, Al Salam Bank partnered with a number of service providers to extend digital, POS, insurance and auditing services to local businesses. Clients were able to register instantly for any of the provided services through the Bank's branches or Self-Service Kiosks.

Al Salam Bank has also implemented a Foreign Exchange (FX) Rate customization feature that would enable Straight Through Processing (STP) on incoming and outgoing remittances. This system enhancement follows the Bank's integration with Reuters and enables transactions using prearranged special rates with priority clients.

In 2023, the Bank integrated with BENEFIT's Credit Bureau APIs, enabling frontline staff and clients to view an applicant's obligations across all banks in the Kingdom of Bahrain. The integration also supported in submitting the applicant's information through a credit engine once the application was completed.

As a digitally-native organization, the Operations division at Al Salam Bank completed an initiative involving the automation of commodity-based transactions. To mitigate tedious processing times through third-party commodity brokers, the Bank integrated a commodity broker service provider to enable instant commodity transactions for clients across all branches. In line with Sharia-law and to ensure complete transparency across the Bank's operations, the systems enhancement also allowed clients to track their transactions at all times.

Information Technology

In 2023, the IT division at Al Salam Bank focused primarily on post-integration activities and delivering initiatives to enhance the client experience and automate business processes. The bank also continues to modernize the Bank's technology infrastructure, implement cloud-enabled services, and maintain regulatory compliance.

The IT unit leverages its expertise to support the digitalization of the Bank's day-to-day operations. This approach aims to provide improved services and financial products to customers through state-of-the-art digital channels and cutting-edge data analytics.

Al Salam Bank has integrated emerging technologies such as Machine Learning and Artificial Intelligence into the Bank's core systems and client channels, enhancing communication with customers, this includes: the new contact center equipped with AI Chatbots through WhatsApp, social media management tools, and advanced Interactive Voice Response (IVR) systems for a streamlined client service experience.

As part of its Environmental, Social and Governance (ESG) goals, Al Salam Bank has heavily invested in its ongoing paperless branch initiative. The scheme gathers diverse technology-based initiatives such as the Bank's pioneering Self-Service Kiosks, as well as digital forms and e-signatures. In addition to enhancing its physical branch operations, the introduction of the Bank's virtual branches with video calling capabilities, enable customers to directly engage with client service representatives from any location.

Al Salam Bank continues to provide secure, reliable financial services through a proactive approach designed to meeting the latest industry, regulatory and legal IT standards. In 2023, the Bank achieved the PCI DSS 4.0 certification, alongside becoming the first bank in Bahrain to implement CBB Hardware Security Module (HSM) requirements for payments and the first bank to be certified by Benefit for the Central Addressing System (CAS).

Innovative services for Micro, Small, and Medium-sized Enterprises (MSMEs) were introduced through branch automation and self-service technologies aligning directly with the Kingdom's ongoing directives to empower this vital sector. Moreover, the same technologies were utilized to enable the cross-selling of insurance related products through Al Salam Bank Takaful, giving customers convenient access to Takaful policies and further promoting financial inclusion for all.

Management Review of Operations and Activities (continued)

Risk Management

To monitor and manage financial risks, Al Salam Bank continues to review and renew its financing portfolio on a regular basis. Special attention is given to entities in vulnerable sectors, while customers who require financial restructuring are reviewed on a case-to-case basis.

Following the pandemic, the Risk Management department has redefined its Business Continuity Management process, which is now adopted at critical times to ensure smooth operations in addition to the continuity of banking services to clients at all times.

Over the past year, the profit rate across international markets has been volatile, and the Bank is not insulated from these conditions. As such, the pricing strategy is reviewed regularly to ensure that profit rates offered to clients, for both assets and liabilities, are competitive and maintain a healthy spread.

The Bank closely monitors the systemic as well as idiosyncratic market liquidity conditions. Al Salam Bank's strategy is to mitigate the risk of any liquidity stress by maintaining high-quality liquid assets and to raise liquidity in the event of unforeseen stress situations. The same is reflected in the Bank's healthy liquidity ratios.

As cyberattacks have become more prevalent in Bahrain, Al Salam Bank continues to enhance its cybersecurity infrastructure by regularly reviewing its policies and procedures, as well as investing in new security enhancement systems. Awareness sessions on cybersecurity are also organized for employees on a regular basis, alongside investments in new technologies to enhance the Bank's cybersecurity framework, thereby increasing its resilience and expediting its response to cyber threats. Moreover, Al Salam Bank has implemented thorough and effective protocols to ensure the detection of and protection against potential cybersecurity incidents.

The Bank's Corporate Governance and Risk Management function continues to take appropriate action to ensure that the asset quality of financing facilities is maintained with low levels of NPAs. Additionally, the Bank continues to focus primarily on Financing, Operational, Liquidity, Market and Cybersecurity risks. Al Salam Bank maintains its investment in new projects with the aim of complying with regulatory guidelines, as well as adopting best international practices for risk management and corporate governance.

Human Resources

In 2023, the Human Resources division at Al Salam Bank achieved a 42% increase in cost efficiency. This was accomplished through a series of strategic initiatives, including the rationalization of resources and the automation of several internal processes. Additionally, the Bank initiated a series of Environmental, Social, and Governance (ESG) measures including the elimination of plastic water bottles in favor of personalized flasks for each employee, the adoption of energy-saving practices, and a significant transition towards a paperless work environment.

Al Salam Bank's 'Qaedat Al Salam' Women Leadership program was a resounding success, with 123 participants completing 12 weeks and 2,242 hours of training. The program focused on empowering the Bank's female employees through a comprehensive curriculum that included workshops, courses, and projects on essential topics such as self-awareness, and personal and professional development. The program reported a 96% satisfaction rate and was particularly effective in identifying 24 high-potential participants for further growth in their respective fields.

The Bank's Retail Academy 2 concluded with the participation of 179 Retail Banking employees for a total of 7,176 training hours. The program offered a diverse range of certificate courses tailored specifically for the Bank's Relationship and Branch Managers, Customer Service and Tellers. These courses included titles such as Certified Cash Management Officer, Certified Customer Relations Advisor, and Certified RM/Branch Leader, along with sessions on Team Building and Work Ethics, among others.

Al Salam Bank made significant strides in employee development, achieving a remarkable number of training hours across various programs. These programs encompassed regulatory compliance, technical knowledge, soft skills, and health and safety training requirements, reflecting a holistic approach to staff development.

During 2023, the Bank also demonstrated a strong commitment to fostering the next generation of professionals by accommodating over 96 graduates in its comprehensive internship program across various departments. Notably, 27 of these interns participated in an intensive summer internship program, which emphasized career skills development and functional knowledge of banking operations, complemented by hands-on training within their respective departments.

The culmination of the summer program was marked by a project presentation competition, where the interns showcased their innovative ideas and the winners were recognized for their exceptional contributions. Additionally, the Bank facilitated a field visit to Bahrain Bourse, providing the interns with a practical understanding of the financial markets.

Throughout 2023, Al Salam Bank focused particularly on its educational outreach initiatives, opening its doors to a multitude of student visits from various educational institutions and community organizations. The Bank's department heads led informative sessions that greatly enhanced the students' understanding of the banking sector and its various career opportunities. Al Salam Bank has also actively participated in career fairs throughout the year. These fairs have provided a platform for the bank to showcase its commitment to nurturing future talent and to offer insights into the dynamic world of Islamic banking.

The Human Resources division has made significant strides in enhancing its operations and community engagement in 2023. The department introduced a new employee information hub that would streamline data accuracy with the added convenience of accessibility on both PC and mobile devices, equipped with instant dashboards for informed decision-making.

As part of its community initiatives, the HR division also organized several well-being initiatives designed to raise awareness on prevalent issues and occasions within the community. This included events such as Movember, to shed light on men's health with a focus on stress management, a Child Cancer Pottery Workshop in collaboration with Studio Ceramic, and a Haj Awareness session conducted in partnership with Al Malaki Specialist Hospital. Additionally, the Bank hosted a Think Pink event in cooperation with the London Breast Cancer Center that provided female employees with breast cancer awareness, and First Aid sessions with BDF Hospital which included CPR awareness, wound management, and more. The Bank also organized an internal Padel Coaching and Tournament.

Brand, Marketing and Corporate Communications

The Brand, Marketing and Communications department achieved numerous significant milestones throughout 2023, underscoring the Bank's unwavering commitment to innovation and excellence in branding and marketing.

Among the department's outstanding achievement during the year was the recognition received from the Global Economics Awards for "Most Innovative Marketing and Branding Campaigns in Banking – Bahrain". Similarly, the International Business Magazine Award recognized the Bank's exceptional efforts with the title of "Best Marketing Initiative of the Year – Bahrain 2023". These accolades were a testament to the department's dedication in successfully executing both the 'Inspired to Grow' brand campaign and the 2023 Danat Savings Scheme. Additionally, Al Salam Bank was honored with the distinguished title of 'Best Islamic Brand 2023' at the Global Islamic Finance Awards 2023.

Throughout the year, the division fostered strong collaboration with other departments to ensure seamless coordination in all branding and marketing endeavors. Such initiatives included the AI Bootcamp, a joint project between Al Salam bank and Bahrain Polytechnic aimed at advancing the Bank's Environmental, Social, and Governance (ESG) goals. This initiative provided a platform for participating university students from across Bahrain to join and showcase their creativity and campaign design skills utilizing AI tools. The Bank recognized the top 10 finalist with cash prizes, and the top 5 winners were invited to join the Brand, Marketing and Communications department, further enriching the team with youth-driven perspectives.

The Brand, Marketing and Communications department also played a pivotal role in implementing Al Salam Bank's brand-led initiatives and specific brand strategies throughout 2023. These efforts aimed to not only enhance the Bank's brand positioning but also to foster a deeper connection with its target audience.

The department's focus on innovative branding, marketing campaigns, and strategic communications was instrumental in reinforcing Al Salam Bank's unique value proposition and setting it apart in a competitive industry environment. Leveraging digital channels and employing creative storytelling, the Bank effectively conveyed its commitment to delivering exceptional banking experiences and meeting the evolving needs of its clients.

Resulting from these proactive brand-led efforts, Al Salam Bank witnessed heightened brand awareness and engagement across various touchpoints. The department's strategic approach to branding, marketing and communications significantly contributed to strengthening the Bank's market presence and solidifying its reputation as a trusted financial institution.


#WhyStopHere

Reaching New Heights

Corporate Governance Report

Corporate Governance Practice

The Bank aspires to the highest standards of ethical conduct: doing what it says; reporting results with accuracy, transparency, and maintaining full compliance with the laws and regulations that govern the Bank's business. Since the introduction of the Corporate Governance Code in the Kingdom of Bahrain, the Bank has continuously implemented measures to enhance its compliance with the code. The Bank also follows Module HC of the CBB rulebook. The Same is tested regularly to ensure compliance. Furthermore, as per the latest updates there are no major changes to the Bank's corporate governance guidelines.

Shareholders

Major Shareholders as of 31 December 2023

S. No.	Investor Name	Country	No. of Shares	%
1	Bank Muscat (S.A.O.G)	Sultanate of Oman	385,639,674	14.74
2	Overseas Investment S.P.C.	Kingdom of Bahrain	250,278,483	9.56
3	Sayacorp B.S.C Closed	Kingdom of Bahrain	164,262,106	6.28
4	Muscat Overseas Company L.L.C.	Sultanate of Oman	160,262,880	6.12

Shareholding – 31 December 2023

Category	No. of Shares	No. of Shareholders	% of Outstanding Shares
Less than 1%	907,840,574	22,817	34.69
1% up to less than 5%	748,646,433	11	28.61
5% up to less than10%	574,803,469	3	21.96
10% up to less than 20%	385,639,674	1	14.74
20% up to less than 50%	-	-	-
50% and above	-	-	-
Total	2,616,930,150	22,832	100.00

The outstanding ordinary share ownership of the Bank is distributed as follows:

Nationality	No. of Shares	Ownership Percentage
Kingdom of Bahrain		
Government	-	-
Institution	977,573,711	37.36
Individual	351,965,124	13.45
GCC		
Government	-	-
Institution	805,827,245	30.79
Individual	330,417,607	12.63
Others		
Government	-	-
Institution	120,548,967	4.61
Individual	30,597,496	1.17
Total	2,616,930,150	100.00

Board of Directors

The Board of Directors provides central leadership to the Bank, establishes the Bank's objectives, and develops the strategies that directs the ongoing activities of the Bank to achieve these objectives. Directors determine the future of the Bank through the protection of its assets and reputation. Directors apply skill and care in exercising their duties to the Bank and are subject to fiduciary duties. Directors are accountable to the shareholders of the Bank for the Bank's performance and can be removed from office by them.

The primary responsibility of the Board is to provide effective governance over the Bank's affairs for the benefit of its shareholders, and to balance the interests of its diverse stakeholders including its customers, correspondents, employees, suppliers, and the local community. In all actions taken by the Board, the directors are expected to exercise their business judgment in what they reasonably believe to be in the best interests of the Bank and its stakeholders. In discharging that obligation, directors may rely on the honesty and professional integrity of the Bank's senior management and, its external advisors and auditors.

Board Composition

The Board consists of members who possess both the required skills and expertise to govern the Bank in a manner that would achieve the objectives of all stakeholders. Furthermore, in compliance with relevant regulations, the Board Committees consist of Directors with adequate professional background and experience. The Board periodically reviews its composition, the contribution of Directors and the performance of its various Committees. The appointment of Directors is subject to prior screening by the Nomination and Corporate Governance Committee and the Board of Directors, as well as the approval of both the Shareholders and the Central Bank of Bahrain. The classification of "executive", "non-executive" and "independent" directors is as per the definitions stipulated in the Central Bank of Bahrain Rulebook.

Each Director is elected for a three-year term, after which he must present himself to the Annual General Meeting of shareholders for re-appointment. Board Meeting attendance is as per the regulations stipulated in the Central Bank of Bahrain Rulebook.

Currently, Al Salam Bank does not have any female representation on the Board of Directors as per the below:

Gender	Men	Women
Number of Directors	9	0
Percentage %	100%	0%

However, the Bank will take into consideration female representation on the Board of Director in the future.

Corporate Governance Report (continued)

Mandate of the Board of Directors and their Roles and Responsibilities

The principal role of the Board is to oversee the implementation of the Bank's strategic initiatives in accordance with relevant statutory and regulatory structures. The Board is also responsible for the consolidated financial statements of the Group. The Board ensures the adequacy of financial and operational systems and internal controls, as well as the implementation of corporate ethics and the code of conduct. The Board has delegated the responsibility of the day-to-day management of the Bank to the Group Chief Executive Officer ("Group CEO").

The Board reserves a formal schedule of matters for its decision to ensure that the direction and control of the Bank rests with the Board. This includes:

- Reviewing the strategic plan of the Bank.
- Performance reviews of the Senior Management (all approved persons).
- Performance assessment of the Board, Board Sub-Committees and the Shari'a Supervisory Board.
- Approving material acquisition and disposal of assets.
- Approving capital expenditure.
- Approving authority levels.
- Appointing auditors and, reviewing the financial statements and financing activities.
- Reviewing the Corporate Governance Report
- Approving the annual operating plan and budget.
- Ensuring regulatory compliance through its various committees.
- Reviewing the adequacy and integrity of the internal controls; and
- Approving all policies pertaining to the Bank's operations and functioning.

Board Elections System

Article 25 of the Bank's Articles of Association provides the following:

1. The company shall be administered by a Board of Directors consisting of not less than five (5) members elected by the shareholders by means of cumulative voting by secret ballot and in accordance with the provisions of the Commercial Companies Law, after obtaining the approval of the Central Bank of Bahrain for their appointment. Members of the Board of Directors shall be appointed or elected to serve for a term not exceeding three (3) years renewable. A cumulative vote shall mean that each shareholder shall have a number of votes equal to the number of shares he owns in the Company and shall have the right to vote for one candidate or to distribute them among his chosen candidates.

2. Each shareholder owning 10% or more of the capital may appoint whoever represents him on the Board to the same percentage of the number of the Board members. His right to votes shall be forfeited for the percentage he has appointed representatives. If a percentage is left that does not qualify him to appoint another member, he may use such percentage to vote.

3. The Board of Directors shall elect, by secret ballot, a Chairman and one Vice Chairman or more, three years renewable. The Vice Chairman shall act for the Chairman during his absence or if there is any barrier preventing him. The Ministry of Industry and Commerce and the Central Bank of Bahrain shall be provided with a copy of the resolution electing the Chairman and the Deputy Chairman.

4. The Board of Directors shall consist of independent and non-executive members in accordance with the Central Bank of Bahrain's rules and regulations.

5. No person may be appointed or elected as a member of the Board of Directors until he has declared his acceptance to such nomination in writing, provided that the declaration includes the disclosures of any work performed that may directly or indirectly constitute competition for the company, names of the companies and entities in which he works in or in which he is a member of their board of directors.

Article 27 of the Bank's Articles of Association covers the "Termination of Membership in the Board of Directors" which states the following:

A Director shall lose his office on the Board in the event that he:

1. Fails to attend four consecutive meetings of the Board in one year without an acceptable excuse, and the Board of Directors decides to terminate his membership;
2. Resigns his office by virtue of a written request;
3. Forfeits any of the provisions set forth in Article 26 of the Articles of Association;
4. Is elected or appointed contrary to the provisions of the Law; and
5. Has abused his membership by performing acts that may constitute a competition with the Company or caused actual harm to the Company;
6. If he has been convicted before any court for theft, embezzlement, fraud, forgery or issuing dishonored cheques or any crime as provided in the law;
7. If he declares bankruptcy;
8. If any of the shareholders have terminated his appointment to any of their representatives on the Board of Directors or if the shareholders of the General Assembly vote for his removal in accordance with Article 42; or
9. If the Central Bank of Bahrain considers him not eligible for the position.

Independence of Directors

An independent Director is a Director whom the Board has specifically determined has no material relationship, which could affect his independence of judgment, taking into account all known facts. The Directors have disclosed their independence by signing the Directors Annual Declaration whereby they have declared that during the year ending 31 December 2023, they have met all the conditions required by the various regulatory authorities to be considered independent.

As of 31-12-2023, the members of the Board were:

Non-executive Members

H.E. Shaikh Khalid bin Mustahil Al Mashani	Chairman
Mr. Matar Mohamed Al Blooshi	Vice Chairman
Mr. Salman Saleh Al Mahmeed	Board Member
Mr. Hisham Saleh AlSaie	Board Member
Mr. Zayed Ali Al-Amin	Board Member

Independent Members

Mr. Salim Abdullah Al Awadi	Board Member
Mr. Alhur Mohammed Al Suwaidi	Board Member
Mr. Khalid Salem Al Halyan	Board Member
Mr. Tariq Abdulhafidh AlAujaili	Board Member

All current Directors were elected for a three-year term on 17 March 2021.

Corporate Governance Report (continued)

The Board Charter

The Board has adopted a Charter which provides the authority and practices for governance of the Bank. The Charter was approved by the Board with the beginning of its term in 2021: and in 2023 it has been updated to be aligned with the new regulation rules. The charters include general information on the composition of the Board of Directors', classification of Directors', Board related Committees, Board of Directors' roles and responsibilities, Board of Directors' code of conduct, Board remuneration and evaluation process, insider dealing, conflict of interest and other Board related information.

Conflict of Interest

The Bank has a documented procedure for dealing with situations involving "conflict of interest" of Directors. In the event of the Board or its Committees considering any issues involving "conflict of interest" of Directors, the decisions are taken by the full Board/ Committees. The concerned Director abstains from the discussion/ voting process. These events are recorded in Board/ Committees proceedings. The Directors are required to inform the entire Board of (potential) conflicts of interest in their activities with, and commitments to, other organizations as they arise and abstain from voting on the matter. This disclosure includes all material facts in the case of a contract or transaction involving the Director. A report detailing the absentation from voting relating to conflict of interest is made available to shareholders upon their request.

The below illustrates instances where Board Members have abstained from voting due to conflict of interest

Sr.	Members	Instances of abstaining from voting	Status
1	H. E. Shaikh Khalid bin Mustahail Al Mashani	1 instance	Approved by Board
2	Mr. Salman Al Mahmeed	4 instances	Approved by Board
3	Mr. Zayed Ali Al Amin	2 instances	Approved by Board
4	Mr. Tariq Abdul Hafidh Salim Al-Aujail	1 instance	Approved by Board
5	Mr. Hisham Saleh AlSaie	1 instances	Approved by Board

Induction and Orientation for New Directors

When new Directors are appointed, they shall be provided with an appointment letter and the Directors' Handbook containing information relevant to the performance of their duties as members of the Board. The Handbook includes the Corporate Governance Guidelines, Charters of the Board and Committees, key policies, etc. The Board reserves a formal schedule of matters for its decision to ensure that the direction and control of the Bank rests with the Board.

Code of Conduct

The Board has an approved Code of Conduct for Directors, as follows:

- To act with honesty, integrity and in good faith, with due diligence and care, in the best interest of the Bank and its stakeholders;
- To act only within the scope of their responsibilities;
- To have a proper understanding of the affairs of the Bank and to devote sufficient time to their responsibilities;
- To keep confidential Board discussions and deliberations;
- Not to make improper use of information gained through the position as a director;
- Not to take undue advantage of the position of director;
- To ensure his/her personal financial affairs will never cause reputational loss to the Bank;
- To maintain sufficient/detailed knowledge of the Bank's business and performance to make informed decisions;
- To be independent in judgment and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions of the Board;
- To consider themselves as a representative of all Shareholders and act accordingly;
- Not to agree to the Bank incurring an obligation unless he/she believes at the time, on reasonable grounds, that the Bank will be able to discharge the obligations when it is required to do so;

- Not to agree to the business of the Bank being carried out or cause or allow the business to be carried out, in a manner likely to create a substantial risk of serious loss to the Bank's creditors;
- To treat fairly and with respect all of the Bank's employees and customers with whom they interact;
- Not to enter into competition with the Bank;
- Not to demand or accept substantial gifts from the Bank for himself/herself or his/her associates;
- Not to take advantage of business opportunities to which the Bank is entitled for himself/herself or his/her associates;
- Report to the Board any potential conflicts of interests; and
- Absent themselves from any discussions or decision-making that involves a subject in which they are incapable of providing objective advice or which involves a subject or proposed conflict of interest.

Evaluation of Board Performance

The Board has adopted a 'Performance Assessment Framework' designed to provide Directors with an opportunity to assess their performance on an annual basis. The self-assessment consists of three categories, such as:

- Assessment of the Board as a unit;
- Assessment of the Committee as a unit; and
- Self-assessment of individual Directors.

The results of the annual performance assessment shall be communicated to the Shareholders at the Annual General Meeting.

The results for this year were satisfactory.

Remuneration of Directors

Remuneration of the Directors as provided by Article 34 of the Articles of Association states the following:

"The General Assembly shall specify the remuneration of the members of the Board of Directors. However, such remunerations must not exceed in total 10% of the net profits after deducting statutory reserve and the distribution of dividends of not less than 5% of the paid capital among the shareholders. The General Assembly may decide to pay annual bonuses to the Chairman and members of the Board of Directors in the years when the Company does not make profits or in the years when it does not distribute profits to the shareholders, subject to the approval of the Ministry of Industry and Commerce. The report of the Board of Director to the general Assembly shall include full statement of the remuneration the members of the Board of Directors have been paid during the year in accordance with the provisions set forth in Article (188) of the Law."

The Board, based upon the recommendation of the Remuneration Committee and subject to the laws and regulations, determines the form and amount of Director compensation subject to final approval of the shareholders at the Annual General Meeting. The Remuneration Committee shall conduct an annual review of Directors' compensation.

As per the Directors Remuneration Policy approved by the Shareholders, the structure and level for the compensation for the Board of Directors consist of the following:

1. Annual remuneration subject to the annual financial performance of the Bank and as per the statutory limitation of the law.
2. The total amount payable to each Board member with respect to Board and Committee meetings attended during the year.
3. The remuneration of the Board of Directors will be approved by the shareholders at the Annual General Meeting.

In addition to the above, Directors who are employees of the Bank shall not receive any compensation for their services as Directors and Directors who are not employees of the Bank may not enter any consulting arrangements with the Bank without the prior approval of the Board. Directors who serve on the Audit and Risk Committee shall not directly or indirectly provide or receive compensation for providing accounting, consulting, legal, investment banking or financial advisory services to the Bank.

Corporate Governance Report (continued)

Board Meetings and Attendances

The Board of Directors meets at the summons of the Chairman or his Deputy (in the event of his absence or disability) or if requested to do so as per the Bank's Board Charter. According to the Bahrain Commercial Companies Law and the Bank's Articles of Association, the Board meets at least four times a year. A meeting of the Board of Directors shall be valid if attended by half of the members in person. During 2023, the Directors that were present at the Annual General Meeting are detailed in the minutes of the 2022 Annual General Meeting. The details of the Board meetings held during 2023 are as follows:

Board Meetings in 2023 - Minimum Four Meetings per Annum

Members	09 Feb	11 May	12 Jun	10 Aug	21 Sep	12 Nov	11 Dec	%
H.E. Shaikh Khalid bin Mustahil Al Mashani	√	√	√	√	√	√	√	100
Mr. Alhur Mohammed Al Suwaidi	√	√	√	√	√	√	√	100
Mr. Khalid Salim Al Halyan	√	√	√	√	√	√	√	100
Mr. Matar Mohamed Al Blooshi	√	√	√	√	√	√	√	100
Mr. Salim Abdullah Al Awadi	√	√	√	√	√	√	√	100
Mr. Salman Saleh Al Mahmeed	√	√	√	√	√	√	√	100
Mr. Zayed Ali Al Amin	√	√	√	√	√	√	√	100
Mr. Tariq Abdulhafidh AlAujaili	√	√	√	√	√	√	√	100
Mr. Hisham Saleh AlSaie	√	√	√	√	√	√	√	100

Directors' Interests

Directors' shares ownership in two-year comparison as of 31 December:

	No of shares		Number of Shares in 2023	
Member	2023	2022	Bought	Sold
H.E. Shaikh Khalid bin Mustahil Al Mashani	0	0	0	0
Mr. Salim Abdullah Al Awadi	0	0	0	0
Mr. Alhur Mohammed Al Suwaidi	0	0	0	0
Mr. Khalid Salem Al Halyan	12,223	11,641	0	0
Mr. Zayed Ali Al-Amin	5,500,000	5,150,000	0	0
Mr. Salman Saleh Al Mahmeed	0	0	0	0
Mr. Tariq Abdulhafidh AlAujaili	0	0	0	0
Mr. Hisham Saleh AlSaie*	5,001,818	3,036,668	1,762,300	402

*Indireact ownership

Approval Process for Related Parties' Transactions

The Bank has a due process for dealing with transactions involving related parties. Any such transaction will require the unanimous approval of the Board of Directors. The nature and extent of transactions with related parties are disclosed in the consolidated financial statements under note 28 - related party transaction.

Material Transactions that require Board Approval

Depending on the internal risk rating transactions above BD 5 million and up to BD 15 million requires the approval of the Executive Committee of the Board of Directors, any transaction above BD 15 million requires the approval of the Board of Directors of the Bank. In addition, when acquiring 20% of a company Board approval is required regardless of the amount.

Material Contracts and Financing Involving Directors and Senior Management During 2023

The Bank's dealings with its directors/ associated entities are conducted on an arms-length basis and at prevailing commercial terms in respect of its exposure to and deposits received from them. All financing facilities to senior management members are governed by the policies applicable to staff, which are reviewed and approved by the Board Remuneration & Nomination Committee. Material contracts and financing facilities involving directors and senior management during 2023 are as follows:

- Financing Facilities provided to certain Directors of the Board and related entities with a total amount of BD 13,944.
- Financing Facilities provided to senior management with a total amount of BD 168,332.

All related party transactions are disclosed in note 28 of the consolidated financial statements for the year ending 31 December 2023.

Directorships held by Directors on Other Boards

The High-Level Controls Module of the Central Bank of Bahrain Rulebook provides that no Director should hold more than three directorships in Bahrain public companies. All members of the Board of Directors met this requirement and are approved by the Central Bank of Bahrain.

Board Committees

Consistent with the industry's best practice, the Board has established four Committees with defined roles and responsibilities. The Standing Committees of the Board are Executive Committee, Audit and Risk Committee, Remuneration Committee and, Nomination and Corporate Governance Committee.

Certain information relating to the work of certain Board Committees during the year 2023, summary of the dates of Committee meetings held, Directors' attendance and a summary of the main responsibilities of each Committee is enclosed in this report.

Executive Committee

The Committee operates under the delegated authority of the Board and provides direction to the executive management on business matters, as delegated by the Board, to address matters arising between the Board meetings. The Committee is responsible for reviewing business matters concerning credit and market risks, strategy review and providing recommendation to the Board.

Committee Meetings in 2023 - Minimum four meetings per annum.

Four Committee meetings were held during 2023 as follows:

Members	5 Feb	7 Jun	11 Sep	5 Dec	%
Mr. Matar Mohamed Al Blooshi (Chairman)	√	√	√	√	100
Mr. Hisham Saleh AlSaie	√	√	√	√	100
Mr. Salim Abdullah Al Awadi	√	√	√	√	100
Mr. Zayed Ali Al Amin	√	√	√	√	100

Audit and Risk Committee

The Committee's responsibility is to assist the Board in discharging its oversight duties relating to matters such as Audit, Risk and Compliance including the integrity of the Bank's financial statements, financial reporting process and systems, internal controls and financial controls. The Committee also acts as a liaison between the external auditor, internal auditor and the Board. The Committee is also charged with the responsibility of handling whistleblowing complaints and monitoring related party transactions.

Committee Meetings in 2023 - Minimum four meetings per annum.

Corporate Governance Report (continued)

Seven Committee meetings were held during 2023 as follows:

Members	7 Feb	8 May	5 June	6 Aug	10 Sep	6 Nov	4 Dec	%
Mr. Salman Saleh Al Mahmeed (Chairman)	√	√	√	√	√	√	√	100
H.E. Shaikh Khalid bin Mustahil Al Mashani	√	√	√	√	√	√	√	100
Mr. Khalid Salim Al Halyan	√	√	√	√	√	√	√	100
Mr. Alhur Mohammed Al Suwaidi	√	√	√	√	√	√	*	86
Mr. Tariq Abdulhafidh AlAujaili	√	√	√	√	√	√	√	100

Remuneration Committee

The Committee's role is to provide a formal and transparent procedure for developing a compensation policy for the Board, Group Chief Executive Officer and Senior Management (approved persons and material risk takers); ensures that compensation offered is competitive, in line with the market/peer group and consistent with the responsibilities assigned to employee. In addition, the Committee recommends to the Board special compensation plans, including annual performance bonus and short/long term incentives to attract, motivate and retain key employees.

Committee Meetings in 2023 - Minimum two meetings per annum.

Three meetings were convened during 2023:

Members	7 Feb	5 June	3 Dec	%
H.E. Shaikh Khalid bin Mustahail Al Mashani (Chairman)	√	√	√	100
Mr. Khalid Salim Al Halyan	√	√	√	100
Mr. Alhur Mohammed Al Suwaidi	√	√	√	100

Nomination and Corporate Governance Committee

The Committee's role is to evaluate and nominate candidates to the Board, as well as facilitate the assessment of the performance of the Board, Committees and individual Directors. In addition, the Committee is responsible to ensure that Directors receive adequate training during the year so as to be able to perform their duties on the Board and the Committees they serve on. The Committee is also charged with the responsibility of ensuring that the Corporate Governance Framework of the Bank is adequate and in compliance with the prevailing regulations. The Committee liaises with the Bank's Corporate Governance Officer to manage the governance related activities.

Committee Meetings in 2023 - Minimum two meetings per annum.

Two meetings were convened during 2023:

Members	5 Feb	11 Sep	%
Mr. Salim Abdullah Al Awadi (Chairman)	√	√	100
Mr. Matar Mohamed Al Blooshi	√	√	100
Mr. Tariq Abdulhafidh AlAujaili	√	√	100
Dr. Fareed AlMaftah (Shari'a Supervisory member)	√	√	100

Fatwa & Shari'a Supervisory Board

The Bank is guided by a Shari'a Supervisory Board consisting of four distinguished scholars. The Shari'a Supervisory Board reviews the Bank's activities to ensure that all products and investment transactions comply fully with the rules and principles of Islamic Shari'a. Further, the Shari'a Supervisory Board review and vet the screening criteria for charitable donations.

The Shari'a Supervisory Board confirms that an internal Shari'a audit function is in place and is adequately performing its duties as stipulated in the Shari'a Governance Module and AAOIFI Standards. In addition, one designated member from the Shari'a Supervisory Board have been nominated by the SBB to represent it in the Nomination and Corporate Governance Committee to raise Sharia concerns in relation to the corporate governance related matters. During the year, there has no Sharia concerns on the corporate governance matters.

The Board meets at least 4 times a year. Its members are remunerated by annual retainer fee and sitting fees per meeting attended. Its members are not paid any performance-related remuneration. Performance assessment of the Shari'a Supervisory Board is done on a self-assessment basis and submitted to the Board for their review and action.

Annual General Meeting

The Board of Directors report to the Shareholders on the performance of the Bank through the Annual General Meeting. The meeting shall be convened upon an invitation from the Chairman of Board and be convened during the three months following the end of the Bank's financial year.

All the Directors, especially the Chairs of the Board and Committees, at least one member of the Shari'a Supervisory Board and the external auditors shall be present at this meeting to answer questions from the Shareholder regarding matters within their responsibilities:

At a minimum, the Board shall report on the following to the Shareholders, for their approval, at the Annual General Meeting:

- Audited financial statements of the Bank;
- Related party transactions executed;
- Corporate governance report;
- Corporate social responsibility report;
- Performance assessment of the Board, Committees and individual Directors; and
- Remuneration for the Directors and the Shari'a Supervisory Board members.

Executive Management

The Board delegates the authority of managing the Bank to the Group Chief Executive Officer ("Group CEO"). The Group CEO and Executive Management are responsible for implementation of decisions and strategies approved by the Board of Directors and the Shari'a Supervisory Board.

Senior Managers' interest

The number of shares held by the senior managers, in two-year comparison, as on 31 December 2023 is as follows:

Members	Shares	
	2023	**2022**
Mr. Anwar Mohammed Murad*	811,125	772,500
Mr. Abdulkarim Turki	10,501	206,192
Mr. Essa Abdulla Bohijji	145,449	138,523
Dr. Mohammed Burhan Arbouna	408	389
Total	**967,483**	**1,117,604**

*The shares represent shares under Mr. Anwar's guardianship

Corporate Governance Report (continued)

Management Committees

The Group Chief Executive Officer ("Group CEO") is supported by a number of management committees each having a specific mandate to give focus to areas of business, risk and strategy. The various committees and their roles and responsibilities are:

	Roles and Responsibilities
Executive Committee	Overseeing the other Management committees and assisting the Group CEO in various issues or topics as and when required.
Asset Liability Committee	Review the trading and liquidity policy for the overall management of the balance sheet and its associated risks.
Credit and Investment Committee	Recommending the risk policy and framework to the Board, the Committee's primary role is the selection and implementation of risk management systems, portfolio monitoring, stress testing, risk reporting to Board, Board Committees, Regulators and Executive Management. The Committee approves and monitor retail and corporate credit transactions, transactions relating to real estate investments, and oversee the performance of fund managers and recommend exit strategies to maximize return to its investors.
Human Resource Committee	Enable the Bank's employees to meet their professional and personal goals aligned with the growth of the Bank by focusing on skill enhancement, career development, rewards with performance, and work life balance.
Information Security Committee	The role of the committee is advisory in nature. It assists the relevant stakeholders to develop, review and execute a comprehensive Information Security Management System (ISMS) for the Bank. The Committee aims to strengthen the Information Security Department's capabilities as well.
Project Steering Committee	Oversees the information technology function of the Bank. It recommends the annual IT budget and plans, drawn up in accordance with the approved strategy of the Bank, to the Group CEO for submission to the Board of Directors for their approval. It supervises the implementation of the approved IT annual plan within set deadlines and budgetary allocations.
OPMA Risk and Compliance Committee	Review the Bank's Operational and Market Risk policies, which must be approved by the Board and be consistent with the corporate values and strategy of the Bank and makes recommendations to procedures related to Operational and Market Risk management. Furthermore, the Committee ensures the Bank's compliance with applicable regulations.
Remedial NPF's and Provisioning Committee	Assess and follow up on all non-performing assets of the Bank with the objective of maximizing recoveries for the Bank.
Sustainability Committee	Oversees the Corporate Social Responsibility affairs of the Bank, managing donations and sponsorship requests, evaluating the proposals, and allocating funds to causes that the Bank is committed to support, in line with the annual corporate social responsibility plan and the Corporate Social Responsibility Policy. Any exceptions to the approved plan are reviewed and recommended to the Board for approval. The Committee is also involved in the preparation of the Corporate Social Responsibility Report, which forms part of the Annual Report, detailing the donations and sponsorships made during the year.

Executive Management Compensation

The performance bonus of the Group Chief Executive Officer is recommended by the Remuneration and Nomination Committee and approved by the Board. The performance bonus of senior management is recommended by the Group Chief Executive Officer for review and endorsement by the Remuneration Committee subject to Board approval. The Performance Audit for the Compliance, Audit and Risk functions are assessed and approved by both the Audit and Risk Committee and the Remuneration Committee.

Compliance

The Bank has in place comprehensive policies and procedures to ensure full compliance with the relevant rules and regulations of the respective regulators. Due diligence is performed regularly to ensure that the financial activities of the Bank's customers are executed in accordance with the guidelines issued by the regulatory authorities.

The Bank continuously endeavors to enhance and develop its Compliance and Anti Money Laundering systems.

The Bank adheres to the Financial Crimes Module of Central Bank of Bahrain's Rulebook and complies with all applicable rules and regulations. The module contains Bahrain's current anti-money laundering legislation, developed under the directives of the Financial Action Task Force, which is the international organization responsible for developing global anti-money laundering policies. Furthermore, the Bank complies with Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS) requirements as mandated by the Central Bank of Bahrain (CBB).

Remuneration And Appointment of The External Auditors

During the Annual General Meeting held on 20 March 2023, the shareholders approved the re-appointment of KPMG as external auditors for the year ending 31 December 2023 and authorized the Board of Directors to determine their remuneration.

The remuneration to the external auditors for the services provided to the Group are as follows:

Categories of services	Fees (BHD 000's)	Major type of services included in each category
(a) Audit of the group consolidated financial statements	675.01	• Audit of the consolidated financial statements of the Bank and it's subsidiaries for the year ended 31 December 2023 (including work related to opening balance sheet audits and acquisition accounting for business combinations). • Review of condensed consolidated interim financial information of the Bank and its subsidiaries for the quarter ended 31 March, 30 June and 30 Sep 2023.
(b) Services other than Audit		
• Audit related	154.78	**Audit related services** These include regulatory compliance and related services required by regulators to be performed by the external auditors across group entities.
• Tax	35.95	**Tax related services** Includes VAT compliance related services and corporate tax related analysis.
• Advisory	305.80	**Advisory services** Mainly includes certain pre-deal financial and tax due diligence services across various group entities, support for new license application and temporary resourcing, and review of stress test and capital plans under different scenarios.

The assessment of conflict and independence is reviewed and approved by the Audit Committee of the Group and / or its subdiaries, as applicable.

Corporate Governance Report (continued)

Internal Control

Internal control is an active process that is continually operating at all levels within the Bank. The Bank has established an appropriate culture to facilitate an effective internal control process. Every employee of the Bank participates in the internal control process and contributes effectively by identifying risks at an earlier stage and implementing mitigating controls at optimum cost. Residual risk is properly communicated to the senior management and corrective actions are taken.

Key Persons Policy

The Bank has established a Key Persons' Policy to ensure that Key Persons are aware of the legal and administrative requirements regarding holding and trading of the Bank's shares, with the primary objective of preventing abuse of inside information. Key Persons include the Directors, Executive Management, designated employees and any person or firm connected to the identified Key Persons. The ownership of the Key Persons' Policy is entrusted to the Board's Audit Committee. The latest Key Persons' Policy is posted on the Bank's website and is updated every board term.

Employee Relations

Al Salam Bank is committed to promoting a diverse and inclusive environment and encourages understanding of the individuality and creativity that each employee uniquely brings to the Bank. Employees are hired and placed on the basis of ability and merit. Evaluation of employees is maintained on a fair and consistent basis.

In line with the Bank's policy of being on equal opportunity firm and as part of Central Bank of Bahrain's Rulebook and Corporate Governance requirements, the Bank shall not employ relatives of employees up to the 4th degree. Existing employees must alert the Human Resources of any relatives or relationship of other employees or candidates being interviewed. Failure to do so will subject the employee to disciplinary action pursuant to the Law No. 36 of 2012 Promulgation of the Labour Law in the Private Sector and the Bank's Disciplinary Guidelines.

Communication Policy

The Bank recognizes that active communication with different stakeholders and the general public is an integral part of good business and administration. In order to reach its overall communication goals, the Bank follows a set of guiding principles such as efficiency, transparency, clarity and cultural awareness.

The Bank uses modern communication technologies in a timely manner to convey messages to its target groups. The Bank shall reply without unnecessary delay, to information requests by the media and the public. The Bank strives in its communication to be as transparent and open as possible while taking into account Bank confidentiality. This contributes to maintaining a high level of accountability. The Bank also proactively develops contacts with its target groups and identifies topics of possible mutual interest. The Bank reinforces clarity by adhering to a well-defined visual identity in its external communications. The Bank's formal communication material is provided in both Arabic and English languages.

The annual reports and quarterly financial statements and Corporate Governance reports are published on the Bank's website. Shareholders have easy access to various types of forms including proxies used for the Annual General Meeting. In addition, forms are also available online to file complaints or make inquiries which are duly dealt with. The Bank regularly communicates with its staff through internal communications to provide updates of the Bank's various activities.

Whistle Blowing Policy

This Policy details the procedures for a whistleblower to escalate a complaint to the designated authority and procedures that are to be followed by the Audit and Risk Committee to ensure that a valid whistleblowing complaint is investigated properly and action taken appropriately, while protecting the whistleblower from any adverse reaction due to their complaint.

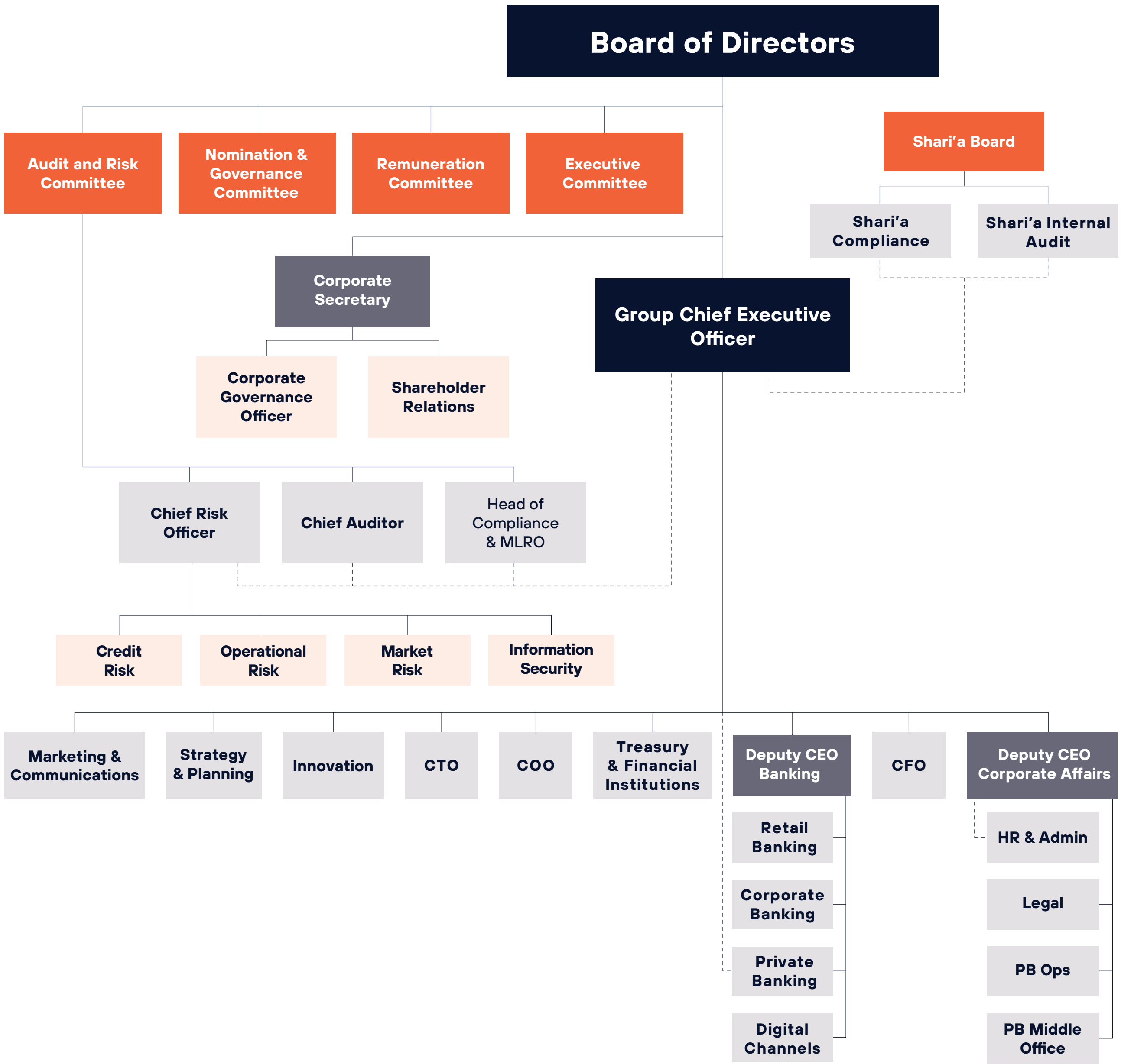
Delegation of Authority Limits

Approving limits for the Board, Board Committees and other designated individuals are incorporated into the Delegation of Authority Limits. The authorities are established for both financial and operational activities.

Disclosures

The Bank has a Disclosures Policy in place detailing the Bank's internal as well as external communications and disclosures. The Board oversees the process of disclosure and communication with the internal and external stakeholders.

Organizational Structure

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SHARJAH 2024
BAHRAIN PARALYMPIC COMMITTEE
#WhyStopHere

Breaking Barriers

Remuneration Policy

Core Remuneration Policy

The fundamental principles underlying our remuneration policy which has been approved by the Board of Directors and the shareholders of the Bank are:

- The composition of salary, benefits and incentives is designed to align employee and shareholder interests;
- Remuneration determination takes into account both financial and non-financial factors over both the short and longer-term;
- Emphasis is on performance evaluations that reflect individual performance, including adherence to the Bank's risk and compliance policies in determining the total remuneration for a position;
- The Bank has set a fixed remuneration of the employees at such a level to reward the employees for an agreed level of performance and the variable pay or bonus will be awarded purely at the discretion of the Board's Remuneration Committee in recognition of the employees exceptional effort in any given performance period;
- The Bank shall have a well-defined variable pay scheme in place, to support the Remuneration Committee, should they decide to pay variable pay or bonus in any performance period;
- Variable pay will be determined based on achievement of targets at the Bank level, unit level and individual level;
- Variable pay scheme is designed in a manner that supports sound risk and compliance management. In order to achieve that goal:
  - Performance metrics for applicable business units are risk-adjusted where appropriate;
  - Individual award determinations include consideration of adherence to compliance-related goals.
- The remuneration package of employees in Control and Support functions are designed in such a way that they can function independent of the business units they support. Independence from the business for these employees is assured through:
  - Setting total remuneration to ensure that variable pay is not significant enough to encourage inappropriate behaviours while remaining competitive with the market;
  - Remuneration decisions are based on their respective functions and not the business units they support;
  - Performance measures and targets are aligned to the Bank and individual objectives that are specific to the function;
  - Respective function's performance as opposed to other business unit's performance is a key component for calculating individual incentive payments.
- Both qualitative and quantitative measures will be used to evaluate an individual's performance across the Bank.
- The Bank reviews the salaries and benefits periodically, with an objective of being competitive in the market places, based on salary surveys and market information gathered through secondary sources.
- The Bank does not provide for any form of severance pay, other than as required by the Labour Law for the Private Sector (Law No.36 of 2012 of the Kingdom of Bahrain), to its employees.

Regulatory Alignment

The Bank reviewed and revised the remuneration policy and especially its variable pay policy to meet the requirements of the CBB Guidelines on remuneration with the help of external consultants. Key regulatory areas and the Bank's response are summarized below:

REGULATORY AREA	BANK'S PRACTICE
Governance	The composition of Remuneration Committee, is as required by the CBB Rulebook, module HC. The Remuneration Committee charter is in line with the requirements of the CBB and the Committee is responsible for the design, implementation and supervision of the remuneration policy and other aspects as required by the CBB rulebook and the committee charter. The Committee utilized the services of an external consultant to redesign and implement the revised remuneration policy aligned to the CBB guidelines on remuneration.
Risk Focused Remuneration Policy	The Bank has set the Fixed Remuneration of the employees at such a level to reward the employees for an agreed level of performance and the variable pay or bonus is being paid purely at the discretion of the Remuneration Committee in recognition of the employees exceptional efforts in any given performance period. Should the Remuneration Committee decide to award Variable Pay, it will be determined based on risk adjusted targets set at the Business unit level aggregated to the Bank level. The variable pay for the Group CEO, senior management in Business units and the Material Risk takers would be higher as compared to the fixed pay subject to achieving the risk adjusted targets both at the business unit and the Bank level. For employees in Control and Support functions, the pay mix is structured as more fixed and lesser variable. Further the variable pay, for employees in Control and Support Functions, is based on their units target and individual performance and not linked to Bank's performance.
Capital and Liquidity	The bonus or variable pay computation process is designed in such a way to ensure that it does not impact the Capital and Liquidity as there are validation checks prior to approval of the Remuneration Committee. The validation checks are the bonus pool as compared to the realized profit, impact on capital adequacy computed as per Basel III guidelines and as compared to the total fixed pay.
Deferral and Share Linked Instruments	The Bonus for the Group CEO, his deputies and Material Risk Takers and Approved Persons as per CBB and those whose total remuneration exceeds the regulatory threshold has a deferral element and share - linked payment. Phantom or Shadow shares are offered to such employees. The deferral arrangements are as follows: Group CEO, his deputies and top 5 Executive Management members (in terms of total remuneration) in Business units: • 40% of the variable pay will be paid in cash at the end of the performance period; and • The balance 60% will be deferred over a period of 3 years with 10% being cash deferral and 50% being phantom or shadow shares and the entire deferred variable pay will vest equally over a 3-year period. For all other employees in Business units and Approved Persons in Control and Support Functions and whose total remuneration exceeds the regulatory threshold: • 50% of the variable pay will be paid in cash at the end of the performance period; and • 10% in the form of phantom or shadow shares at the end of the performance period and the phantom or shadow shares subject to a minimum share retention period of 6 months from the award date. • The balance 40% will be deferred over a period of 3 years and paid in the form of phantom or shadow shares and vests equally over the 3 year period and the phantom or shadow shares subject to a minimum share retention period of 6 months from the award date.
Claw Back and Malus	The Bank has introduced claw - back and malus clauses whereby the Remuneration Committee has the right to invoke these clauses under certain pre-defined circumstances where in the Bank can claw-back the vested as well as the unvested bonus paid or payable to an employee.

Remuneration Policy (continued)

Remuneration Components

It is the Bank's intent to have a transparent, structured and comprehensive remuneration policy that covers all types of compensation and benefits provided to employees.

The remuneration policy provides a standardized framework for remuneration covering employees at all levels of the Bank.

Remuneration offered by the Bank shall reflect the Bank's objective of attracting and retaining the desired level of talent from the banking sector.

Remuneration will be at a level, which will be commensurate with other Banks of similar activity in Bahrain, and will allow for changes in the cost of living index. The compensation package shall comprise of basic salary and benefits and discretionary variable pay.

The following table summarizes the total remuneration:

Element of Pay	Salary and Benefits
Rationale	To attract and retain the desired level of talent.
Summary	*Reviewed annually.* Benchmarked to the local market and the compensation package offered to employee is based on the job content and complexity. The Bank offers a composite fixed pay i.e. it is not split as Basic and Allowances but is paid as one lump sum. The benefits are aligned to the local market practice.

<table>
<tr><th>Element of Pay</th><th>Variable Pay / Bonus</th></tr>
<tr><td>Rationale</td><td>To incentivize the achievement of annual targets set at the Bank level and at the Business unit levels and thereby also make sure that senior management get substantial portion as variable pay which is linked to performance.

The Variable pay is deferred to ensure that the management's interests are aligned to the shareholder value and to align time horizon of risk.</td></tr>
<tr><td>Summary</td><td>The Bonus pool is determined based on the bottom up approach i.e. by setting base multiples of monthly salary per level and aggregating the multiples per unit and then on to the Bank level.

The basis of payment of bonus would be as follows:

GCEO and Senior Management: Base multiple * Bank score * Individual score
Business units: Base multiple * Bank score * Unit score * Individual score
Control & Support units: Base multiple * Unit score * Individual score

Computation of Variable Pay - Business Units

Beginning of the financial year:
Targets are set for the Business units and are aggregated to the Bank level target. In setting targets certain Bank wide risk parameters which include capital, liquidity, profit and qualitative measure such as reputation risk and the Bank and unit specific KPIs shall be considered. For achieving this target, total Bonus pool is set based on monthly multiples of salary across the Bank. The Key feature is that bonus is self-funding and the different levels of targets are not just % increase in profits but profits adjusted for additional bonus. This Bonus Pool is subject to additional checks for its impact on the capital adequacy, as a proportion of net profit and realized profit and as a proportion of the total fixed pay in any given financial year.

At the end of the financial year:
The actual results are evaluated against targets, considering the risk parameters matrix and adjustments if any to the unit score or the Banks score as appropriate are made and the bonus pool is revised accordingly.

The actual bonus pool is approved by the Remuneration Committee and the individual Bonus payments are as per the scoring matrix.

Computation of Variable Pay – Control and Support Units
The Unit targets as set out and agreed with the Remuneration Committee in the beginning of each evaluation period will be the base for Variable pay to be paid. Except in the case of Bank making a loss, the variable pay for the employees in the Control and Support unit, would be payable based on the Unit targets and the individual performance.

Base Multiples are set for each employee level in each Control and Support unit. The achievement of unit target is assigned a weight of 1 and scored based on the level of actual results achieved.

The individual performance score is based on the individual rating and the score is set to vary between 0 up to a maximum of 1.

The Summary of the Variable pay process is:

Links reward to Bank, business unit and individual performance.

Target setting process considers risk parameters which are both quantitative and qualitative such as reputation.

Aligned to time horizon of risk the bonus has a deferral element and a share linkage to align the employee's interest with that of the shareholders.

Bonus can be lesser or nil if the Bank or business units do not achieve the risk adjusted targets or make losses. Post risk assessment is carried out to ensure that in case of material losses or realization of less than expected income which can be attributed to employee's actions the claw back or malus as appropriate is invoked.</td></tr>
</table>

Remuneration Policy (continued)

Details of Remuneration

(A) Board of Directors

Amounts in BD	2023	2022
Attendance fee and travel expenses	519,000	498,000
Remuneration paid	965,000	780,000
Al Salam Bank subsidiaries' Board remuneration, attendance fees and expenses	2,471,698	113,100

(B) Employees

		Amounts in BD thousands					
			Variable upfront		Variable deferred		
31-Dec-23	**No of staff**	**Fixed ***	**Cash**	**Non-cash**	**Cash**	**Non-cash**	**Total**
Approved person business line	10	2,832	1,045	-	250	1,209	5,336
Approved person control & support	19	2,005	485	-	77	308	2,875
Other material risk takers	50	2,268	737	-	23	92	3,120
Other employees - Bahrain operations	439	10,880	3,426	-	-	37	14,343
Other employees overseas	28	176	-	-	-	-	176
	546	**18,161**	**5,693**	**-**	**350**	**1,646**	**25,850**
31-Dec-22							
Approved person business line	11	2,794	904	-	217	1,050	4,965
Approved person control & support	19	1,887	368	-	56	224	2,535
Other material risk takers	60	2,482	628	-	3	11	3,124
Other employees - Bahrain operations	487	11,332	2,456	-	-	57	13,845
Other employees overseas	26	177	12	-	-	-	189
	603	18,672	4,368	-	276	1,342	24,658

* Fixed remuneration includes all compensation and benefits that are due to employees based on contractual arrangements (GOSI, indemnity, tickets & medical)

The above table excluded the employee cost details of the banks subsidiary in Algeria which was acquired during the middle of the year. Hence, amounts presented would not have reflected annual payments. Overseas subsidiaries are included in the table above only if their results are conslidated for a full calendar year.

Severance payments during the year amounted to BD 2.9Mn for a total of 55 employees (of which highest award to a single employee was BD 264 thousand) who voluntarily participated in a programme for early retirement during the year.

Deferred Performance Bonus Awards

31-Dec-23 Awards	Cash (BD000)	Phantom shares Nos.	Phantom shares (BD000)	Others (BD000)	Total
Opening balance	549	15,834,160	2,154	3,390	6,093
Awarded during the year	350	6,330,836	833	-	1,183
Bonus shares and other adjustments	-	247,640	-	-	-
Exercised / sold / paid during the year	(161)	-	(720)	-	(881)
Vested for the year	-	(5,538,677)	-	(812)	(812)
Remeasurement of share awards	-	-	28	-	28
Adjustment for forfeitures	-	-	-	(141)	(141)
Closing balance	**738**	**16,873,959**	**2,295**	**2,437**	**5,470**

31-Dec-22 Awards	Cash (BD000)	Phantom shares Nos.	Phantom shares (BD000)	Others (BD000)	Total
Opening balance	397	15,896,357	2,105	-	2,502
Awarded during the year	276	4,229,632	567	4,237	5,080
Bonus shares adjustment	-	541,852	-	-	-
Exercised / sold / paid during the year	(124)	(4,833,681)	(660)	-	(784)
Vested for the year	-	-	-	(847)	(847)
Remeasurement of shares	-	-	142	-	142
Risk Adjustment	-	-	-	-	-
Closing balance	549	15,834,160	2,154	3,390	6,093

Others include the annual charge and movements in the Long-term Incentive Plan program determined in accordance with IFRS 2 Share-based payments.

Risk Management & Compliance

Risk Management & Compliance

At Al Salam Bank, our success is largely dependent on how efficiently we identify, measure, control and manage risks. Hence, we view risk management as a core competency from a strategic point of view. Provisions of the Basel Accord are the catalysts to the successful implementation of the pillars of risk management in line with industry best practice.

The fundamental principle underlying our risk management framework is ensuring that accepted risks are within the Board approved risk appetite and the returns are commensurate with the risks taken. The risk appetite approved by the Board is cascaded down to business units at a granular level and compliance to the same is monitored, reported and suitable corrective action, wherever required, is initiated. The objective is creating shareholder value through protecting the Group against unforeseen losses, ensuring maximization of earnings potential and opportunities vis-à-vis the Group's risk appetite and ensuring earnings stability.

With this in mind, the Bank has focused its efforts on establishing effective and practical risk management and compliance frameworks taking into consideration local and international best practices, the requirements of the Central Bank of Bahrain and the Basel Accord.

The Bank continues to invest in new technologies to enhance its physical and cyber security posture. It will also invest in new projects to ensure compliance to the changing regulatory landscape and further strengthen its risk-management framework.

Risk Management Framework

The risk management framework defines the risk culture of Al Salam Bank and sets the tone throughout the Group to practice the right risk behavior consistently to ensure that there is always a balance between business profits and risk appetite.

The risk management framework achieves this through the definition of the Group's key risk management principles covering credit, market, operational, information security, strategic and reputation risks.

Moreover, the framework further addresses the roles and responsibilities of the Board, risk management group and senior management towards risk management. The individual component of the framework captures the risk assessment methodology adopted, risk limits, the risk management information systems and reports, as well as the Group's approach to capital management.

The effectiveness of the risk management framework is independently assessed and reviewed through internal audits, external audits and Central Bank of Bahrain supervision. In addition, business and support groups carry out periodic risk control self-assessments.

As a result, the risk management framework creates an alignment between business and risk management objectives.

Capital Management

The cornerstone of risk management framework is the optimization of risk-reward relationship against the capital available through a focused and well monitored capital management process involving risk management, finance, and business groups.

Corporate Governance

The risk management framework is supported by an efficient Corporate Governance Framework discussed on pages 50 to 62.

Risk Ownership

The implementation of the Group-wide risk management framework is the responsibility of the Risk Management Department under the supervision of the Group Chief Executive Officer and Board Audit and Risk Committee. Ownership of the various risks across the Group lies with the business and support heads, being the first line of defense, and it is their responsibility to ensure that these risks are managed in accordance with the risk management framework. Risk Management assists business and support heads in identifying concerns and risks, identifying risk owners, evaluating risks as to likelihood and consequences, assessing options for mitigating the risks, prioritizing risk management efforts, developing risk management plans, authorizing implementation of risk management plans and tracking risk management efforts.

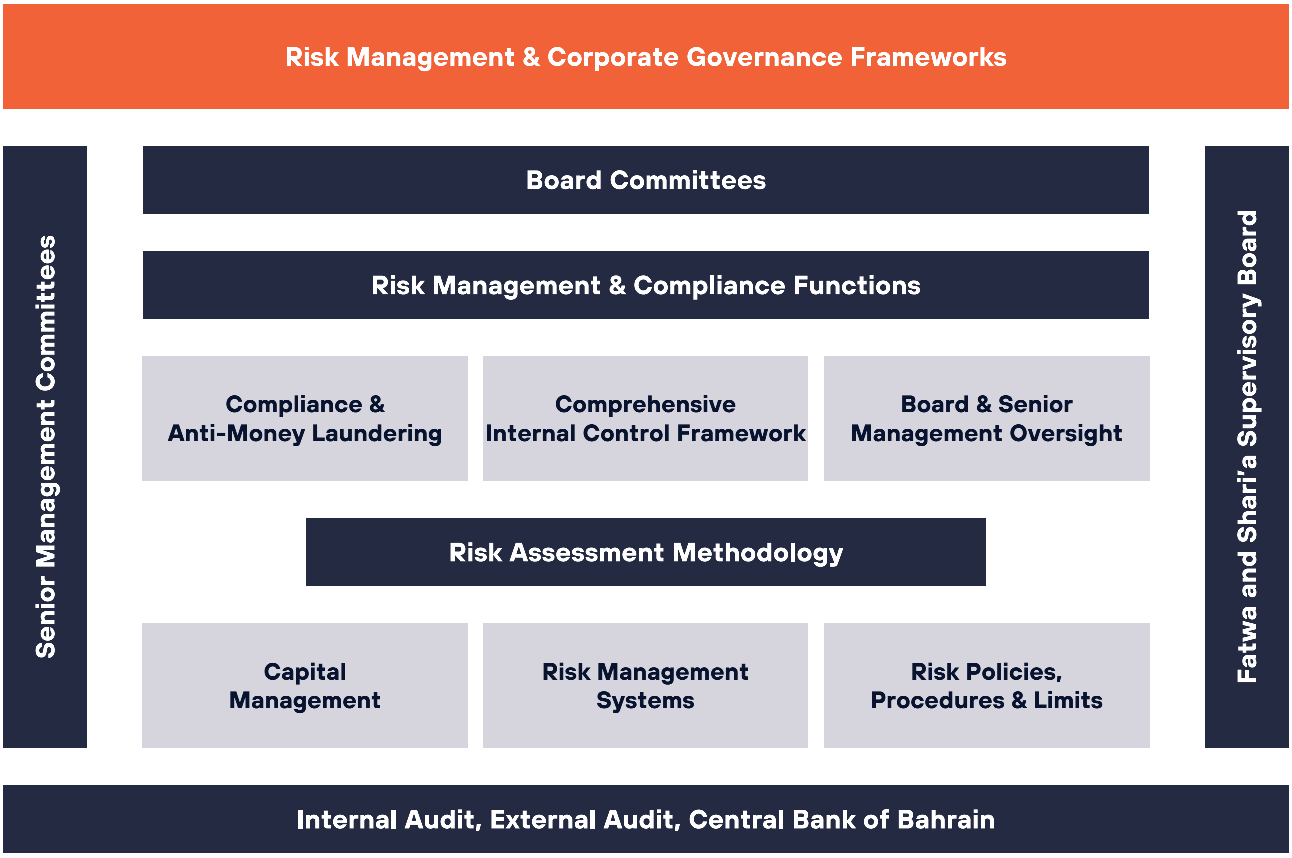
Compliance & Anti-Money laundering Department

The Bank has established an independent and dedicated department to coordinate the implementation of compliance and Anti-Money Laundering and Anti-Terrorist Financing program. The program covers policies and procedures for managing compliance with regulations, anti-money laundering, disclosure standards on material and sensitive information and insider trading. In line with its commitment to combat money laundering and terrorist financing, Al Salam Bank through its Anti-Money Laundering policies ensures that adequate preventive and detective internal controls and systems operate effectively. The policies govern the guidelines and procedures for client acceptance, maintenance and monitoring in line with the Central Bank of Bahrain and International standards such as FATF recommendations and Basel Committee papers.

All inward and outward electronic transfers are screened against identified sanction lists issued by certain regulatory bodies including the UN Security Council Sanctions Committees and US Department of the Treasury - OFAC, in addition to those designated by the Central Bank of Bahrain.

The compliance program also ensures that all applicable Central Bank of Bahrain regulations are complied with and/ or non-compliance is detected and addressed in a timely manner. The program includes compliance with regulations set by Ministry of Industry & Commerce and Bahrain Bourse.

The Bank has formulated appropriate policies and implemented the requirements of Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS) as required by the regulators. The due diligence and reporting requirements have been complied with.




#WhyStopHere

Reaching New Heights

Sustainability Report 2023

About this Report

Welcome to the Al Salam Bank's 2023 Annual Sustainability Report. Our mission at Al Salam Bank, as a pivotal force in Bahrain's Islamic banking industry, has always been to be a best-in-class mainstay of our clientele's financial needs and enable that through a seamless and digitally enabled customer experience. As we continue to cement our impeccable record when it comes to our business offerings, sustainability is an important consideration for us here at Al Salam Bank. This report offers a comprehensive coverage of our sustainability journey including elements that are currently embedded in our culture, our key initiatives highlighting our commitment to sustainability on themes ranging from environmental rejuvenation, community engagement to regulatory commitments and our sustainability vision for the future in terms of our key objectives and adherence to international sustainability reporting standards.

The report aims to fulfill a key expectation from our valuable stakeholders including customers, business stakeholders, and regulators offering insights into how Al Salam Bank is progressing on its sustainability journey and integrating it as part of our culture.

Statement from the CBB / Regulator

As the world navigates through the complexities within the marketplace and society, sustainability has emerged as a guiding principle essential for the prosperity and well-being of our societies. In Bahrain, a nation deeply rooted in rich history and progressive vision, sustainability is not merely a concept but a part of our foundation to build our aspirations for a better future. It is within this context that we are honored to extend our commendation to Al Salam Bank for its steadfast commitment to sustainability and the publication of its Sustainability Report.

At the **Central Bank of Bahrain**, we recognize the pivotal role that financial institutions play in fostering sustainable development. Environmental, Social, and Governance (ESG) considerations have become increasingly integral to the banking sector, shaping not only investment decisions but also operational strategies and risk management frameworks. Al Salam Bank's proactive embrace of ESG principles reflects its recognition of the interconnectedness between financial performance and broader societal and environmental well-being.

The integration of ESG factors in banking operations yields multifaceted benefits. Firstly, it enhances risk management by identifying and mitigating potential risks associated with environmental degradation, social inequalities, and governance deficiencies. By incorporating sustainability criteria into lending practices, banks can potentially foster responsible and resilient businesses that are better equipped to withstand environmental shocks and societal disruptions.

Moreover, promoting ESG values contributes to the cultivation of trust and confidence among stakeholders. Transparent disclosure of ESG performance not only facilitates informed decision-making for investors but also fosters stronger relationships with customers, employees, and regulators. Al Salam Bank's commitment to transparency and accountability exemplifies its dedication to upholding the highest standards of corporate governance and ethical conduct.

Crucially, the pursuit of sustainability in banking goes beyond financial metrics; it is fundamentally about creating positive impacts on communities and societies. By directing capital towards sustainable projects and initiatives, banks can catalyze economic growth, job creation, and poverty alleviation. In Bahrain, where the pursuit of Vision 2030 aims to achieve sustainable development across economic, social, and environmental dimensions, the role of banks and financial institutions becomes indispensable in translating vision into reality. With a national commitment towards net-zero by 2060, it is even more crucial for the banking sector to engage proactively with their stakeholders to ensure that the national goals are not just achievable but becomes a core part of their growth strategy.

By articulating its ESG performance, goals, and initiatives, Al Salam Bank not only sets a benchmark for transparency and accountability but also inspires other financial institutions to embark on similar journeys towards sustainable finance. As we look towards the future, I am confident that Al Salam Bank's commitment will be a positive influence towards sustainability, and in driving positive change contributing to the advancement of Bahrain's society and the Kingdom's sustainable development agenda.

Key ESG Achievements

Q1

- Al Salam Bank launched a Team Building and Culture Integration Programs for all their employees.
- Al Salam Bank won the 'Best Retail Bank in Bahrain' award at the MEA Finance Awards in recognition of its digitalization efforts.
- Al Salam Bank supported a host of community engagements during the Holy month of Ramadan.

Q2

- Al Salam Bank announced the sponsorship for the new auditorium at the INJAZ Bahrain Academy.
- Al Salam Bank received the J.P. Morgan Elite Quality Recognition Award recognizing its efficient payments ecosystem.
- Al Salam Bank expanded its digital investment platform by launching Bahrain Trade as part of its trading services to drive seamless digital trading for its retail clients.

Q3

- Al Salam Bank launched the Retail Academy Program for employees' learning and development requirements.
- 'Inspired to Grow' campaign by Al Salam Bank planted and distributed more than 20,000 trees across Bahrain.
- Al Salam Bank collaborated with Bahrain Bourse as 'Conference Partner' for the Middle East Investor Relations Association Annual Conference 2023.

Q4

- Al Salam Bank hosted 'Qaedat Al Salam' a one-of-a-kind Women's Leadership Program for Al Salam Bank's female employees.
- Al Salam Bank successfully conducted an AI bootcamp with focus on young talent and technology driven efficiency.
- Al Salam Bank was named as the 'MENA Retail Bank of the Year' for 2023 in recognition of being a leading financial institution.

Al Salam Bank has established its reputation as an influential force in the financial services and Islamic banking sphere in the Kingdom of Bahrain. Leveraging their robust financial standing to generate value for their stakeholders, the Bank aims to offer seamless and digitally enabled products and services that cater to the growing needs of their clients and the community equally. Financial services are instrumental in shaping the economic and social trajectory of the community it serves and can also have a positive impact on the environment.

Al Salam Bank's commitment to engage and deliver meaningful social impact to the communities that they interact and engage with also focuses on the intricate natural ecosystem within the Kingdom, and its conservation.

Al Salam Bank is committed to its role as a responsible corporate citizen and has been channeling a significant amount of social investment within the communities they live and operate within. The program has endeavored to aid society and enhance the quality of life for everyone, through its support for the charitable, educational, medical, scientific, cultural, social, sporting, and environmental organizations.

The Bank is committed to playing their part in the growth and development of the global Islamic banking and financial services industry. It actively supports and participates in initiatives related to research and development; education and qualifications; standardization of regulations, compliance and Shari'a interpretations; and the adoption of international standards and global best practice.

Sustainability Report 2023 (continued)

The Bank prides themselves on their approach of delivering profit whilst committing to the upliftment of the community and protecting the planet. As a financial institution, Al Salam Bank recognizes the impact we have on the welfare of our stakeholders.

The Bank's approach towards sustainability is underpinned by their five guiding pillars, which provide the framework to identify sustainable business outcomes; mitigate climate impacts; and uplift the community; all of which are aligned to the United Nations Sustainable Development Goals (SDGs) and Bahrain's National Development Priorities.

Sustainability is at the core of the Bank's mission and business mode, with the aim to serve the interests of customers, optimize the development of their people, and deliver value to their shareholders. The key topics/ issues that were identified as drivers within their strategic performance are:

1. Education & Youth Development
2. Health & Well-Being
3. Community & Environment
4. Technology & Security
5. Employee Welfare
6. Corporate Governance

ESG at Al Salam Bank

While continuing to drive initiatives pertaining to their Corporate Social Responsibility mandate, the Bank is also proactively exploring how they can incorporate progressive ESG practices in their day-to-day business operations. Al Salam Bank is determined to incorporate its corporate responsibility strategy and its sustainability strategy into a more formalized and systematic framework to make it more efficient and impactful. This involves several initiatives in the future including plans to become a signatory to one of the leading international sustainability frameworks. It also includes drawing from the UN Sustainable Development Goals and the GRI standards framework to drive a more impactful sustainability strategy. Al Salam Bank's aspirations in terms of its sustainability journey are a guiding force for its sustainability priorities and focus areas.

Sustainability is built into the core governance structure within the Bank, and the Sustainability Committee oversees the corporate social responsibility and ESG metrics and practices within the bank. The Committee also aids and seeks inputs from the Board regarding the bank's annual plans and corporate social responsibility policy along with preparing the annual sustainability reports.

Focus Areas & Key Initiatives

The key sustainability considerations highlighted in the previous section are the Bank's guiding principles while prioritizing the key themes that drive their sustainability journey. Their key initiatives reflect the importance attached to each of their sustainability considerations and serve as means to achieve the desired outcome for each of them.

Each of these focus areas represent the Bank's commitment across all areas where they wish to positively impact as a part of their sustainability journey. It covers elements within the core business operations including - customers, employees and other stakeholders and extends to the community and the wider ecosystem that they live and operate within. Some of these initiatives sit at the intersection of driving operational efficiency and simultaneously driving the sustainability agenda. Other initiatives are key to the well-being and talent development of people, in turn creating a supportive and inclusive workplace. Community engagements on issues pertaining to environmental rejuvenation, skill development, youth leadership and healthcare & wellbeing drive a significant positive impact and help create a conducive social and economic sphere for the Bank to thrive within.

EDUCATION & YOUTH DEVELOPMENT

Building partnerships and programs to foster talent and skill development among the youth, emphasizing education and professional growth.

HEALTH

Promoting health awareness, encouraging employee well-being, and supporting health-related community events and activities.

COMMUNITY & ENVIRONMENT

Engaging in various community aid and environmental sustainability projects, aiming to have a positive impact on society and the planet.

TECHNOLOGY & SECURITY

Prioritizing investments in technology, especially in cybersecurity and IT infrastructure, to enhance operational efficiency and data security.

EDUCATION & YOUTH DEVELOPMENT

Building partnerships and programs to foster talent and skill development among the youth, emphasizing education and professional growth.

1. Education & Youth Development

Education and development targeted towards the youth is a particularly important pillar in creating a more equitable and prosperous society. Education and development programs create a foundational starting point with widespread social and economic consequences. Education & Youth Development thus sits at the intersection of international sustainability priorities, Bahrain's National Vision, and Bahrain's social and economic priorities along with being a critical area for intervention for Al Salam Bank.

Al Salam's ability to conduct its operations effectively depends on the growing significance of operating within a highly skilled economy characterized by advanced levels of education, research, and continuous learning. A skilled population, will therefore, act as a high potential talent pool for the Bank, while also developing and empowering the future generation of young leaders in the Kingdom.

EDUCATION & YOUTH DEVELOPMENT

Al Salam Bank Guiding Principles: We are passionate by nature in all that we do

Relevance

Education and Youth Development sits at the heart of multiple international sustainability goals with the UN Sustainable Development Goals including Education as one of the 17 SDGs (SDG .4: Quality Education - 'Ensure Inclusive and Equitable Quality Education and promote lifelong learning opportunities'). In the context of Bahrain, improving the Kingdom's human capital through education and training, particularly in the field of applied sciences has been one of the major objectives in the 'Economic Vision 2030 for Bahrain'. Additionally, Bahrain's Education Ministry has launched the 2023-26 strategic plan with major focus on quality education, raising efficiency of human resources and developing educational and digital infrastructure.

Al Salam Bank's Commitment

We are aware of the rapidly changing global economic environment and recognize our role in influencing the Kingdom of Bahrain's development. In line with the Kingdom's goal of fostering a knowledge-driven economy, we at Al Salam have initiated several programs to bolster Bahrain's financial and economic advancement. Furthermore, we are mindful of nurturing the next generation of leaders and strive to provide them with the education and training necessary to build a more sustainable future.

Our Aspiration

Our aspiration is to cultivate an environment that empowers the youth to reach their fullest potential in society. We endeavor to be holistic in our approach by targeting multiple priorities and intervention areas including education, sports, health, and environmental awareness. Our commitment to education and youth development is to equip young minds with the tools and more importantly values to become responsible and impactful leaders of tomorrow.

UN Sustainable Development Goals

4 QUALITY EDUCATION — **QUALITY EDUCATION**

8 DECENT WORK AND ECONOMIC GROWTH — **DECENT WORK & ECONOMIC GROWTH**

10 REDUCED INEQUALITIES — **REDUCED INEQUALITIES**

BAHRAIN NATIONAL VISION 2030 & MINISTRY OF EDUCATION STRATEGIC PLAN 2023 – 26

Sustainability Report 2023 (continued)

Education & Youth Development: Key Initiatives

Al Salam Bank's Move to Nurture Bahrain's Football Talents for World Cup 2030 and 2034 Qualification

Al Salam Bank entered a strategic partnership with Ole Academy to support national efforts in paving the way for young talents by nurturing their football skills, setting the stage for them to potentially join Bahrain's national football team and prepare them for the World Cup 2030 and 2034. This collaboration involves the implementation of an all-encompassing strategy designed to foster player development through meticulously crafted plans. The initiative is geared towards elevating the technical, tactical, and physical skills of young players, with a simultaneous focus on prioritizing their mental well-being. Moreover, it includes the orchestration of semi-annual talent exchange programs with esteemed European football clubs, coupled with the provision of external training camps. All these efforts will be conducted in cooperation and coordination with the relevant authorities, including the Bahrain Football Association, and will align with their ongoing endeavors.

Supporting Lame'a – a local youth talent and empowerment program

Lamea Association Program is an initiative of the Ministry of Youth Affairs and was developed to identify talented young Bahrainis and equip them with skills and leadership values. It is dedicated to empowering Bahraini youth and fostering their development into future leaders.

Al Salam Bank has been associated with the local talent empowerment programs under the aegis of the Lamea initiative.

Career Fairs at Universities

Al Salam Bank continues to participate in career fairs at multiple universities in the Kingdom of Bahrain organized for graduating students and alumni seeking career opportunities in the labor market. This comes as a part of Al Salam Bank's ongoing commitment to support the development of ambitious Bahraini youth and its promise to inspire, guide and prepare the future generation, equipping them with skills for professional excellence.

Al Salam sponsors the new INJAZ Bahrain Academy

Al Salam Bank announced its sponsorship of an auditorium at the newly developed INJAZ Bahrain Academy headquarters. This initiative comes as part of Al Salam Bank's social responsibility platform, "Helping Hands," established to aid homegrown institutions in support of social causes. The Academy offers a roster of business and entrepreneurship programs benefiting more than 80,000 young individuals annually. INJAZ Bahrain has also signed a Memorandum of Understanding (MoU) with the Ministry of Labor and Social Development to provide programs and train 1,200 unemployed citizens.

INJAZ Bahrain is a non-profit organization that was established in 2005, to empower young people to own their economic success and be prepared for today's business challenges. With the help of its partners and volunteers, INJAZ Bahrain impacts thousands of students every year, bringing them closer to the real world, and unlocking their potential.

Al Salam Bank's 'Artificial Intelligence' Bootcamp

Considering the global qualitative shift in Artificial Intelligence (AI), Al Salam Bank has endeavored to launch the AI Bootcamp initiative which reflects its belief in AI as a helpful tool to facilitate increased efficiency, productivity, and speed, especially in the field of financial technology. Al Salam Bank conducted its "Artificial Intelligence (AI) Bootcamp" held in partnership with Bahrain Polytechnic., where the participants presented their AI brand campaigns during the event hosted at the Bank's headquarters. The top winners of the AI bootcamp were offered an opportunity with the Al Salam Bank which was a direct investment in their talents and abilities along with the development of Al Salam's Marketing & Communications department. Onboarding the talented graduates in Al Salam Bank has contributed to the purpose of growing and developing young Bahraini talents to become future leaders who will play a vital role in the advancement and development of the national economy.

'Junior Banking Program' in association with Canadian School Bahrain

In 2022, Al Salam Bank and the Canadian School Bahrain collaborated to launch the 'Junior Banking Program' that aimed to provide students with hands-on experience and develop their financial literacy skills from a young age, setting a solid foundation for a brighter future, embedding a heightened awareness of financial responsibility, and equipping students with core life skills in the likes of the basics of money management and healthy saving habits.

The idea was to inspire the youth to develop valuable life and leadership skills at a young, impressionable age, enabling them to learn basic financial skills, as they navigate the ins-and-outs of running a bank in a fun and safe environment. This initiative comes in line with the Bank's Brand DNA Guiding Pillar, 'Inspire our People,' which is driven by the Bank's human desire to make a difference in the lives of its people and the greater community.

Support to the Waqf Isa Education Fund

The Isa bin Salman Charitable Trust provides educational opportunities to Bahraini students by funding scholarship programs at undergraduate and post graduate levels and recognizes the importance of investing in Bahraini youth and their education. Al Salam Bank supported the endeavors of this Education Fund to provide support to deserving students.

'Basketball for Good' Festival

The Seychelles Basketball for Good program is a three-year community project funded by the local branch of Al Salam Bank. The 2023 Basketball for Good Festival saw participation from twenty-one participating schools with forty-six teams and a total of 198 students. The event also saw a noticeable 41% of female participation. The Basketball for Good Festival was third in a line of series of events along with a teacher workshop, and an in-school program, bringing together the participating schools. The workshop in May 2023 for Youth Leaders and Physical Education teachers provided the foundation of the program, followed by regular school visits of the Youth Leaders at the participating schools. Over sixty school visits were made, which saw the Youth Leaders and PE teachers implementing basketball sessions with health & nutritious education elements.

Al Salam Sponsored an Award honoring Bangor University Graduates.

In 2022, Al Salam Bank for a second year in a row, sponsored the 'Outstanding Achievement Graduate Award' at the Bahrain Institute of Banking & Finance's ceremony celebrating the graduation of students from Bangor University, U.K. The ceremony was held under the Patronage of Central Bank of Bahrain. The sponsorship for this distinguished award reinforced Al Salam's ongoing support for the education sector and its commitment to investing in key initiatives that fall in line with achieving the Economic Vision 2030.

Continued Career Support for Students & Fresh Graduates

Al Salam Bank's continued support for nurturing young talent and providing them with a platform to gain valuable professional experience saw Al Salam Bank extend summer internships for twenty-seven students with team projects and rolling internship throughout the year to sixty-nine fresh graduate students. The support to Bahraini youth in their early career helps create an ecosystem of talent recognition that adds to Al Salam's human resource capabilities.

Nd Physical Education teachers provided the foundation of the program, followed by regular school visits of the Youth Leaders at the participating schools. Over sixty school visits were made, which saw the Youth Leaders and PE teachers implementing basketball sessions with health & nutritious education elements.

Partnership with Informa Markets Exhibitions

Al Salam Bank entered a strategic partnership with Informa Markets, a global events and exhibition organizer. The initiative is aimed at providing Bahraini talents interested in the events and exhibitions industry with an opportunity to gain specialized training and professional development and equipping them with necessary firsthand experience in banking and event management.

Al Salam Bahrain Financial Learning Academy

In 2022, Al Salam bank announced the launch of its employee training program titled 'Al Salam Bahrain Financial Learning Academy'. technology In partnership with various prestigious financial institutions in Sudan, and under the guidance of the Bahrain Institute of Banking and Finance (BIBF), the program was conducted through 2022 and covered a number of important topics including bank and country risk analysis and its latest updates, an introduction to Islamic capital markets, sukuk and other products, cyber security for the financial sector, anti-money laundering and compliance, financial crimes and fraud prevention as well as familiarizing employees with the key aspects of Islamic financing in addition to an overview of sanctions and regulations and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

National Cycling Team – 'Victorious' & Rashid Equestrian Club

Al Salam Bank has been an active supporter of the national cycling team 'Victorious' and has been supporting initiatives that support the national cycling team to compete internationally. Al Salam Bank has also been associated with the Rashid Equestrian and Horseracing Club through sponsorship supports and other initiatives.

Al Salam Bahrain Financial Learning Academy

In 2022, Al Salam bank announced the launch of its employee training program titled 'Al Salam Bahrain Financial Learning Academy'. technology In partnership with various prestigious financial institutions in Sudan, and under the guidance of the Bahrain Institute of Banking and Finance (BIBF), the program was conducted through 2022 and covered a number of important topics including bank and country risk analysis and its latest updates, an introduction to Islamic capital markets, sukuk and other products, cyber security for the financial sector, anti-money laundering and compliance, financial crimes and fraud prevention as well as familiarizing employees with the key aspects of Islamic financing in addition to an overview of sanctions and regulations and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Sustainability Report 2023 (continued)

HEALTH

Promoting health awareness, encouraging employee well-being, and supporting health-related community events and activities.

2. Healthcare & Well-Being

Healthcare is recognized as an integral human right across various international human rights charters. Along with the community, the healthcare and well-being of employees is also an important consideration as a part of operational risk. The well-being of employees contributes towards creating a supportive and productive work environment for people to excel in. It fosters a culture of belonging and ownership when employee well-being and health is prioritized.

Al Salaam's approach to community health plays out through various programs that are oriented toward awareness and prevention of key community health issues. Some of the key programs are oriented towards providing consultative channels for people suffering from serious ailments. The programs are conducted with the support of professional medical organizations and care-giver institutions. Al Salaam Bank prioritizes the healthcare & well-being of employee welfare through a range of activities and interventions. This is in addition to the routine trainings related to employee safety and health, occupational safety and fire hazard which are a part of Al Salaam's internal policies.

HEALTH & WELL-BEING

Al Salam Bank Guiding Principles: We are empowered by our human desire to make a difference.

Relevance

Health is one the Sustainable Development Goals (SDG 3: Good Health & Well-Being – 'Ensure healthy lives and promote well-being for all at all ages') with immense consequences both from a humane and economic perspective. The Kingdom of Bahrain has also placed a significant weight on quality healthcare and accessibility to it for all as one of the goals in the Bahrain National Vision 2030. The Ministry of Health has also vowed to respond as a unified governmental system in achieving the goals of the Bahrain National Vision through several initiatives including National Health Information System, Bahrain Genome Project, and Go Green initiatives.

Al Salam Bank's Commitment

Al Salam Bank considers health and well-being as a key pillar of its wider attempt to drive social impact. Al Salam is committed to Health as a key pillar in its strategy to engage with the community and make a positive impact on the society. Along with community engagement, Al Salam Bank prioritizes employee health and well-being as a part of its Human Resources Policy with active emphasis on workplace safety, fire hazard and safety training of its employees. Several initiatives over the last three years listed in the next section highlight Al Salam's commitment to health and well-being as an area of actioning.

Our Aspiration

Al Salam aspires to have more impactful healthcare engagements with the wider community even as it continues to hold its own operations to rigorous health and safety standards that ensures wellbeing of employees remain paramount.

UN Sustainable Development Goals

3 GOOD HEALTH AND WELL-BEING — **Good Health & Wellbeing**

8 DECENT WORK AND ECONOMIC GROWTH — **DECENT WORK & ECONOMIC GROWTH**

BAHRAIN NATIONAL VISION 2030 & MINISTRY OF EDUCATION STRATEGIC PLAN 2023 – 26

Healthcare & Well-Being: Key Initiatives

Partnership with Smile Initiative for Children with Cancer.

In 2023, Al Salam Bank partnered with the Smile Initiative to organize engaging activities for children with cancer in support of Childhood Cancer Awareness Month. The initiative was a part of the "Kids R Golden 10" campaign which aimed to raise awareness about childhood cancer by arranging a variety of innovative events, activities, and programs including arts and crafts, interactive games, and educational workshops across various areas in the Kingdom. The initiative inspired Al Salam to actively engage in similar initiatives that raised awareness across the community.

Steps for a Good Cause – Bahrain Sports Day

In 2022, Al Salam strived to raise awareness about the importance of physical activity and support those who are truly in need. Every step that community members took resulted in Al Salam Bank donating one fils towards the Wheelchair Project in cooperation with Kaaf society.

Partnership with Soza Health

In 2021, Al Salam Bank partnered with Soza Health, to offer its employees a specialized wellness test with personalized data designed as a preventative tool to help them better understand their health levels and proactively reduce associated risks. The provision of this test by Al Salam Bank to its employees was a first for any Bank in the region. This was a part of Al Salaam's continued commitment to prioritize the well-being of their employees.

COVID Financing Fee Waiver

In 2021, as part of Al Salam's efforts to encourage community vaccination, all the Bank's customers who were vaccinated against COVID-19 had the opportunity to avail any of the financing solutions without paying for the administrative fees, including personal and property financing facilities and the Mazaya social housing program.

The launch of this Initiative was in line with the Bank's ongoing commitment to raise community awareness on the importance of getting vaccinated and to highlight its vital role in combating the spread of COVID-19 across the Kingdom of Bahrain.

COVID Response

Prioritizing the health and well-being of its employees, the Bank held multiple virtual awareness sessions throughout 2020-21, offering guidance on best practices and safety precautions during the pandemic. In coordination with the Kingdom's Ministry of Health and the National Taskforce for Combating the Coronavirus, employees also benefitted from discounted rates on PCR tests and access to complimentary COVID-19 Rapid Test devices. Enhancements were also factored into the Bank's Medical Insurance policy, covering current limit increases at no additional cost.

Additionally, the Bank also extended support to various initiatives including the Supreme Council for Women's "Together for the Safety of Bahrain" campaign, the Capital Governorate's Support Program as well as the Ministry of Interior's "Thank You" initiative.

To ensure that schools could cope with the challenges of delivering their classes online, the Bank purchased and distributed tablet devices to students across Bahrain.

Health & Safety at Al Salam Bank

At Al Salam, the health and safety of our staff is paramount, and we take a comprehensive approach to ensure their welfare. Our operational health and safety (OH&S) systems have achieved ISO 45001:2018 OHSMS certification, positioning Al Salam as a leading adopter of this standard within the banking industry. A dedicated team of health and safety representatives, alongside managers and supervisors, routinely conduct safety inspections, risk assessments, surveys, and internal OH&S audits.

Health and safety trainings are periodically provided to all employees, with select individuals also receiving first aid and emergency response training. Additionally, we offer global medical coverage to all staff and regularly organize activities and promotions aimed at supporting employee health, including medical check-ups, disease awareness sessions, fitness programs, and counseling.

Sustainability Report 2023 (continued)

COMMUNITY & ENVIRONMENT

Engaging in various community aid and environmental sustainability projects, aiming to have a positive impact on society and the planet.

3. Community & Environment

Al Salam Bank recognizes their responsibility in tackling the inequities present within the community and marketplace. The Bank focuses towards creating of a prosperous, just, and diverse community for future generations. They actively invest resources towards reaching the economically and socially disenfranchised, enhancing financial stability, facilitating access to essential resources such as housing, and fostering economic advancement in the communities they operate in.

The Bank's commitments nurture economic empowerment and in combating societal issues by leveraging the full spectrum of their resources, and their business expertise. Their community engagement programs include a wide range of initiatives ranging from humanitarian aid; food preservation programs; working with charitable institutions to support local businesses; affordable housing schemes; engaging with the local governments; and women empowerment programs.

Environmental conservation and awareness is also a core part of the plan, as positive climate action can significantly enhance health and well-being within the community, and provide economic benefits within the marketplace. Without the necessary measures in place to mitigate against adverse climate and ecological impacts, organizations and businesses will face significant operational and regulatory risks that may impact the Bank's investment and credit portfolio. As a result, Al Salam Bank actively engages with the local community, government entities and marketplace on issues related to sustainability and environmental conservation.

The Bank's environmental initiatives form a part of multiple measures embedded within the day-to-day operations and is also reinforced through initiatives within their corporate social responsibilities' mandate. While these measures drive a positive impact towards climate change, it also helps with operational efficiency in relation to business operations.

COMMUNITY & ENVIRONMENT

Al Salam Bank Guiding Principles: We are empowered by our human desire to make a difference.

Relevance

U.N. Sustainable Development Goals highlight the need for sustainable cities and communities as a key consideration in the sustainability journey. (SDG 11: Sustainable Cities & Communities – 'Make cities and human settlements inclusive, safe, resilient and sustainable'). Community well-being has a tangible social and economic impact which must form a part of an organization's wider considerations.

Environment and Climate Action in the context that we operate is also an important U.N. Sustainable Development Goal (SDG 13: Climate Action – 'Take urgent action to combat climate change and its impact'). Sea-level rise, as a result of Climate Change, has resulted in increased vulnerability of coastal forests (mangroves) that form part of the only source of carbon sinks in the Kingdom. Climate Change impacts, driven by both anthropogenic and natural factors, have resulted in the decreased spatial extent and health of these coastal forests. As part of the Kingdom's commitments to the global climate goals, notably to reduce emissions by 30 per cent by 2035 and reach net zero by 2060, Bahrain's National Afforestation Plan aims to double tree coverage and quadruple mangrove area in Bahrain. Although policies are set at the national level, efforts to meet these targets shall have to be decentralized and implemented at a community or organization level.

The Bahrain National Vision 2030 also calls for importance to be given to Bahrain's natural environment and its conservation.

UN Sustainable Development Goals

2 ZERO HUNGER — **Zero Hunger**

5 GENDER EQUALITY — **Gender Equality**

10 REDUCED INEQUALITIES — **Reduced Inequalities**

COMMUNITY & ENVIRONMENT

ASB Guiding Value: We are empowered by our human desire to make a difference.

Al Salam Bank's Commitment

Al Salam's is committed to continuous community engagement and driving initiatives that support sustainability considerations across the Kingdom of Bahrain. Our commitment to this pillar is demonstrated through several initiatives oriented towards community development and environmental sustainability as highlighted in the next section.

Our Aspiration

Al Salam aspires to have a more targeted approach to prioritize and drive initiatives with the most impact. These targeted interventions can help us make a difference to the most pressing issues in our community. Our environmental commitment extends to both the community we operate in and our own internal operations. We aspire to continue supporting sustainability initiatives and move to more robust reporting and emission control pathways in line with international standards and Bahrain's 2060 Net Zero commitment.

UN Sustainable Development Goals

Sustainable Cities & Communities

Climate Action

BAHRAIN NATIONAL VISION 2030

Community & Environment: Key Initiatives

Mazaya – Social Housing Finance Scheme

Mazaya is a social housing finance scheme from the Ministry of Housing and Al Salam Bank is a leading participating bank in the scheme. Mazaya encourages home ownership for Bahrainis through a subsidized property facility by the Government of Bahrain. The program provides competitive rates and flexible repayment options, allowing Bahraini nationals to purchase or build their homes within their financial means. It is targeted towards Bahrainis looking to buy their first home or upgrade or expand their current home. Al Salam Bank has been a leading partner in this initiative and has funded 3,200+ houses as part of it. This initiative sits closely with Al Salam's objective to achieve the overall well-being of the community in which Al Salam operates in.

Supporting Initiatives of Local Governments

Al Salam Bank has been actively supporting Northern Governorate as part of its support to local governments to enhance national identity, values of loyalty and belonging.

Supporting Micro, Small & Medium Enterprises (MSMEs)

In line with its commitment to providing innovative and client centric financial solutions and its dedication to Environmental, Social and Governance goals, Al Salam Bank introduced an array of innovative products and solutions featuring highly competitive rates and accessible and convenient banking services. This innovative value proposition offers clients paperless and automated banking services. This grants Bahrain's merchant community preferential access to begin digitizing payments and adopting seamless payment acceptance solutions. This also provides personalized packages that enable entrepreneurs to build their businesses and scale them up.

Environmental Clean-Up!

Al Salam Bank collaborated with Zain & Capital Governorate as part of our efforts to engage with local community on initiatives related to environment and conservation, to participate in a beach clean-up at the Nurana Beach in the Capital Governorate area. This was also accompanied by plantation of 110+ low water consuming plants across the bank.

Royal Humanitarian Foundation – Support for Bahraini Orphans & Aid to Gaza

The Royal Humanitarian Foundation undertakes charity and philanthropic work related to humanitarian, social and economic aspects and contributes to the development of a spirit of solidarity to promote philanthropy, and support those in need in the Kingdom of Bahrain. Al Salam has contributed to the cause through donations which helped Bahraini orphans. Al Salam Bank also contributed to support aid and relief assistance for the Palestinian people in Gaza considering the difficult humanitarian conditions.

Sustainability Report 2023 (continued)

Community Engagements & Festivities

Al Salam Bank actively supports community initiatives particularly during the Ramadan Iftar programs annually along with other initiatives related to food preservation.

'Inspired to Grow' – Al Salam Bank's Campaign

Al Salam Bank successfully concluded its 'Inspired to Grow' campaign initiative which involved planting 7,000 trees across Bahrain and distributing plants to more than 13,000 people in the Kingdom. The initiative aimed to make Bahrain greener by encouraging community involvement in a tree-planting drive to help double the number of trees throughout the Kingdom. Launched in November 2022, the campaign celebrated the Bank's journey of growth and development and emphasized the importance of Environmental, Social, and Corporate Governance (ESG).

This was a part of Al Salam's commitment to supporting sustainability initiatives, Bahrain's 2060 Net Zero goals and the 2030 Economic Vision and its own goals to be supportive of community engagements to drive sustainability initiatives.

Al Salam's Responsible Resource Use

Al Salam's internal sustainability practices seek to embed a culture of environmental awareness and conservation in our day-to-day operations. Multiple initiatives related to sustainability have been undertaken to ensure responsible consumption and efficient waste management. Al Salam piloted a drive to replace plastic bottles with other sustainable and waste efficient alternatives. The move saved 15'K+ plastic water bottles annually. In addition to this, Al Salam Bank also achieved a 10% reduction in paper printing achieved through a variety of digitalization initiatives.

'Great Audit Minds' Regional Conference on Igniting Sustainable Thinking

Al Salam Bank joined the UAE Internal Auditors Association led 1st Regional Great Audit Minds (GAM) Conference as a sponsor with the theme of 'ESG Assurance – Auditing for Sustainability'. The conference highlighted the role of internal auditors in evaluating and assessing adherence to ESG standards by evaluating risk management and internal controls related to ESG and sustainability.

The support for this conference sits in line with Al Salam Bank's efforts to engage with the professional community and drive awareness regarding sustainability practices, along with gaining insights into the current landscape of industry-wide best practices in the ESG domain.

Data – Key Performance Indicators

Key Environmental Factors	2021	2022	**2023**
Total Diesel Usage (liters)	250	355	**570**
Electricity Consumption (kWh)	313,780	534,316	**1,309,274**
Water Consumption (liters)	450,000	789,000	**2,211,000**
Total Paper Consumption (kgs)	11,000	11,000	**15,313**
Total Waste Disposed (kgs)	720,000	720,000	**576,000**

Table 1: Consumption of factors significant to the environment

TECHNOLOGY & SECURITY

Prioritizing investments in technology, especially in cybersecurity and IT infrastructure, to enhance operational efficiency and data security.

4. Technology & Security

The rising unpredictability and volatility in global financial markets have enabled rapid transformations in the banking sector, accelerating the need to adopt state-of-the-art technologies to improve customer engagement and daily operations. Cybersecurity threats have become increasingly complex and sophisticated over the years and a pose a growing challenge for the banking sector. As the Bank's services become more digitized, ensuring the security of sensitive data and transactions have become a greater focus.

Today, technology presents a unique opportunity for banking and financial institutions to upgrade their legacy processes, improve process automation through AI and machine learning, tailor finance and investment solutions, reduce fraud, improve regulatory compliance and drive a higher level of efficiency. Banks are also increasingly driven to strengthen the resilience of its anti-money laundering (AML) process that are technology enabled given the growing dependency on data, increasing cyber risks and regulatory pressures. This is not only a compelling proposition to minimize risk and increase profitability but also instrumental in driving the sustainability agenda by potentially mitigating avoidable carbon emissions and optimizing resource use across its value chain.

Al Salam has embraced a digital-centric approach to cater to the requirements of its customers, providing customized financial solutions and offer a rich customer experience. By leveraging data-driven analysis and cutting-edge technology, Al Salam Bank also provides a comprehensive range of Sharia-compliant financial solutions and services across its extensive network branches and ATM kiosks. Al Salam has committed substantial resources to continuously modernize its technological infrastructure to improve their employee experience by providing staff with the best-in-class tools that support agile ways of working and personal productivity.

TECHNOLOGY & SECURITY

Al Salam Bank Guiding Principles: We are empowered by our human desire to make a difference.

Relevance

Information and communication technologies (ICTs) can help accelerate progress towards all the 17 United Nations Sustainable Development Goals (SDGs). However, SDG 9, in particular, addresses three important aspects of sustainable development: infrastructure, industrialization and innovation. Infrastructure provides the basic physical facilities essential to business and society; industrialization drives economic growth and job creation; and innovation expands the technological capabilities of industrial sectors and leads to the development of new skills. Advancements in technology, particularly in the banking sector, contribute especially to SDG 9 by helping build resilient and sustainable industrial infrastructure. Efficient and affordable ICT infrastructure and services can help countries engage in the digital economy and boost their economic competitiveness globally.

The Kingdom of Bahrain has been at the forefront of technology-based financial services. The Kingdom's Economic Vision 2030 places technology and innovation at the centre of long-term economic growth and well-being of the country. From a national strategy perspective, one of the key pillars of Bahrain's Financial Services Sector Development Strategy (2022-26). Some of the most critical priorities of the strategy, that underpins Al Salam's commitment to technology and security, focuses on developing the financial markets sector, developing financial services and financial technology.

UN Sustainable Development Goals

Industry, Innovation & Infrastructure

Sustainability Report 2023 (continued)

TECHNOLOGY & SECURITY

Al Salam Bank Guiding Principles: We are empowered by our human desire to make a difference.

Relevance (continued)

In order to effectively mitigate risks that emerge in the form of cybercrime, Bahrain's National Cyber Security Strategy has laid out a comprehensive plan that consider five pillars - resilient cyber defenses, effective cyber security governance and standards, building a cyber aware nation, collective defense through partnership and cooperation, and cyber workforce development.

Al Salam Bank's Commitment

Prioritizing the use of technology to provide innovative, secure and sustainable products and services to our clients is paramount. Our commitment to digital advancement is centered on enhancing efficiency by automating processes, consistently refining our services, and empowering our customers.

Al Salam shall endeavor to continuously to bolster defenses against cyber-attacks by enhancing our preventative and responsive controls. The bank also recognizes the importance of secure behaviors and shall continue to educate its customers and colleagues on cyber threats.

Al Salam values the trust our customers and colleagues place in us, therefore we process and secure personal data in a lawful, fair and transparent manner to enable the delivery of good outcomes and to protect our customers and colleagues from foreseeable harm/

Our Aspiration

Al Salam Bank aspires to remain on this journey of constant adoption of technology and tools that power our digital banking and financial services platforms. We intend to stay ahead of the curve when it comes to technological and digital enablement to drive a better customer experience along with highest consideration for safety and privacy issues.

Technology & Security: Key Initiatives

Al Salam Bank's I.T. Initiatives

Al Salam Bank has conducted multiple IT automation and digital enhancements across all its product segments. Eighty-five percent of branch onboarding is now paperless. Ninety-nine percent of retail branch transactions is paperless. 100% of sole ownership businesses are onboarded through a paperless mechanism.

Al Salam Bank also recently launched a new state-of-the-art self-service banking kiosk that enables customers to conduct several financial services independently though a safe and secure channel. It comes with an e-KYC authentication technology that ensures security and safety of the transactions. Al Salam plans to introduce self-service kiosks throughout its extensive network of branches throughout the Kingdom.

Al Salam Bank's Mobile App won two Prestigious International Awards

Al Salam Bank has recently been awarded two prestigious accolades for its mobile banking application, recognized for "Best Mobile Banking Services Bahrain 2023" by the International Business Magazine Awards 2023 and "Most Innovative Mobile Application - Banking - Bahrain 2023" by the International Finance Awards 2023. well. This notable achievement reaffirms Al Salam Bank's ongoing efforts to be "Digitally Native," a Guiding Principle that has enabled the Bank to keep up with the latest developments in an evolving FinTech landscape by relying on digitization.

E-Signature Services

Al Salam Bank recently introduced its e-signature service through DocuSign, a renowned e-signature provider, which will enable clients to complete virtual banking transactions without needing to visit a physical branch. The launch reinforces Al Salam Bank's ongoing sustainability efforts and commitment to being a digitally native financial institution.

Al Salam Bank & Bahrain Trade Onboarding

Al Salam Bank expanded its digital investment platform, "Al Salam Invest," by launching Bahrain Trade as part of its trading services, enabling retail clients to digitally trade in Bahrain Bourse securities online. The platform, which was launched last year, is exclusively available through the Bank's mobile application and features a customizable, intuitive, user-friendly interface where clients can choose between viewing information in English or Arabic. Al Salam Invest allows its clients to execute trades in real-time as well as have a comprehensive overview of their portfolios. The sharia-compliant platform offers a seamless digital trading experience as clients can easily access global markets and equities, exchange-traded funds (ETFs), sukuk, and mutual funds. The on boarding of Bahrain trade on the Al Salam Bank investment platform has been in line with Al Salam Bank's digital-first approach and use of technology to drive customer satisfaction.

Exclusive Mobile/Kiosk Driven Digital Onboarding Campaign

Al Salam Bank launched an exclusive digital onboarding campaign for clients who open a new bank account using the bank's mobile app or the new self-service kiosks. It also served as a vital initiative to facilitate client migration process post Al Salam Bank's acquisition of Ithmaar Bank's consumer banking division. This initiative was a key effort integrating digital processes in the bank's most fundamental processes and operations.

RPA Solution for Digital Transformation

In 2022, Al Salam Bank successfully implemented Robotic Process Automation solution which automates high-volume compliance-driven back-end operations, which were previously performed manually, with this technology, Al Salam Bank can better focus on high-impact strategic tasks by freeing up their back-end operations teams. This comes in line with the Bank's digitization strategy, adding to the Bank's portfolio of digital banking services and products.

Al Salam Bank Received the J.P. Morgan Elite Quality Recognition Award

Al Salam Bank received the prestigious J.P Morgan Elite Quality Recognition Award for the third consecutive year This recognition reflected the Bank's outstanding performance in optimizing the efficiency of payments made in US dollars. This accolade is the highest rating granted by J.P. Morgan to banks that demonstrate exceptional efficiency and accuracy in international payments and transfers. The award is a testament to Al Salam's commitment to enhance the banking experience for our clients through seamless transactions.

Fully Automated Branch

In 2022, Al Salam Bank opened the first fully automated and paperless branch in the Kingdom. The move reiterated the Bank's ethos of smart, efficient banking, and adopting a digital-first mindset to provide clients with a personalized experience characterized by convenience, simplicity, and efficiency.

Al Salam Bank Won Two Prestigious Awards from Visa

Al Salam Bank received two coveted awards from Visa, the global leader in digital payments, for "Cross-Border Spend Growth Leaders in Bahrain for 2023" and "CIF Growth Champions in Bahrain for 2023." The award underscored the performance of Al Salam Bank in the digital enablement space and is in line with the objective to promote digital commerce in Bahrain.

Digital Top-Up Service

Al Salam Bank's recently launched a digital top-up service which allows existing clients to top up their personal financing effortlessly. This comes in line with Al Salam Bank's dedication to providing innovative products and services, all guided by its client-centric, digital-first philosophy. This service is accessible with the added convenience of seamless application process of calculating the maximum top-up amount based on each client's financial creditworthiness.

Data – Key Performance Indicators

Metric	2021	2022	**2023**
Number of data security breaches reported during the year	0	1	**0**
Number of data security breaches involving customer's personally identifiable information	0	1	**0**
Percentage of employees who received Al Salam Bank's data privacy and security training	100%	100%	**100%**

Table 2: Details regarding security and privacy metrics

Sustainability Report 2023 (continued)

EMPLOYEE WELFARE

Emphasizing the importance of a supportive and inclusive workplace environment, focusing on employee welfare, diversity, and equality.

5. Employee Welfare & Well-Being

Wellbeing at the workplace relates to all aspects of being engaged at work, from the quality and safety of the physical surroundings, employee satisfaction about their work and environment, support from the organization and the values that the organization stands for. Al Salam firmly believes that workers well-being is a key factor to its employees' productivity levels, general health of the workforce and ultimately the Bank's long-term success.

The overall well-being and satisfaction of the workforce helps embed a culture of ownership and responsibility which is paramount in driving ethical business practices and fostering an environment of collaboration and support. Al Salam also believes that a motivated workforce is key to an enhanced customer experience and that will result in better customer satisfaction.

As an active stakeholder in the local economy, Al Salam relies on its community for talent to strengthen its human resource capabilities. An engaged workforce often acts as a feedback loop and helps in establishing the organizational brand in the marketplace and enhances the culture within the workplace. Employees are a significant stakeholder group who represent the organization's brand and values in all the work they do. By investing in people, the Bank not only solidifies their leadership position in the market but also ensures a positive and sustainable impact on the community they serve.

EMPLOYEE WELFARE & WELL-BEING

Al Salam Bank Guiding Principles: We are empowered by our human desire to make a difference.

Relevance

The Kingdom of Bahrain has been a Member State of the International Labour Organisation since 1977 demonstrating its commitment to upholding international labor standards in the country. The Kingdom has ratified 10 ILO conventions, namely six fundamental conventions, one governance convention, and three technical conventions. Through the ratification of the ILO conventions, Bahrain continues to contribute to the achievement of Sustainable Development Goal 8 on promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all, Goal 10 on reducing inequality within and among countries, and Goal 16 on promoting peaceful and inclusive societies for sustainable development, providing access to justice for all and building effective, accountable and inclusive institutions at all levels.

By virtue of Al Salam's CR status and being a licensee to the Central Bank of Bahrain, the bank is in full compliance with Bahrain Labour Law. The principal law governing employment relations in the private sector in Bahrain is Law No. 36 of 2012 (the Labour Law), as amended. The provisions strongly reflect Bahrain's commitment to safeguarding employees by outlining their fundamental rights concerning various aspects such as leave allowances, overtime pay, basic healthcare, and end-of-service benefits. Furthermore, Article 39 of the Labour Law provides that employees are not to be discriminated against in wages based on origin, language, religion, sex or ideology.

This focus on employee well-being also aligns perfectly with Bahrain's national vision 2030. The Kingdom's Vision 2030 clearly aims to achieve high living standards as a result of productive employment opportunities and higher wages. The Vision calls for a collaborative effort between the private sector, the government and every member of Bahraini society achieve this objective.

UN Sustainable Development Goals

8 DECENT WORK AND ECONOMIC GROWTH

DECENT WORK & ECONOMIC GROWTH

BAHRAIN NATIONAL VISION 2030, THE LABOR LAW OF KINGDOM OF BAHRAIN

EMPLOYEE WELFARE & WELL-BEING

Al Salam Bank Guiding Principles: We are empowered by our human desire to make a difference.

Al Salam Bank's Commitment

Building on Bahrain's strong foundations for employee well-being, Al Salam Bank shall endeavor to champion a proactive and holistic approach to fostering a thriving and committed workforce. Our commitment to employee wellbeing is well embedded within our operational and governance framework through well-defined Human Resource and Whistleblower policies. We ensure that our policies align with international standards set by the ILO, uphold Bahrain's Labor Law, and reflect the spirit of the SDGs. By prioritizing employee well-being both in adherence to regulations and through additional initiatives, Al Salam Bank underscores its commitment to its workforce and its position as the leading Islamic bank in Bahrain.

Furthermore, Al Salam Bank goes beyond compliance, actively seeking opportunities to elevate employee well-being through initiatives that invest in training and development, promote work-life balance, and cultivate a diverse and inclusive workplace.

Our Aspiration

Al Salam Bank aspires to stay committed to employee welfare and well-being as one of the organization's pillars in its sustainability journey. Our vision is to keep enhancing the scope of employee welfare through a consultative approach and continuous monitoring of our policies and procedures to better cater to the concerns and well-being of our employees.

Employee Welfare & Well-Being: Key Initiatives

Qardh Hassan & Financing Schemes

The bank provides its employees with at least 1 year of service the Qardh Hassan facility. Additionally, employees can also avail financing options for their personal needs.

Team Building & Culture Integration Programs

Al Salam Bank recently launched two intensive programs that aim to instill a spirit of collaboration and foster improved communication across its teams to enhance cultural integration. Developed in collaboration with Investment for Knowledge Management and Consultancy (iKMC) and Wiser Group Consultancy, the programs were first launched in early December 2022, and continued in 2023 with over two hundred participating employees.

Under this partnership, iKMC has developed a Team Building program that encourages open communication to build a cohesive network with shared work ethics and integrated team values, by equipping teams with the curated knowledge to achieve long-term success in a sustainable manner. The program also focuses on bridging gaps between individuals and various departments and addressing them in a systematic manner to ensure active collaboration in an effective training environment.

Employee Recognition & Benefits

Al Salam Bank actively recognizes employee contributions including excellent performance and commitment as well as long service tenures. Additionally, Al Salam Bank also covers employees and their dependents under a medical scheme assuring a sufficient coverage of hospital and clinics. All employees up to 60 years of age are also covered under the Islamic Life Takaful Scheme.

In addition to adhering to the benefits mandated by Bahrain's labor laws such as maternity and bereavement leaves, Al Salam Bank also actively supports benefits that enhance the overall well-being of the staff. This includes study leaves for employees sponsored by Al Salam Bank who are pursuing professional qualifications as well as prompt payouts of end of service benefits & entitlements in the unfortunate event of an employee's death.

Retail Academy Program for Al Salam Bank employees

In 2022, Al Salam Bank launched the Retail Academy to equip employees with the essential skills and knowledge required to deliver exceptional client service across all facets of retail banking. In partnership with the Bahrain Institute of Banking & Finance (BIBF) and Asas Training and Roaa for Training & Consulting, this program conducted a comprehensive series of training sessions encompassing a wide spectrum of topics pertinent to retail banking. These training modules covered identifying the features of banking services and products, evaluating their alignment with individual client needs, establishing and maintaining robust client relationships while adhering to the guidelines set forth by the Central Bank of Bahrain and governance laws, and offering financial guidance to clients in accordance with these requirements.

Sustainability Report 2023 (continued)

'Qaedat Al Salam' Women Leadership Program

Al Salam Bank conducted the 'Qaedat Al Salam' Women Leadership program which served as a knowledge-sharing platform for participants to discuss their experiences and strategies to overcome challenges, achieve work-life balance, and receive invaluable guidance to elevate their career paths for future leadership roles. 'Qaedat Al Salam' was a one-of-a-kind learning and development program with a goal to empower the Bank's female employees over 2,242 hours of training spanning over 12 weeks, encompassing workshops, courses, and projects on various crucial topics such as self-awareness, personal, and professional development.

Al Salam Bank strived to enhance its organizational efficiency and competitiveness through 'Qaedat Al Salam.' This initiative sought to establish industry leaders, promote diversity, inclusion, women empowerment, and protect women's rights. It also aimed to attract, develop, and retain Bahraini talent. The program aligned with the Bank's commitment to become a leading, innovative financial institution with a proven record of high productivity.

Healthcare Program for Employees

In line with Al Salam's commitment to employee well-being, employees are encouraged to participate in a wide variety of activities throughout the year. In 2023, an annual Sports Day with a variety of health-related activities was organized and saw enthusiastic participation from the employees. Additionally, an annual in-office health check-up program including Genome testing was conducted on Cancer Day.

Data – Key Performance Indicators

Bahrainization	2021	2022	2023
Nationalization among total workforce %	89%	92%	92%
Nationalization of senior management %	17%	18%	18%
Total Number of national employees Number	334	535	478
Number of female national employees	103	179	156

	Female Employees (%)			Male Employees (%)		
Management Category	2021	2022	**2023**	2021	2022	**2023**
Junior	27%	34%	**35%**	73%	66%	**65%**
Middle	39%	36%	**33%**	61%	64%	**67%**
Senior	6%	11%	**17%**	94%	89%	**83%**

Table 3: Proportion of employees by gender and grade

Age Group	Proportion of Workforce		
	2021	2022	2023
18-29	6%	6%	**8%**
30-50	84%	86%	**86%**
51+	10%	8%	**6%**

Table 4: Proportion of employees by age group

Nationality	Proportion of Workforce		
	2021	2022	2023
Bahrain	89%	92%	**92%**
Expat	11%	8%	**8%**

Gender	Proportion of Workforce		
	2021	2022	2023
Male	264	182	354
Female	112	392	164
Total	376	574	518

By Gender	Board Diversity		
	2021	2022	2023
Male	9	9	9
Female	-	-	-

Table 5 : Proportion of employees by gender

Sustainability Report 2023 (continued)

CORPORATE GOVERNANCE

The Bank aspires to the highest standards of ethical conduct: doing what it says; reporting results with accuracy, transparency, and maintaining full compliance with the laws and regulations that govern the Bank's business.

6. Corporate Governance

Enhanced corporate governance is crucial due to the role banks play as primary financiers for businesses. Strengthening board structures, streamlining administrative processes, and enforcing transparent disclosure standards can lead to more effectively managed banks, increased likelihood of efficient capital allocation, heightened accountability and supervision, and robust mechanisms for anticipating and addressing potential risks proactively.

Sound corporate governance is equally vital for the sustainable growth of the banking sector. As intermediaries between public savings and corporate entities, banks must accurately evaluate the creditworthiness of borrowers. Failure to do so can result in a surge of non-performing assets, potentially leading to an increased exposure to systemic risks.

There is mounting concern regarding how the rapid expansion of the global economy has heightened the prospects of international trade to transfer illicit funds through financial transactions linked to the exchange of goods and services. Exploiting trade as a tactic for money laundering and terrorist financing, given the vast scale of global trade mechanisms. Globally and in the region, there are steps taken by Government agencies and regulators to curb the proliferation of such activities. Anti-Money Laundering laws and regulations have been firmly established by the bank to help detect and report suspicious activity including terrorist financing, fraud, and market manipulation.

Al Salam aims for the highest levels of ethical behavior, adheres to its commitments, accurately and transparently reports its results, and ensures full compliance with the laws and regulations governing its operations. The Bank has consistently undertaken steps to bolster its compliance to the code and the required legislation relevant to AML/CFT.

GOVERNANCE AND MANAGEMENT

Al Salam Bank Guiding Principles: We Do the Right Thing

Relevance

Issued by the Ministry of Industry and Commerce, the Corporate Governance Code serves as a framework for promoting transparency and accountability within companies. The aim of this Code is to set forth optimal corporate governance standards in Bahrain and to safeguard the interests of investors and various stakeholders by ensuring adherence to these standards. By virtue of being a listed entity and a registered company in the Kingdom of Bahrain, Al Salam is in full compliance with the Corporate Governance Code.

The Central Bank of Bahrain considers the effort to abate money laundering (AML) and combat financing of terrorism (CFT) as a top priority. Bahrain, as a member of the Financial Action Task Force (FATF) through its full membership to the Gulf Cooperation Council, is dedicated to adhering to all global standards in this domain.

One of the key pillars of The Bahrain Vision 2030 document is fairness. The Vision aims to foster fairness that is underpinned by transparent transactions conducted by both public and private entities. An environment of free and equitable competition should be maintained, ensuring that activities of both private and public entities occur openly and without bias.

UN Sustainable Development Goals

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Responsible production and consumption

BAHRAIN NATIONAL VISION 2030

GOVERNANCE AND MANAGEMENT

Al Salam Bank Guiding Principles: We Do the Right Thing

Al Salam Bank's Commitment

Al Salam's guiding pillar "We Do the Right Thing" ensures that we live by our values of integrity, fairness, transparency, and ethical conduct.

Corporate Governance:

Al Salam adheres to the highest standards of ethical conduct: doing what it says, reporting results with accuracy, and transparency, and maintaining full compliance with the laws and regulations that govern the Bank's operations. Since the introduction of the Corporate Governance Code in the Kingdom of Bahrain, the Bank has continuously implemented measures to enhance its compliance with the Code.

The Board of Directors at Al Salam has adopted a Board of Directors Charter which, together with the Bank's Memorandum and Articles of Association and the charters of Board Sub-Committees, provides the authority and practices for governance of the Bank. Further, the Board has appointed a Corporate Governance Officer, in charge of the overall guidance and oversight of the Corporate Governance Framework of the Bank, in conjunction with the Board as well as the Nomination and Corporate Governance Committee.

The Board entrusted with the oversight responsibilities follows an established system involving clear guidelines regarding the composition of the board, appointment of a proxy to the board for every large shareholding unit, clear enlisting of Board members' responsibilities, and a Code of Conduct to adhere to during the period of the service.

AML/CFT:

Al Salam is committed to the highest standards of Anti-Money Laundering (AML) Compliance and Counter-Terrorism Financing (CFT). The Bank's policy outlines the standards and expectations of internal AML controls which are to be adhered to mitigate the legal, regulatory, reputational, and consequently financial risks. The policy is applicable to all staff throughout the Bank including members of the Board, management, advisors, agents, brokers, consultants, contractors, intermediaries, introducers, representatives, stakeholders, suppliers, and joint venture entities with whom the Bank works.

Bribery and Corruption:

The Bank does not tolerate bribery and corruption in any form. Any employee or Director caught engaging in acts of bribery or corruption, directly or through a third party, shall be subject to severe action by the Bank, including reporting to the regulatory authorities. The bank has an Anti-Bribery & Corruption Policy in force which acts as a guiding force to prevent both internal as well as third-party activities related to bribery and corruption. The policy also touches upon steps to investigate and mitigate risks emerging from such activities. The bank follows an established process that allows both reporting and investigation of acts of corruption including the mechanism of a Compliance Officer, Audit & Risk Committee, or a Whistleblower mechanism. The penalties for such acts of corruption, if proven are in line with the Bahrain Penal Code.

Our Aspiration

Al Salam shall serve as a role model in good corporate governance by continuing its effort to improve business performance and customer satisfaction. Al Salam will continue to comply and enforce measures to address AML and CFT risks through its adoption of a risk-based approach (RBA) in line with international best practices. The Bank will ensure that every business unit shall construct, document, implement and place suitable governance over their RBA processes and procedures. Resources shall be assigned by the bank and adequately deployed in accordance with the nature and location of the identified money laundering risks.

Emphasizing robust business ethics and compliance is fundamental to our goal of generating long-term, sustainable value for all stakeholders.

Sustainability Report 2023 (continued)

Key Highlights

- No incidents of severe corruption related risks were observed during the reporting period.
- No legal actions for anti-competitive behavior, anti-trust and monopoly practices were observed during the reporting period.
- No monetary loss was reported because of legal proceedings associated with fraud, insider trading, market manipulation or other related financial industry laws or regulations.
- No suppliers were identified as having significant actual and potential negative impacts with which relationships were terminated as a result.

Other important policies pertaining to corporate governance include Directors Remuneration Policy, Shari'a Non-Compliance Policy, Gifts & Entertainment Policy, Whistleblowing Policy, Key Persons Policy, and Conflict of Interest Management Policy. These policies act as a bulwark for Al Salam Bank against corporate governance related risks.

Corporate Governance: Policies Framework

Anti-Bribery & Corruption Policy

Al Salam Bank's Anti-Bribery & Corruption Policy outlines our commitment to prohibit the practice of bribery and acts of corruption within the bank. The policy governs acts of bribery and corruption irrespective of whether it is indulges into directly or through a third-party. It also ap plies irrespective of whether the act pertains to the Kingdom of Bahrain or outside. The policy is holistic enough to cover a wide range of acts of corruption and bribery pertaining to cash payments, kickbacks, promise of employment, gifts and entertainment and any other contributions. The bank also conducts a third-party due diligence prior to engaging with them. Timely training is provided to all the employees and employees are encouraged to report such acts of corruption or bribery through the compliance officer or the Whistleblowing mechanism. Considering such a strong anti-corruption governance mechanism, no serious incidents of corruption related risks were reported during the last year.

Related Party Transactions

The Related Party Policy defines who are considered related parties and governs the bank's financial transactions as well as non-financing services with such related parties. The policy establishes clear guidelines to avoid any conflicts of interest in business decisions while dealing with related parties.

Whistleblower Policy

To encourage prompt and accurate reporting of any breach of policy without any fear of consequences, Al Salam Bank has an institutionalized mechanism through a Whistleblower Policy. It includes the scope to report on breaches in connection with bank's internal policies, danger to health and safety, misuse of bank's resources, fraud and financial irregularities, insider trading, or any other breach with potential to damage the reputation of the bank. A Whistleblower Officer acts as a focal point of contact for all the whistleblowing complaints or allegations. The policy also has explicit provisions that protect the whistleblower from any form of retribution and will protect their identity. The policy stands as a part of Al Salam Bank's commitment to encourage a culture of transparency, accountability and promoting ethical business practices.

Conflict of Interest Management Policy

This policy defines the procedures for managing the conflict of interest of governing board members and senior management members. It mandates the covered employees to submit independence and no conflict-of-interest declaration and refrain from discussions on issues that involves a conflict-of-interest. The policy aims to mitigate the conflicts that may arise and even mandates exclusion in case such a conflict cannot be mitigated. The policy is an essential pillar of ethical business decisioning at the bank.

Gifts & Entertainment Policy

The Gifts & Entertainment Policy outlines the procedure for both accepting and providing gifts or entertainment to external parties by the governing body members or employees of the bank. The guidelines specify the acceptable gifts/entertainment that may be accepted or provided and lays down situations where prior approval is to be sought. It also mandates reporting of any gifts or entertainment accepted or provided to the Human Resources department. This policy aids the Anti-Bribery & Corruption Policy as well as the Whistleblower Policy to ensure prevention of acts of bribery and corruption.

Disclosures Policy

The Disclosures Policy is a detailed guide that determines the bank's internal as well as external communications and disclosures. The Board oversees the process of disclosures and communication with the internal and external stakeholders.

Key Persons Policy

The Key Persons Policy is an critical policy that defines who are the key persons within the bank and aims to prevent abuse of inside information by ensuring that the covered persons are aware of the legal and administrative requirements regarding holding and trading of the bank's securities.

Conference Partner for 2023 "MEIRA" Annual Conference

Al Salam Bank was the sponsor for the Middle East Investor Relation Association – "MEIRA" conference held in 2023. The conference was organized by Bahrain Bourse The 'MEIRA' Annual Conference provided a networking platform and encouraged dialogue around market challenges and best practices while educating participants and stakeholders on the importance of investor relations, transparency, and corporate governance. The event will bring together professionals and specialists to discuss the direction of the banking industry and optimal digital solutions. Participants also gained access to a wide range of industry partners, allowing them to develop a comprehensive investor relations ecosystem in the region. As part of MEIRA, multiple workshops for listed companies were organized to encourage the adaptation of best international practices for investor relations.

Best Islamic Banking Brand

In 2022, Bahrain Institute of Banking & Finance (BIBF) collaborated with Al Salam Bank to launch the Islamic Finance Practical Handbook which offers updated information on Islamic banking topics including capital markets, trade finance, Takaful insurance systems, and other relevant banking regulations, with the aim of enhancing the Islamic finance industry at a global level.

'MENA Retail Bank of the Year' for 2023

Al Salam Bank was awarded the MENA Retail Bank of the Year award for 2023 for its dedication to clients, innovative 'digital-first' approach and continued commitment to sustainable banking. The digital-first mindset and people-centric approach reflected in Al Salam Bank's client touchpoints such as its mobile application and investment tool has helped the bank in institutionalizing automation and digitization initiatives.

'Bank of the Year – Bahrain'

In May 2023, Al Salam Bank was named as the 'Bank of the Year – Bahrain' at the Banker Awards 2022.The award was in recognition of the bank's commitment to service excellence, its diverse portfolio of tailored innovative banking products, and its significant contributions to the financial industry and Bahrain's economy.

Sustainability Report 2023 (continued)

Appendix

U.N. Sustainable Development Goals		
1.	**No Poverty**	End Poverty in all its forms everywhere.
2	**Zero Hunger**	End hunger, achieve food security and improved nutrition and promote sustainable agriculture.
3	**Good Health & Well-Being**	Ensure healthy lives and promote well-being for all at all ages.
4	**Quality Education**	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.
5	**Gender Equality**	Achieve gender equality and empower all women and girls.

U.N. Sustainable Development Goals		
6	**Clean Water & Sanitation**	Ensure availability and sustainable management of water and sanitation for all.
7	**Affordable & Clean Energy**	Ensure access to affordable, reliable, sustainable and modern energy for all.
8	**Decent Work & Economic Growth**	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
9	**Industry, Innovation & Infrastructure**	Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
10	**Reduced Inequalities**	Reduce inequality within and among countries

	U.N. Sustainable Development Goals	
11	**Sustainable Cities & Communities**	Make cities and human settlements inclusive, safe, resilient and sustainable
12	**Responsible Consumption & Production**	Ensure sustainable consumption and production patterns
13	**Climate Action**	Take urgent action to combat climate change and its impacts
14	**Life Below Water**	Conserve and sustainably use the oceans, seas and marine resources for sustainable development
15	**Life on Land**	Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

	U.N. Sustainable Development Goals	
16	**Peace, Justice & Strong Institutions**	Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
17	**Partnership for the Goals**	Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development

Fatwa & Shari'a Supervisory Board Report to the Shareholders

In the name of Allah, the Beneficent and the Merciful

Praise be to Allah; Prayers and peace be upon the most ennoble messenger, our Prophet Muhammad and his companion

The Report of Shari'a Supervisory Board of Al Salam Bank B.S.C, ("the Board") submitted to the General Assembly on the Bank's activities during the financial year ending 31 December 2023.

First: Memorandum and Articles of Association

Al Salam Bank, B.S.C. operates as an Islamic Bank authorized by the Central Bank of Bahrain. We therefore confirm that the Memorandum and Articles of Association of the Bank are in conformity with the rules and principles of Shari'a.

Second: Activities of the Bank and Board's Guidance

The Board has supervised the activities and transactions of the Bank during the reporting year either directly or through the Sharia Board executive Committee and/or the Sharia Compliance department, it has, therefore, instructed and guided various departments to comply with the rules and principles of Shari'a and fatwas of the Board in relation to such activities and transactions. During the year, the SSB has held four meetings with the senior staff of the Bank, three of which are conducted physically, and one was conducted online. Also, SSB Executive Committee conducted nine meetings.

Third: Contracts and Transactions

The Board studied the operational structures that have been presented to it during the year, approved their contracts and documents, and responded to the questions and inquiries that were raised in respect thereof and issued decisions and fatwas in this regard. These fatwas and decisions have been circulated to the concerned departments of the Bank for execution and implementation. It has also reviewed and studied drafts of the contacts and agreements that were presented to it in respect to sukuks (investment certificates), syndicated financing transactions and investment funds and approved them after its comments were considered.

Fourth: Access to Records

The Management of the Bank has positively cooperated with the Board and based on its request, allowed it to access the records, information and data of the Bank that are necessary for it to perform its tasks or are relevant to Sharia audit and Sharia supervision.

Fifth: Shari'a Audit

The Board has reviewed Internal Shari'a Audit reports and pointed out its observations on the reports. The Board further reviewed and discussed the external Shari'a Auditor observations and took note of these observations.

Sixth: Training

The Board has taken note of the efforts of the Bank's Management in training its employees and recommended that the Management continues to conduct regular training programmes for its employees in order to raise the level of Shari'a performance and compliance.

Seventh: Balance Sheet

The Board has reviewed the balance sheet, profit and loss accounts, accounting policies for the preparation of the financial statement and the basis of distributing dividends and profits to the shareholders and depositors.

The Board believes that the financial information presented in the balance sheet, to the extent of correct presentation and information provided by the Bank's Management and the Bank's compliance with some observations, did not result in non-compliance of the underlying transactions with the rules and principles of Shari'a. The Bank have set-aside and purified non-Sharia compliant earnings by channelling them to relevant accounts established for disbursement of charity amounts. The Board, therefore, approved the balance sheet.

Eighth: Zakah

Since the Articles of Association of the Bank do not oblige the Bank to pay Zakah on behalf of shareholders, and on the invested Shareholder's equity, the Board has reviewed the calculation of the Zakah payable by the shareholders in order to be disclosed in the balance sheet. The Zakah calculation was prepared in line with Shari'a Standards no.35 on Zakah and Financial Accounting Standards no.39 on Financial Reporting for Zakah issued by Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI"). Resultantly, the Board approved the calculation of Zakah and instructed the bank to notify Shareholders of the Zakah for this year as a disclosure in the balance sheet.

Ninth: Charity Fund

The Board has ensured, through its representative in the Social Committee, that all non-Sharia compliant income and dividends are channelled to the Bank's Charity Fund, which are noted to be resulted from either the previous transactions due to merger and conversion of conventional banks into Al Salam Bank or any other arising reasons.

Decision of the Board

The Board emphasizes that compliance to the rules and principles of the Shari'a in respect of all the businesses and transactions of the Bank is the responsibility of the Bank's Management. The Board confirms that the transactions executed by the Bank during the year, to the extent of the information and the data made available to it by the Bank's Management, do not conflict, in general, with the rules and principles of Shari'a. The Board also confirms that the accuracy of information, data, numbers, and correctness of the profit distribution are the responsibility of the management.

Allah is the guider to the right path.

The Board wishes for the Bank a continuous success and rectitude in doing things that pleases Allah.

Fatwa and Shari'a Supervisory Board

Shaikh Adnan Abdulla AlQattan
Chairman

Dr. Fareed Yaqoob AlMeftah
Vice Chairman

Dr. Nedham Mohamed Yaqoobi
Member

Dr. Osama Mohamed Bahar
Member

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Independent Auditors’ Report to the Shareholders

Al Salam Bank B.S.C., Manama, Kingdom of Bahrain
31 December 2023

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of Al Salam Bank B.S.C. (the "Bank"), and its subsidiaries (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated statements of income, changes in equity, cash flows, for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2023, and consolidated results of its operations, changes in equity, its cash flows, for the year then ended in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI").

In our opinion, the Group has also complied with the Islamic Shariah Principles and Rules as determined by the Group's Shariah Supervisory Board during the year ended 31 December 2023.

Basis for Opinion

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions ("ASIFIs") issued by AAOIFI. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions and International Ethics Standards Board for Accountants International Code of Ethics for Professional Accounting (including International Independence Standards) (together the "code"), together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment allowance on financing assets

Refer to accounting policy in Note 2.4 (d), disclosure on use of estimates and judgment in Note 2.3 and management of credit risk in Note 31.2 to the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
We focused on this area because: • of the significance of financing assets representing 52% of total assets; • impairment of financing assets involves: ➤ complex estimates and judgement over both timing and recognition of impairment including susceptibility to management bias; ➤ use of statistical models and methodologies for determination of expected credit losses. The Group exercises significant judgments and makes a number of assumptions in developing its expected credit loss ('ECL) models which is determined as a function of the assessment of the probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD") associated with the underlying financial assets; and ➤ complex disclosure requirements regarding credit quality of the portfolio including explanation of key judgments and material inputs used in determination of expected credit losses;	Our procedures, amongst others, included: • Evaluating the appropriateness of the accounting policies adopted based on the requirements of applicable accounting standards, regulatory guidance, our business understanding and industry practice. • Confirming our understanding of management's processes, systems and controls over the ECL calculation process *Control testing* We performed process walkthroughs to identify key systems, applications and controls associated with the ECL calculation process. Key aspects of our control testing involved the following: • Testing controls over the transfer of data between underlying source systems and the ECL models that the Group operates. • Performing a detailed credit risk assessment for a sample of performing corporate contracts to test controls over the credit rating and monitoring process. • Testing controls over the review and approval of post model adjustments and management overlays and the governance process over such overlays. • Testing controls over the modelling process, including governance over model monitoring, validation and approval.

Independent Auditors' Report to the Shareholders (continued)

Al Salam Bank B.S.C
31 December 2023

The key audit matter	How the matter was addressed in our audit
• the need to measure ECLs on an unbiased forward-looking basis incorporating a range of economic conditions. Significant management judgment is applied in determining the economic scenarios used and the probability weightings applied to them; and • adjustments to the ECL model results are made by management to address known impairment model limitations or emerging trends or risks.	*Tests of details* Key aspects of our testing involved: • Reviewing a sample of credit files for performing accounts and evaluating the financial performance of the borrower, source of repayment and eligible collateral and on this basis assess the appropriateness of credit rating and staging. • Sample testing over key data inputs used in estimating the ECL and assessing the completeness, accuracy and relevance of data used. • Re-performing key elements of the Group's model calculations and assessing performance results for accuracy. • Sample testing over factors used to determine whether significant increase in credit risk has been appropriately identified. • Selecting a sample of post model adjustments and management overlays to assess the reasonableness of the adjustments by challenging key assumptions, testing the underlying calculation and tracing a sample back to source data. • Assessing the adequacy of provisions against individually impaired financing assets (stage 3) in accordance with the applicable FAS. *Use of specialists* For the relevant portfolios examined, we have involved KPMG specialists to assist us in assessing IT system controls and challenging key management assumptions used in estimating expected credit losses. Key aspects of their involvement included the following: • We involved our Information Technology Audit specialists to test the relevant General IT and Application Controls over key systems used for data extraction as part of the ECL calculation process. • We involved our Financial Risk Management (FRM) specialists in: ➤ Evaluating the appropriateness of the Group's ECL methodologies (including the staging criteria used); ➤ On a test check basis, re-performing the calculation of certain components of the ECL model (including the staging criteria); ➤ Evaluating the appropriateness of the Group's methodology for determining the economic scenarios used and the probability weights applied to them; and ➤ Evaluating the overall reasonableness of the management forward-looking estimates by comparing it to external market data and our understanding of the underlying sector and macroeconomic trends. *Disclosures* We assessed the adequacy of the Group's disclosure in relation to use of significant estimates and judgement and credit quality of financing assets by reference to the requirements of relevant accounting standards.

Independent Auditors' Report to the Shareholders (continued)

Al Salam Bank B.S.C
31 December 2023

Business Combination

Refer to accounting policy in Note 2.2 (i) and disclosure related to the business combination in Note 45 to the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
During the year, the Group acquired controlling stake in Al Salam Bank Algeria through step-up acquisition. This transaction has been accounted for in accordance with IFRS 3 Business Combinations ("IFRS 3") using the acquisition method. We have considered this to be a key audit matter due to: • significant increase in assets and liabilities acquired as a result of the acquisition; • the complexity associated with application of acquisition accounting principles, including the recognition of newly identified intangible assets. • the subjectivity and judgement in determining the fair value and its allocation to the assets acquired, including purchased or originated credit impaired (POCI) financial assets, and the liabilities assumed.	Our procedures, amongst others, included: • involving our valuation specialist to review the appropriateness of fair value adjustment recognized by management on the acquired assets and liabilities to ascertain that they are in accordance with the requirements of IFRS 3; • challenging management's basis and assumptions used in determining initial classification of the acquired assets and liabilities and identification of intangible assets; • evaluating the accounting policy adopted by management for the identification of POCI financial assets and assessed the appropriateness of fair value adjustments made on initial recognition; • reviewing the appropriateness of the useful lives assigned to the identified intangible assets; • testing the process and controls put in place over consolidation of the financial position and results of the subsidiary from the date of acquisition, including assessing consistency of accounting policies used. ***Disclosures*** evaluating the appropriateness and adequacy of disclosures in relation to the business combination by reference to the relevant accounting standards.

Independent Auditors' Report to the Shareholders (continued)

Al Salam Bank B.S.C
31 December 2023

Other Information

The board of directors is responsible for the other information. The other information comprises the annual report but does not include the consolidated financial statements and our auditors' report thereon. Prior to the date of this auditors' report, we obtained the board of directors' report which forms part of the annual report and the remaining sections of the annual report are expected to be made available to us after that date.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Board of Directors for the Consolidated Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.

Independent Auditors' Report to the Shareholders (continued)

Al Salam Bank B.S.C
31 December 2023

- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Regulatory Requirements

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

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;

b) the financial information contained in the Chairman's report is consistent with the consolidated financial statements;

c) we are not aware of any violations during the year of the Commercial Companies Law 2001 (as amended), the CBB and Financial Institutions Law No. 64 of 2006 (as amended), the CBB Rule Book (Volume 2, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and associated resolutions, the Bahrain Bourse rules and procedures or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and

d) satisfactory explanations and information have been provided to us by management in response to all our requests.

The engagement partner on the audit resulting in this independent auditors' report is Jalil Al Aali.

KPMG Fakhro
Partner Registration Number 100
13 February 2024

Consolidated Statement of Financial Position

As at 31 December 2023

	Note	2023 BD '000	2022 BD '000
ASSETS			
Cash and balances with banks and central bank	4	**537,874**	367,747
Placements with financial institutions	5	**293,580**	113,096
Investment in sukuk	6	**1,002,839**	837,381
Financing assets	7	**2,676,460**	1,986,465
Non-trading investments	9	**100,060**	106,796
Takaful and related assets	10	**67,370**	51,690
Investment in real estate	11	**78,070**	62,462
Investment in associates	12	**231,484**	254,006
Other assets	13	**81,228**	67,720
Goodwill and other intangible assets	14	**78,145**	51,998
TOTAL ASSETS		**5,147,110**	3,899,361
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, OWNERS' EQUITY AND NON-CONTROLLING INTEREST			
LIABILITIES			
Placements from financial institutions	5	**136,511**	187,724
Customers' current accounts		**1,066,031**	550,281
Murabaha term financing	15	**510,848**	320,989
Takaful and related liabilities	10	**114,493**	91,741
Other liabilities	16	**106,192**	78,798
TOTAL LIABILITIES		**1,934,075**	1,229,533
EQUITY OF INVESTMENT ACCOUNTHOLDERS			
Wakala from financial institutions	17	**379,768**	319,339
Wakala and mudaraba from customers	17	**2,424,617**	2,013,134
TOTAL EQUITY OF INVESTMENT ACCOUNTHOLDERS		**2,804,385**	2,332,473
OWNERS' EQUITY			
Share capital	18	**261,693**	249,231
Treasury shares	18	**(6,799)**	(1,325)
Employees incentive scheme shares		**(8,770)**	(10,696)
Share premium		**209**	209
Retained earnings		**44,348**	31,691
Reserves		**46,722**	34,141
Total owners' equity		**337,403**	303,251
Non-controlling interest		**71,247**	34,104
TOTAL EQUITY		**408,650**	337,355
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND TOTAL EQUITY		**5,147,110**	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 46 form part of these consolidated financial statements.

Consolidated Income Statement

Year ended 31 December 2023

	Note	2023 BD '000	2022 BD '000
INCOME			
Finance income	21	**174,003**	95,158
Income from sukuk		**48,755**	34,778
Income from non-trading investments, net	22	**7,653**	2,720
Fees and commission, net	23	**16,383**	7,828
Share of profit from associates, net	12	**21,043**	9,329
Income from Takaful operations, net	24	**7,571**	3,773
Other income	25	**3,851**	1,802
Total income		**279,259**	155,388
Finance expense on placements from financial institutions		**(8,446)**	(4,955)
Finance expense on murabaha term financing		**(25,517)**	(6,046)
Return on equity of investment accountholders before Group's share as a mudarib and wakil		**(168,658)**	(110,403)
Group's share as a mudarib and wakil		**68,571**	62,412
Share of profit of investment accountholders	17	**(100,087)**	(47,991)
Net operating income		**145,209**	96,396
EXPENSES			
Staff cost	26	**31,765**	23,564
Premises cost		**3,417**	1,987
Depreciation and amortization		**4,322**	2,293
Other operating expenses	27	**30,029**	22,799
Total expenses		**69,533**	50,643
PROFIT BEFORE IMPAIRMENT ALLOWANCES		**75,676**	45,753
Net impairment charge on financing assets, investments and other assets	8	**(22,989)**	(12,683)
PROFIT BEFORE TAX		**52,687**	33,070
Tax for the year		**(4,509)**	-
PROFIT FOR THE YEAR		**48,178**	33,070
ATTRIBUTABLE TO:			
- Shareholders of the bank		**42,226**	31,593
- Non-controlling interest		**5,952**	1,477
		48,178	33,070
Basic and diluted earnings per share (fils)	20	**17.2**	12.8

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 46 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 December 2023

Amounts in BD '000s

	Attributable to shareholders of the bank													
						Reserves								
	Share capital	Treasury stock	Employee incentive scheme shares	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	Total equity
Balance at 1 January 2023	**249,231**	**(1,325)**	**(10,696)**	**209**	**31,691**	**21,759**	**1,934**	**(8,643)**	**22,799**	**(3,708)**	**34,141**	**303,251**	**34,104**	**337,355**
Profit for the year	-	-	-	-	**42,226**	-	-	-	-	-	-	**42,226**	**5,952**	**48,178**
Movement in fair value, net	-	-	-	-	-	-	-	**(2,475)**	-	-	**(2,475)**	**(2,475)**	-	**(2,475)**
Sale of investment in real estate	-	-	-	-	-	-	-	-	**(108)**	-	**(108)**	**(108)**	-	**(108)**
Movement in share of reserve of investment in associate	-	-	-	-	-	-	-	**8,511**	-	-	**8,511**	**8,511**	-	**8,511**
Appropriation towards charity fund	-	-	-	-	**(500)**	-	-	-	-	-	-	**(500)**	-	**(500)**
Movement in FX translation reserve	-	-	-	-	-	-	-	-	-	**2,244**	**2,244**	**2,244**	**243**	**2,487**
Total recognised income and expense	-	-	-	-	**41,726**	-	-	**6,036**	**(108)**	**2,244**	**8,172**	**49,898**	**6,195**	**56,093**
Bonus shares issued	**12,462**	-	-	-	**(12,462)**	-	-	-	-	-	-	-	-	-
Cash dividend for the year 2022	-	-	-	-	**(12,359)**	-	-	-	-	-	-	**(12,359)**	-	**(12,359)**
Purchase of treasury shares	-	**(5,474)**	-	-	-	-	-	-	-	-	-	**(5,474)**	-	**(5,474)**
Transfer to statutory reserve	-	-	-	-	**(4,223)**	**4,223**	-	-	-	-	**4,223**	-	-	-
Shares vested	-	-	**1,926**	-	**(25)**	-	**186**	-	-	-	**186**	**2,087**	-	**2,087**
Movements in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	**30,948**	**30,948**
Balance at 31 December 2023	**261,693**	**(6,799)**	**(8,770)**	**209**	**44,348**	**25,982**	**2,120**	**(2,607)**	**22,691**	**(1,464)**	**46,722**	**337,403**	**71,247**	**408,650**
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 year	-	-	-	-	31,593	-	-	-	-	-	-	31,593	1,477	33,070
Movement in fair value, net	-	-	-	-	-	-	-	(6,137)	(66)	-	(6,203)	(6,203)	-	(6,203)
Reclassified to amortized cost	-	-	-	-	-	-	-	(4,627)	-	-	(4,627)	(4,627)	-	(4,627)
Movement in share of reserve of investment in associate	-	-	-	-	-	-	-	(7,411)	-	-	(7,411)	(7,411)	-	(7,411)
Movement in FX translation reserve	-	-	-	-	-	-	-	-	-	277	277	277	-	277
Total recognised income and expense	-	-	-	-	31,593	-	-	(18,175)	(66)	277	(17,964)	13,629	1,477	15,106
Bonus shares issued	7,259	-	-	-	(7,259)	-	-	-	-	-	-	-	-	-
Cash dividend for the year 2021	-	-	-	-	(9,121)	-	-	-	-	-	-	(9,121)	-	(9,121)
Shares granted	-	10,696	(10,696)	-	-	-	1,934	-	-	-	1,934	1,934	-	1,934
Transfer to statutory reserve	-	-	-	-	(3,159)	3,159	-	-	-	-	3,159	-	-	-
Movement of treasury shares, net	-	452	-	-	106	-	-	-	-	-	-	558	-	558
Movements in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	32,119	32,119
Balance at 31 December 2022	249,231	(1,325)	(10,696)	209	31,691	21,759	1,934	(8,643)	22,799	(3,708)	34,141	303,251	34,104	337,355

The accompanying notes 1 to 46 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended 31 December 2023

	2023 BD '000	2022 BD '000
OPERATING ACTIVITIES		
Profit for the year	**48,178**	33,070
Adjustments:		
Tax for the year	**4,509**	-
Depreciation and amortisation	**4,322**	2,293
Amortisation of premium on sukuk, net	**114**	1,333
Loss from non-trading investments	**2,526**	929
Net impairment charge on financial instruments	**22,989**	12,683
Gain on bargain purchase	**(15,560)**	-
Share of profits from associates, net	**(21,043)**	(9,329)
Operating income before changes in operating assets and liabilities	**46,035**	40,979
Changes in operating assets and liabilities:		
Mandatory reserve with central bank	**(23,410)**	(57,129)
Financing assets	**(299,954)**	(161,698)
Takaful and related assets	**(15,680)**	12,713
Other assets	**(5,537)**	(28,139)
Placements from financial institutions	**(51,213)**	46,465
Customers' current accounts	**121,560**	32,270
Takaful liabilities	**22,752**	55,402
Other liabilities	**47,767**	57,128
Equity of investment accountholders	**163,039**	(46,359)
Net cash from / (used in) operating activities	**5,359**	(48,368)
INVESTING ACTIVITIES		
Acquisition of sukuk, net	**(168,385)**	(209,888)
Cash acquired as part of business combination	**297,407**	71,711
Disposal of non-trading investments and real estate	**6,227**	(21,010)
Dividend received from associates	**17,477**	-
Purchase of premises and equipment	**(2,000)**	(17,070)
Net cash from / (used in) investing activities	**150,726**	(176,257)
FINANCING ACTIVITIES		
Drawdown of murabaha term financing	**189,859**	220,773
Dividends paid	**(12,359)**	(9,121)
Movement of treasury shares, net	**(5,474)**	558
Net cash from financing activities	**172,026**	212,210
NET CHANGE IN CASH AND CASH EQUIVALENTS	**328,111**	(12,415)
Cash and cash equivalents at 1 January	**383,532**	395,947
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**711,643**	383,532
Cash and cash equivalents comprise of:*		
Cash and other balances with central bank	**295,383**	91,728
Balances with other banks **	**122,662**	178,634
Placements with financial institutions with original maturities of 90 days or less	**293,598**	113,170
	711,643	383,532

* Cash and cash equivalents is gross of the expected credit loss of BD 346 thousand (2022: BD 207 thousand).

** Balances with other banks is net of restricted cash of BD 4,240 thousand (2022: BD 5,013 thousand) which is not available for day to day operations .

The accompanying notes 1 to 46 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

As at 31 December 2023

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 on Bahrain Bourse and Dubai Financial Market.

The principal subsidiaries of the Group are as follows:

			Effective Holding %	
Name of entity	**Country of incorporation**	**Principal activities**	**2023**	2022
Al Salam Bank- Seychelles	Seychelles	Provide Banking services	**70.0%**	70.0%
Solidarity Group Holding BSC(c)	Bahrain	Holding Company	**55.9%**	55.9%
Al Salam Bank Algeria *	Algeria	Provide Banking services	**68.0%**	-

The Bank and its principal banking subsidiary operates through 17 branches (2022: 23 branches) in the Kingdom of Bahrain, 24 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 year, the Group has increased its legal shareholding in Al Salam Bank Algeria (ASBA) to 68.0%, thereby establishing control.

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries together ("the Group") as at 31 December 2023

These consolidated financial statements have been authorised for issue in accordance with a resolution of the Board of Directors dated 13 February 2024.

2 ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION AND PRESENTATION

The consolidated financial statements are prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), and in conformity with the Bahrain Commercial Companies Law 2001 (as amended) and the guidelines of CBB and Financial Institutions Law.

The consolidated financial statements of the Group are prepared on a historical cost basis, except for certain investment in sovereign and corporate sukuk, non-trading investments, investments properties, which are carried at fair value.

These consolidated financial statements are presented in Bahraini Dinars, being the functional and presentation currency of the Bank, rounded to the nearest thousand [BD '000], except where otherwise indicated.

In line with the requirements of AAOIFI and the CBB rule book, for matters not covered under AAOIFI accounting standards the group takes guidance from the relevant International Financial Reporting Standards ("IFRS accounting standards") issued by the International Accounting Standards Board ("IASB").

2.2 BASIS OF CONSOLIDATION

(i) Business combinations

Business combinations are accounted for using the acquisition method when the acquired set of activities meets the definition of a business. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

2 ACCOUNTING POLICIES (continued)

2.2 BASIS OF CONSOLIDATION (continued)

(i) Business combinations (continued)

In a business combination achieved in stages, the Group remeasures its previously held equity interest in the acquiree at its acquisition date fair value and recognises the resulting gain or loss, if any, in the consolidated income statement.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

In a business combination in which the Bank and the acquiree exchange only equity interests, the acquisition-date fair value of the acquiree's equity interests is used to determine the amount of goodwill.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see 2.4 (o)). Any gain on a bargain purchase is recognised in consolidated income statement immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in consolidated income statement.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in consolidated income statement.

Investments acquired that do not meet the definition of business combination are recorded as assets acquisitions e.g. financial assets or investment in properties as appropriate. When such investments are acquired, the Group allocates the cost of acquisition between the individual identifiable assets and liabilities based on their relative fair values at the date of acquisition. Cost of such assets is the sum of all consideration given and any non-controlling interest recognised. If the non-controlling interest has a present ownership interest and is entitled to a proportionate share of net assets upon liquidation, the Group recognises the non-controlling interest at its proportionate share of net assets.

(ii) Subsidiaries

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2023. The financial statements of the subsidiaries are prepared for the same reporting year. All subsidiaries are using consistent accounting policies of the Bank.

Subsidiaries are those enterprises (including special purpose entities) controlled by the Bank. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases. Control is presumed to exist when the Bank owns majority of the voting rights in the investee.

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific financing or investment transaction and usually voting rights are not relevant for the operating of such entities. An investor that has decision-making power over an investee and exposure to variability of returns determines whether it acts as a principal or as an agent to determine whether there is a linkage between power and returns. When the decision maker is an agent, the link between power and returns is absent and the decision maker's delegated power does not lead to a control conclusion. Where the Group's voluntary actions, such as finance amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and an SPE, the Group performs a reassessment of control over the SPE.

The financial statements of SPE are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's fiduciary assets under management is set out in note 36.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

2 ACCOUNTING POLICIES (continued)

2.2 BASIS OF CONSOLIDATION (continued)

(iii) Non-controlling interests

Non-controlling interests (NCI) are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Profits or losses attributable to non-controlling interests are reported in the consolidated income statement as income attributable to non-controlling interests. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group.

(iv) Loss of control

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in the consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in equity in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other equity are reclassified to the consolidated income statement.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Intra-group gains on transactions between the Group and its equity accounted associates are eliminated to the extent of the Group's profit in the investees. Unrealised losses are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Accounting policies of the subsidiaries and associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(vi) Foreign currency

(a) Functional and presentation currency

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

(b) Foreign currencies

Foreign currency transactions are recorded at rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies at the consolidated statement of financial position date are retranslated at market rates of exchange prevailing at that date. Gains and losses arising on translation are recognised in the consolidated income statement. Non-monetary assets that are measured in terms of historical cost in foreign currencies are recorded at rates of exchange prevailing at the value dates of the transactions. Translation gains or losses on non-monetary items classified as "fair value through equity" are included in consolidated statement of changes in equity until the related assets are sold or derecognised at which time they are recognised in the consolidated income statement. Translation gains on non-monetary assets classified as "fair value through consolidated income statement" are directly recognised in the consolidated income statement as part of fair value changes.

(c) Translation of foreign operations

Assets and liabilities of foreign subsidiaries and associates whose functional currency is not Bahraini Dinars are translated into Bahraini Dinars at the rates of exchange prevailing at the reporting date. Income and expense items are translated at average exchange rates prevailing for the reporting year. Any exchange differences arising on translation are included in foreign exchange translation reserve forming part of equity except to the extent that the translation difference is allocated to the non-controlling interest. On disposal of foreign operations, exchange differences relating thereto and previously recognised in foreign exchange translation reserve are recognised in the consolidated statement of changes in equity.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the consolidated financial statements requires management to make judgments and estimates that affect the reported amount of financial assets and liabilities and disclosure of contingent liabilities. These judgments and estimates also affect the revenues and expenses and the resultant allowance for losses as well as fair value changes reported in equity.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimating uncertainty at the date of the consolidated statement of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment assessment of financial contracts subject to credit risk

In determining expected credit losses ('ECL') on financial contracts subject to credit risk, significant estimates are made in determination of inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information. Refer to notes 2.4 (d) and 31.2 for further details.

Impairment of goodwill

Impairment exists when carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

The recoverable amount of the cash-generating unit's goodwill is based on value-in-use calculations using cash flow projections from financial budgets approved by the Board of Directors, extrapolated for three years projection using nominal projected growth rate. The determination of projected growth rate and discount rate involves judgment whereas, preparation of cash flow projections requires various management assumptions.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates based on the actual loss experience. Refer to note 14 for further details.

Impairment of investments fair value through equity

The Group determines that investments carried at fair value through equity are impaired when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgment. In the case of quoted equity securities in active markets, the Group generally considers a decline in value below cost of 30%, or a decline that persists for more than 9 months as an indicator of impairment. In the case where markets for the investment are assessed to be inactive, the Group determines impairment based on its assessment of fair value and the investee companies' financial health, industry and sector performance.

Fair value of unquoted equity

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

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Fair value of unquoted equity (continued)

Valuation of investments in private equity and joint ventures in real estate measured at fair value through profit and loss involve judgment and is normally based on one of the following:

- valuation by independent external valuers for underlying properties / projects;
- recent arm's length market transactions;
- current fair value of another contract that is substantially similar;
- present value of expected cash flows at current rates applicable for items with similar terms and risk characteristics; or
- application of other valuation models.

Estimating fair value of investment property and net realisable value of development property

Investment properties are carried at their fair values. Development property is stated at lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated selling expenses.

The Group appoints experienced external valuers under A category approved by Real Estate Regulatory Authority to determine the market value of the investment and development properties at the statement of financial position date. For large development projects, a residual value approach is adopted which forecasts future cost to completion and use of the expected development. The management has forecasted the cost of completion of development property and has engaged independent valuers to estimate the residual value of the development property based on estimated / forecasted market selling prices for similar properties. Net realisable value estimates are made at a specific point in time, based on market conditions and information about the expected use of development property.

The Group calibrates the valuation techniques yearly and tests these for validity using either prices from observable current market transactions in the same contract or other available observable market data.

Judgments

Going concern

The management has made an assessment of the Group's ability to continue on 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.

Control over special purpose entities

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

Investment classification

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as investments carried at fair value through income statement or investments carried at fair value through equity or investments carried at amortised cost. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification.

Significant judgement is involved in assessment of the business model within which the investments are managed and assessment of whether the contractual terms of the investment represents either a debt-type instrument or other investment instrument having reasonably determinable effective yield.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES

a) Financial instruments

Financial assets consist of balances with banks and the Central Bank, Sovereign Sukuk, Corporate Sukuk, placements with financial institutions, Murabaha financing (net of deferred profits), Mudaraba financing, Musharaka financing, receivable under finance lease assets contracts, asset under conversion, non-trading investments in equity securities, tahawwut used for risk management and other receivables.

Financial liabilities contracts consist of placement from financial institutions, placements from customers, customers' current accounts, murabaha term financing and other payables.

Except for sukuks carried at FVTE , non-trading investments and tahawwut used for risk management instruments, all financial assets and financial liabilities are carried at amortised cost.

A financial asset or financial liability is measured initially at fair value plus, for an item not at Fair Value Through Profit and Loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

Amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus the capital repayments, plus or minus the cumulative amortization using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability. The calculation of the effective profit rate includes all fees paid or received that are an integral part of the effective profit rate.

The Group segregates its investment into following categories:

i) Equity-type instruments:

Instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities and quasi-equity balances, including ordinary equity instruments and such other structured investment instruments that classify as equity instrument.

ii) Debt-type instruments:

Monetary debt-type instruments - instruments whereby the transaction structure results in creation of a financial liability / debt such as Murabaha payable.

Non-monetary debt-type instruments - instruments whereby the transaction structure results in creation of a non-financial liability, such as goods (Salam or Istisna'a) or usufruct (Ijarah Mawsufah fi al-Dhimmah) or services (service Ijarah) to be delivered in future.

iii) Other investment instruments:

The Group classifies its investments on initial recognition as measured at: (a) amortised cost, (b) fair value through equity ("FVTE") or (c) fair value through income statement ("FVTPL").

b) Trade and settlement date accounting

The Group recognises financing, investments, deposits and equity of investment accountholders on the date on which they are originated. Purchases and sale of all other financial assets and liabilities are recognised on the trade date, i.e. the date that the Group contracts to purchase or sell the asset or liability.

c) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

Financial liabilities are derecognised when the obligation specified in the contract is legally discharged, cancelled, or expired.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Impairment assessment

Impairment of financial assets and commitments

The Group applies three-stage approach to measure ECL on financial assets carried at amortised cost which include assets migrated 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 associated with the probability of default events occurring within next twelve months is recognised.

Twelve-month ECL (Stage 1) is the portion of ECL that results from probable default events on a financial contract within twelve months after the reporting date.

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 (Stage 2) is a probability-weighted estimate of credit losses and is determined based on the difference between the present value of all cash shortfalls. 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 provisions for credit-impairment are determined based on the difference between the net carrying amount and the recoverable amount of the financial contract.

Credit-impaired financial assets and assets acquired for leasing

At each reporting date, the Group assesses whether financial assets carried at amortised cost and finance lease assets are credit impaired. A financial asset and finance lease assets is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset and finance lease asset is credit-impaired includes the following observable data:

- significant financial difficulty of the customer or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the customer will enter bankruptcy or other financial re-organization; or
- the disappearance of an active market for a security because of financial difficulties.

Write-offs

Financial assets 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 customer 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 under 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, the Group presents allowance for credit losses for drawn components. The amount is presented as a deduction from the gross carrying amount of the drawn component. Allowance for credit losses for the undrawn component is presented as a provision in other liabilities.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Cash and cash equivalents

For the purpose of the consolidated cash flows statement, "cash and cash equivalents" consist of cash on hand, balances with the Central Bank of Bahrain excluding mandatory reserve deposits, balances with banks and other financial institutions (excluding restricted balances) and placements with financial institutions with original maturities of 90 days or less when acquired.

f) Financing assets

Financing assets comprise of Sharia'a complaint financing contracts with fixed or determinable payments. These include financing provided through Murabaha, Musharaka, Mudaraba, Istisna, Salam, Ijarah contracts and credit card-based receivables. Financing assets are recognised on the date they are originated and are carried at their amortised cost less allowance for expected credit losses, if any.

Modification of financing assets

If the terms of the financing asset are modified, then the Group evaluates whether the cashflows of the modified asset are substantially different. If the cashflows are substantially different, then the contractual rights to cashflows from the original financing asset are deemed to have expired. In this case, the original financing asset is derecognised and a new financing asset is recognised at fair value plus any eligible transaction cost.

If the modification of a financing asset measured at amortized cost does not result in the derecognition of the financing asset, then the Group first recalculates the gross carrying amount of the financing asset using the original effective profit rate of the asset and recognises the resulting adjustment as a modification gain or loss in consolidated income statement.

All Sharia compliant contracts are interpreted for accounting purposes in its entirety and all linked -contracts or promissory note arrangements are considered together with the main financing contract to reflect the single economic outcome and purpose of the contracts.

f-i) Murabaha financing

Murabaha is a contract whereby one party ("Seller") sells an asset to the other party ("Purchaser") at cost plus profit and on a deferred payment basis, after the Seller has purchased the asset based on the Purchaser's promise to purchase the same on such Murabaha basis. The sale price comprises the cost of the asset and an agreed profit margin. The sale price (cost plus the profit amount) is paid by the Purchaser to the Seller on installment basis over the agreed finance tenure. Under the Murabaha contract, the Group may act either as a Seller or a Purchaser, as the case may be.

The Group considers the promise to purchase made by the Purchaser in a Murabaha transaction in favor of the Seller to be binding.

f-ii) Mudaraba financing

Mudaraba is a contract between two parties whereby one party is a fund provider (Rab Al Mal) who would provide certain amount of funds (Mudaraba Capital), to the other party (Mudarib). Mudarib would then invest the Mudaraba Capital in a specific enterprise or activity deploying its experience and expertise for a specific pre-agreed share in the resultant profit. The Rab Al Mal is not involved in the management of the Mudaraba activity. The Mudarib would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Mudaraba contract; otherwise the loss would be borne by the Rab Al Mal. Under the Mudaraba contract, the Group may act either as Mudarib or as Rab Al Mal, as the case may be.

f-iii) Musharaka

Musharaka is used to provide venture or project finance. The Group and customer contribute towards the capital of the Musharaka. Profits are shared according to a pre-agreed profit distribution ratio, but losses are borne by the partners according to the capital contributions of each partner. Capital contributions may be in cash or in kind, as valued at the time of entering into the Musharaka.

f-iv) POCI financial assets

Purchased or Originated Credit Impaired (POCI) financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL are incorporated into the calculation of the effective profit rate on initial recognition. Consequently, POCI assets do not carry an impairment allowance on initial recognition. The amount recognized as a loss allowance subsequent to initial recognition is equal to the changes in lifetime ECL since initial recognition of the asset.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Ijara Muntahia Bitamleek (IMB also called as finance lease asset)

Ijarah Mutahia Bitamleek contracts is an agreement with the customers whereby, based on the customer's request and promise to lease, the Group purchases or acquires a specified tangible asset, either from a third-party seller or from the customer. The Group ("Lessor") leases an asset to the customer ("Lessee") against certain rental payments for a specific lease term / year, payable on fixed and / or variable rental basis.

The IMB agreement specifies the leased asset, duration of the lease term, as well as the basis for rental calculation, the timing of rental payment and responsibilities of both parties during the lease term. The Lessee provides the Lessor with an undertaking to renew the lease years and pay the relevant rental payment amounts as per the agreed schedule throughout the lease term.

The Lessor retains the ownership of the assets throughout the lease term. At the end of the lease term, the lessor transfers the leased asset to the lessee in line with the promise to purchase provided by the Lessee. upon fulfillment of all the obligations by the Lessee under the IMB agreement, based on sale undertaking given by the Lessor.

Depreciation is provided on a systematic basis on all IMB assets other than land (which is deemed to have an indefinite useful life), at rates calculated to write off the cost of each asset over the shorter of either the lease term or economic life of the asset.

The Group measures at each reporting date whether there is objective evidence that IMB assets are impaired. Impairment loss is recognised when the carrying amount of assets exceeds its recoverable amount. The estimates of future cashflows, when dependent on a single customer, takes into consideration the credit evaluation of the customer in addition to other factors. Impairment losses, if any, are recognised in the income statement.

Modification of IMB assets

If the terms of the IMB assets are modified, then the Group evaluates whether the cashflows of the modified asset are substantially different. If the cashflows are substantially different, then the contractual rights to cashflows from the original IMB assets are deemed to have expired. In this case, the original IMB assets is derecognised and a new IMB assets is recognised at fair value plus any eligible transaction cost.

If the modification of a IMB assets measured at amortized cost does not result in the derecognition of the IMB assets then the Group first recalculates the gross carrying amount of the IMB assets using the original effective profit rate of the asset and recognises the resulting adjustment as a modification gain or loss in consolidated income statement.

h) Placements with financial institutions

Placements with financial institutions comprise of short-term treasury contracts with financial institutions in the form of Commodity Murabaha receivables, Mudaraba contracts and Wakala investments. These placements are stated at amortised cost net of deferred profits and allowance for credit losses, if any.

i) Sovereign Sukuk and Corporate Sukuk

These investments are in the nature of debt-type instruments that provide fixed or determinable payments of profits and capital. Sukuk that are assessed under two distinct business models:

- Held-to-collect business model – This portfolio includes short-term and long-term Sukuk and treasury instruments that are held to meet core liquidity requirements and consist of high-quality liquid assets that are typically held to their contractual maturity. Assets under this model are classified and measured at amortised cost. Although management considers fair value information, it does so from a liquidity perspective, and the main focus of its review of financial information under this business model is on the credit quality and contractual returns.
- Both held-to-collect and for sale business model: The remaining treasury portfolio will be held under active treasury management to collect both contract cash flows and for sale. The key management personnel consider both of these activities as integral in achieving the objectives set for the Treasury business unit. This portfolio, while generating returns primarily through yield, is also held to meet expected or unexpected commitments, or to fund anticipated acquisitions or growth in other business units. Assets under this model are classified and measured at fair value through equity.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Assets and liabilities under conversion

Assets under conversion:

Loans and advances

At amortised cost less any amounts written off and allowance for credit losses, if any.

Non-trading investments

These are classified as fair value through equity investments and are fair valued based on criteria set out in note 2.4 (k).

k) Non-trading investments

Equity-type investments

Equity-type instruments are investments that do not exhibit features of debt-type instruments and include instruments that evidence a residual profit in the assets of an entity after deducting all its liabilities. Investments in equity type instruments are classified in the following categories: 1) at fair value through income statement ('FVTPL') or 2) at fair value through equity ('FVTE'), consistent with its investment strategy.

Recognition and de-recognition

Investment securities are recognised at the trade date i.e. the date that the Group contracts to purchase or sell the asset, at which date the Group becomes party to the contractual provisions of the instrument. Investment securities are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership.

Measurement

Investment securities are measured initially at fair value, which is the value of the consideration given. For FVTE investments, transaction costs are expensed in the consolidated income statement. For other investment securities, transaction costs are included as a part of the initial recognition.

Subsequent to initial recognition, equity-type investments carried at FVTPL and FVTE are re-measured to fair value. Gains and losses arising from a change in the fair value of instruments carried at FVTPL are recognised in the income statement in the year which they arise. Gains and losses arising from a change in the fair value of investments carried at FVTE are recognised in the consolidated statement of changes in equity and presented in a separate fair value reserve within equity. When the investments carried at FVTE are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in equity is transferred to the consolidated income statement.

l) Investments in associates and joint ventures

The Group's investments in associates and joint ventures, that are acquired for strategic purposes, are accounted for under the equity method of accounting. Other equity investments in associates and joint ventures (note 2.4 (k)) are accounted for as fair value through consolidated income statement by availing the scope exemption under FAS 24, Investments in Associates. An associate is an entity over which the Group has significant influence, and which is neither a subsidiary nor a joint venture. An entity is considered as an associate if the Group has more than 20% ownership of the entity or the Group has significant influence through any other manner. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Under the equity method, investment in associate 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 associates. Losses in excess of the cost of the investment in associates are recognised when the Group has incurred obligations on its behalf. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The consolidated income statement reflects the Group's share of results of operations of the associates. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Investments in associates and joint ventures (continued)

The reporting dates of the Group's associates are identical with the Group and the associates accounting policy conform to those used by the Group for like transactions and events in similar transactions.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in associates. The Group determines at each reporting date whether there is any objective evidence that the investment in associates are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

Profit and losses resulting from transactions between the Group and the associates are eliminated to the extent of the profit in associates.

Foreign exchange translation gains / losses arising out of the translation of net assets of investment in associates are included in the consolidated statement of changes in equity.

m) Investment in real estate

Properties held for rental, or for capital appreciation purposes, or both, are classified as investments in real estate. The investment in real estate is initially recognised at cost and subsequently measured based on intention whether the investments in real estate is held-for-use or held-for-sale. The Group has adopted the fair value model for its investments in real estate. Under the fair value model, any unrealized gains are recognised directly in owners' equity under the Real Estate Fair Value Reserve. Any unrealized losses are adjusted in equity to the extent of the available credit balance. Where unrealized losses exceed the available balance in owners' equity, these are recognised in the consolidated income statement. In case there are unrealized losses relating to investments in real estate that have been recognised in the consolidated income statement in a previous financial year, the unrealized gains relating to the current financial year is recognised to the extent of crediting back such previous losses in the consolidated income statement. Investments in real estate held-for-sale is carried at lower of its carrying value and expected fair value less costs to sell. Investments in real estate carried at fair value shall continue to be measured at fair value.

n) Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation and any impairment in value. Depreciation is changed on a straight-line basis over the estimated useful lives of all premises and equipment, other than freehold land and capital work-in-progress.

- Computer hardware	3 to 5 years
- Computer software	3 to 5 years
- Furniture and office equipment	3 to 5 years
- Motor vehicle	4 to 5 years
- Leasehold improvements	Over the lease year

The assets residual values and useful lives are reviewed and adjusted, if appropriate, at each reporting date.

o) Goodwill and other intangible assets

(a) Goodwill

In a business combination in which the Bank and the acquiree exchange only equity interests, the acquisition-date fair value of the acquiree's equity interests is used to determine the amount of goodwill. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment at least annually. Any impairment is recognised immediately in the consolidated income statement. Goodwill is allocated to each of the Group's cash-generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Impairment exists when carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

Impairment of goodwill is determined by assessing the recoverable amount of the CGU (or group of CGUs), to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount, an impairment loss is recognised immediately in the consolidated income statement.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Goodwill and other intangible assets (continued)

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGU, or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is / are not larger than a segment based on either the Group's primary or the Group's geographic segment reporting format.

(b) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of the intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in consolidated income statement in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. All acquired intangible assets carried on the reporting date have a finite useful life such as the Core Deposits ("CD") and the Purchased Customer Relationships ("PCR") will be amortized over a period of 7 to 15 years.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income in the expense category that is consistent with the function of the intangible assets.

An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income.

p) Offsetting

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

q) Customers' current accounts

Customers' current accounts balances are in non-investment accounts and are recognised when received by the Bank. The transaction is measured at the cash equivalent amount received by the Bank at the time of contracting. At the end of the accounting year, the accounts are measured at their book value, which represents the settlement value to the customers.

r) Equity of investment accountholders

Equity of investment accountholders ("IAH") are funds held by the Group in one common pool of unrestricted investment account, which is invested by the Group's ('Mudarib') in its own discretion. These include funds raised under Mudaraba contracts and Wakala contracts under multi-level investment arrangements. The funds received under the Wakala arrangement is invested in the Mudaraba investment pool and is considered as investment made by an investment account holder. Under both the Mudaraba and a comingled Wakala arrangement, the investment accountholder authorizes the Group to invest the accountholder's funds in a manner which the Group deems appropriate without laying down any restrictions as to the purpose the funds should be invested. The Group charges management fee (Mudarib fees) to investment accountholders. The allocation of income is determined by the management of the Group within the allowed profit sharing limits as per the terms agreed with IAH. Administrative expenses incurred in connection with the management of the fund are borne directly by the Group and are not charged to investment accounts. Only profits earned on pool of assets funded from IAH are allocated between the owners' equity and IAH. All equity of investment accountholders are carried at cost plus profit and related reserves less amounts settled.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

r) Equity of investment accountholders (continued)

The basis applied by the Group in arriving at the equity of investment accountholder's share of income is total investment income less shareholders' income. In case of Wakala contracts, the Bank does not act as both an investment agent and Mudarib of the same fund at one time. Therefore, in case of comingling of Wakala investment funds with the Mudaraba pool, the investment agent will only charge Wakala Fee and will not share profits from the Mudaraba investment pool in the capacity of Mudarib.

Under FAS 30, ECL is allocated to the assets invested using funds from unrestricted investment accounts.

s) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

t) Employees' end-of-service benefits

Short term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Post employment benefits

Pensions and other social benefits for Bahraini employees are covered by the Social Insurance Organisation scheme, which is a "defined contribution scheme" in nature, and to which employees and employers contribute monthly on a fixed-percentage of salaries basis. Contributions by the Bank are recognised as an expense in income statement when they are due.

Eligible employees on fixed contracts are entitled to leaving indemnities payable under the Bahraini Labour Law, based on length of service and final remuneration. Provision for this unfunded commitment has been made by calculating the notional liability had all employees left at the reporting date.

Share based payment

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

Deferred share-based annual incentives

In line with its variable remuneration policy, the Group awards a component of its annual bonuses for certain covered employees (material risk-takers and approved persons) in the form of deferred incentives that are released proportionately over a period of three years. The deferred incentives include a cash component and a share component. The share component is converted to phantom shares of the Bank based on the book value per share at the award date. The deferred incentives are cash-settled on each release date based on the most recent book value per share of the Bank. The deferred incentive liability is carried at their settlement amounts at each reporting date and any changes in the carrying value of the liability is recognized as an expense or release in the income statement of the reporting period. All deferred incentives are subject to malus and clawback provisions.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

u) Revenue recognition

Financing assets

As the income is quantifiable and contractually determined at the commencement of the contract, income is recognised on effective yield basis over the contract term. Recognition of income is suspended when the Group believes that the recovery of these amounts may be doubtful or when the payments of installments are overdue by 90 days, whichever is earlier.

Sukuk

Income on debt-type sukuk is recognised on a time-proportionate basis based on underlying rate of return of the respective type of Sukuk.

Income on equity-type sukuk is recognized when the group's right to receive dividends is established.

Dividend

Dividend income is recognised when the Group's right to receive the dividend is established.

Ijara Muntahia Bitamleek

Ijara income is recognised on a time-proportionate basis over the lease term. Income related to non-performing Ijara deals is suspended. Accrual of income is suspended when the Group believes that the recovery of these amounts may be doubtful or normally when the rental payments are overdue by 90 days, whichever is earlier.

Fees and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following main categories:

- Fee income on financing transactions: Fee earned on financing transactions including up-front fees and early settlement fees are recognised when earned. To the extent the fees are deemed yield enhancement they are recognised over the year of the financing contracts.
- Fee income from transaction services: Fee arising from corporate finance, corporate advisory, arranging the sale of assets and wealth management are recognised when earned or on a time proportionate basis when the fee is linked to delivery of services over the term of the contract.
- Other fee income: This is recognised when services are rendered.

v) Fair value of financial assets

For investments that are actively traded in organised financial markets, fair value is determined by reference to the prevailing market bid price on the reporting date.

For investments where there is no quoted market price, a reasonable estimate of fair value is determined by reference to valuation by independent external valuers or based on recent arm's length market transactions. Alternatively, the estimate would also be based on current market value of another contract, which is substantially the same, or is based on the assessment of future cash flows. The cash equivalent values are determined by the Group by calculating the present value of future cash flows at current profit rates for contracts with similar terms and risk characteristics.

For assets having fixed or determinable payments, fair value is based on available active broker quotes or the net present value of estimated future cash flows determined by the Group using current market profit rates for contracts with similar terms and risk characteristics.

w) Fiduciary assets

Assets held in a fiduciary capacity are not treated as assets of the Group and are accordingly not included in the consolidated statement of financial position. These include assets under management and custodial assets.

x) Dividend on ordinary shares

Dividend payable on ordinary issued and fully paid shares of the Bank is recognised as a liability and deducted from equity when it is approved by the Group's shareholders.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

y) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised from the date of its issue. The liability arising from a financial guarantee contract is recognised at the present value of any expected payment, when a payment under the guarantee has become probable.

z) Treasury shares

Own equity contracts that are re-acquired, are recognised at cost and deducted from equity. No gain or loss is recognised in consolidated income statement on the purchase, sale, issue or cancellation of the Bank's own equity contracts. Any difference between the carrying amount and the consideration, if re-issued, is recognised in share premium in consolidated statement of changes in equity.

aa) Zakah

Zakah is calculated on the Zakah base of the Group in accordance with FAS 39 Zakah using the net assets method. Zakah is calculated based on the eligible reserve and retained earnings balances at the end of the year . The Bank calculates and notifies the shareholders of their pro-rata share of the Zakah payable annually. The calculation of Zakah is approved by the Sharia'a Supervisory Board. Payment of Zakah on the unrestricted investment and other accounts is the responsibility of the investment accountholders.

ab) Repossessed assets

In certain circumstances, properties are repossessed following the foreclosure of financial facilities that are in default. Repossessed properties that are held for immediate sale, are measured at the lower of the carrying value on closure and fair value less cost to sell. Other repossessed properties are classified as investment property.

ac) Earnings prohibited by Shari'a

The Group is committed to contributing to charity any income generated from non-Shari'a sources. Accordingly, any earning prohibited by Shari'a is credited to charity funds to be used for social welfare purposes.

ad) Takaful and retakaful contracts

Takaful contracts

As an Islamic insurance provider, the Group issues contracts that are based on cooperative activity by risk sharing. The Group classifies all its contracts individually as takaful contracts.

Takaful contracts are those contracts where the takaful operator accepts significant takaful risk from the participant by agreeing to compensate the participant if a specified uncertain future event adversely affects the participant. Such contracts may also transfer financial risk. As a general guideline, the Group defines significant takaful risk as the possibility of having to pay benefits on the occurrence of a takaful event. Takaful risk is risk other than financial risk that is transferred from the holder of a contract to the issuer.

Financial risk is the risk of a possible future change in one or more of a security price, index of prices or rates or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Takaful risk is significant if, and only if, a takaful event could cause the Group to pay significant additional benefits. Once a contract is classified as a takaful contract it remains classified as a takaful contract until all rights and obligations are extinguished or expired.

Retakaful contracts

Retakaful contracts are contracts entered into by the Group with retakaful operators for the purpose of limiting its net loss potential through the diversification of its risks, under which the Group is compensated for losses on takaful contracts issued.

Assets, liabilities, income and expense arising under ceded retakaful contracts are presented separately from the assets, liabilities, income and expense from the related takaful contracts because the retakaful arrangements do not relieve the Group from its direct obligations to its participants.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

ad) Takaful and retakaful contracts (continued)

The benefits to which the Group is entitled under its retakaful contracts held are recognised as retakaful assets. These assets consist of balances due from retakaful operators on settlement of claims and other receivables such as profit commissions and retakaful operator's share of outstanding claims that are dependent on the expected claims and benefits arising under the takaful contracts covered under retakaful contracts. Amounts recoverable from or due to retakaful operators are recognised consistently with the amounts associated with the underlying takaful contracts and in accordance with the terms of each retakaful contract. Retakaful liabilities are primarily contributions payable for retakaful contracts and are recognised as an expense when due.

The participants' takaful funds comprises of general takaful and family takaful fund which represent the accumulated undistributed surplus or deficit in respect of contracts in force at the reporting date. It also includes fair value reserves of investments at fair value through equity.

Gross contributions

Gross contributions comprise the total contributions receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy incepts. Contributions include any adjustments arising in the accounting period for contributions receivable in respect of business written in prior accounting periods. Contributions collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience and are included in contributions written. The unexpired portion of such contributions is included under "Unearned contributions" in the statement of financial position. The earned proportion of contributions is recognised as revenue in the participants' statement of revenues and expenses.

Retakaful contributions

Retakaful contributions are amounts paid to retakaful operators in accordance with the retakaful contracts of the Group. In respect of proportional and non-proportional retakaful contracts, the amounts are recognised in the participants' statement of revenues and expenses as per the terms of these contracts.

Unearned contributions

Unearned contributions represent contributions under takaful contracts which are to be earned in the following or subsequent financial periods, for the unexpired period of takaful content as at the reporting date.

Gross claims

Gross claims are recognised in the participants' statement of revenues and expenses when the claim amount payable to participants and third parties is determined as per the terms of the takaful contracts. Gross claims include all claims occurring during the year, whether reported or not, related claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Claims recovered

Claims recovered include amounts recovered from retakaful operators and other insurance companies in respect of the gross claims paid by the Group, in accordance with the retakaful contracts held by the Group and also includes salvage and other claims recoveries. Claims recovered from retakaful and other parties are recognised when the related gross claims settled are recognised according to the terms of the relevant contracts.

Outstanding claims

Outstanding claims are based on the estimated ultimate cost of all claims incurred but not settled at the statement of financial position date, whether reported or not, together with the related claims handling costs and reduction for salvage and other recoveries. Provisions for outstanding claims reported is based on estimates of the loss, which will eventually be payable on each unpaid claim, established by management based on currently available information and past experience modified for changes reflected in current conditions, increased exposure, rising claims costs and the severity and frequency of recent claims, as appropriate. Outstanding claims are not discounted for time value of money. The methods used, and the estimates made, are reviewed regularly.

The provision for claims incurred but not reported ('IBNR') is made per the actuarial valuation which is updated on the basis of the latest valuation reports.

Any difference between the provisions for outstanding claims at the statement of financial position date and settlements and provisions for the following year is included in the participants' statement of revenues and expenses for that year.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

ad) Takaful and retakaful contracts (continued)

Takaful and insurance receivables

Takaful and insurance receivables are recognised when due and are measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of takaful and insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of income.

I) New relevant standards, amendments, and interpretations 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 has provided the necessary additional disclosures in its annual financial statements.

The Bank does not have any obligation to pay Zakah as per its constitutional documents but only pays Zakah on undistributed profits as an agent on behalf of its sharehlders. The Bank has adopted this standard and has provided the necessary additional disclosures in its annual financial statements (refer notes 40).

(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 consolidated condensed interim financial information. The adoption of this standard did not have any significant impact on the Group's interim financial information.

(iii) FAS 44 Determining Control of Assets and Business

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

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

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

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

II) New relevant standards, amendments, and interpretations issued but not yet effective

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

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

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

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

a) Revised conceptual framework is now integral part of the AAOIFI FAS's;

b) Definition of Quassi equity is introduced;

c) Definitions have been modified and improved;

d) Concept of comprehensive income has been introduced;

e) Institutions other than Banking institutions are allowed to classify assets and liabilities as current and non-current;

f) Disclosure of Zakah and Charity have been relocated to the notes;

g) True and fair override has been introduced;

h) Treatment for change in accounting policies, change in estimates and correction of errors has been introduced;

i) Disclosures of related parties, subsequent events and going concern have been improved;

j) Improvement in reporting for foreign currency, segment reporting;

k) Presentation and disclosure requirements have been divided into three parts. First part is applicable to all institutions, second part is applicable only to banks and similar IFI's and third part prescribes the authoritative status, effective date an amendments to other AAOIFI FAS's; and

l) The illustrative financial statements are not part of this standard and will be issued separately.

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

2) 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 Insurance 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));

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.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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.

3) 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 Insurance Companies; FAS 15 – Provisions and Reserves in Islamic Insurance Companies and FAS 19 – Contributions in Islamic Insurance 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 an 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.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

4) FAS 45: Quasi-Equity (Including Investment Accounts)

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

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

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

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

5) FAS 46: Off-Balance-Sheet Assets Under Management

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

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

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

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

This standard shall be effective for the financial periods beginning on or after 1 January 2026 with an option to early adopt. This standard shall be adopted at the same time as adoption of FAS 45 "Quasi-Equity (Including Investment Accounts)".

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

6) FAS 47: Transfer of Assets Between Investment Pools

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

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

3 CLASSIFICATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS

	2023			
	At fair value through consolidated income statement BD '000	At fair value through equity BD '000	At amortised cost/ others BD '000	Total BD '000
ASSETS				
Cash and balances with banks and central bank	-	-	537,874	537,874
Placements with financial institutions	-	-	293,580	293,580
Investment in sukuk	-	364,518	638,321	1,002,839
Financing assets	-	-	2,676,460	2,676,460
Non-trading investments	86,205	13,855	-	100,060
Takaful and related assets	-	-	67,370	67,370
Investment in real estate	-	78,070	-	78,070
Investment in associates	-	-	231,484	231,484
Other assets	563	163	80,502	81,228
Goodwill and other intangible assets	-	-	78,145	78,145
	86,768	456,606	4,603,736	5,147,110
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS				
Placements from financial institutions	-	-	136,511	136,511
Customers' current accounts	-	-	1,066,031	1,066,031
Murabaha term financing	-	-	510,848	510,848
Takaful and related liabilities	-	-	114,493	114,493
Other liabilities	337	-	105,855	106,192
Equity of investment accountholders	-	-	2,804,385	2,804,385
	337	-	4,738,123	4,738,460

	2022			
	At fair value through consolidated income statement BD '000	At fair value through equity BD '000	At amortised cost/ others BD '000	Total BD '000
ASSETS				
Cash and balances with banks and central bank	-	-	367,747	367,747
Placements with financial institutions	-	-	113,096	113,096
Investment in sukuk	-	228,479	608,902	837,381
Financing assets	-	-	1,986,465	1,986,465
Non-trading investments	94,871	11,925	-	106,796
Takaful and related assets	-	-	51,690	51,690
Investment in real estate	-	62,462	-	62,462
Investment in associates	-	-	254,006	254,006
Other assets	1,247	163	66,310	67,720
Goodwill and other intangible assets	-	-	51,998	51,998
	96,118	303,029	3,500,214	3,899,361
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS				
Placements from financial institutions	-	-	187,724	187,724
Customers' current accounts	-	-	550,281	550,281
Murabaha term financing	-	-	320,989	320,989
Takaful and related liabilities			91,741	91,741
Other liabilities	440	-	78,358	78,798
Equity of investment accountholders	-	-	2,332,473	2,332,473
	440	-	3,561,566	3,562,006

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

4 CASH AND BALANCES WITH BANKS AND CENTRAL BANK

	2023 BD '000	2022 BD '000
Mandatory reserve with Central Bank*	**115,917**	92,507
Cash and other balances with Central Bank	**295,383**	91,728
Balances with other banks**	**126,574**	183,512
	537,874	367,747

* This balance is not available for use in the day-to-day operations of the Group.

** This balance is net of BD 328 thousand (2022: BD 134 thousand) amount of allowance for credit losses.

5 PLACEMENTS WITH / FROM FINANCIAL INSTITUTIONS

These represent short-term interbank placements with and from financial institutions in the form of Murabaha and Wakala contracts.

	2023 BD '000	2022 BD '000
Placements with financial institutions		
Wakala asset	**63,546**	67,018
Mudaraba asset	**2,860**	-
Commodity murabaha asset	**227,192**	46,151
Allowance for credit losses	**(18)**	(73)
	293,580	113,096
Placements from financial institutions		
Commodity murabaha liability	**136,511**	187,724
	136,511	187,724

6 INVESTMENT IN SUKUK

	2023			2022
	Sovereign Sukuk BD '000	Corporate Sukuk BD '000	Total BD '000	Total BD '000
Carried at FVTE				
At 1 January	**210,846**	**15,771**	**226,617**	639,688
Profit received	**-**	**-**	**-**	(6,546)
Reclassification to amortised cost	**-**	**-**	**-**	(449,072)
Purchases	**268,020**	**11,753**	**279,773**	131,368
Sale/ redemption	**(137,165)**	**(3,768)**	**(140,933)**	(84,061)
Fair value movement	**(2,137)**	**(338)**	**(2,475)**	(6,144)
(Impairment) / reversal of ECL	**(98)**	**(7)**	**(105)**	-
Profit accrual / Dividend	**1,369**	**272**	**1,641**	3,246
At 31 December	**340,835**	**23,683**	**364,518**	228,479

This includes sukuk with carrying value of BD 228,250 thousand (2022: BD 76,360 thousand) pledged against murabaha term financing. (Note 15)

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

6 INVESTMENT IN SUKUK (continued)

	2023			2022
	Sovereign Sukuk BD '000	Corporate Sukuk BD '000	Total BD '000	Total BD '000
Carried at Amortised cost				
At 1 January	**587,277**	**23,487**	**610,764**	-
Reclassification from FVTE	**-**	**-**	**-**	449,072
Reclassification of cumulative reserve	**-**	**-**	**-**	(4,627)
Purchases	**255,328**	**21,208**	**276,536**	197,106
Acquired through business combination	**3,215**	**4,303**	**7,518**	18,817
Redemptions	**(242,178)**	**(15,779)**	**(257,957)**	(58,143)
Write-off	**(1)**	**-**	**(1)**	-
(Impairment) / reversal of ECL	**(414)**	**257**	**(157)**	246
Amortisation of discount / premium	**(135)**	**21**	**(114)**	(531)
Profit accrual / Dividend	**1,591**	**141**	**1,732**	6,962
At 31 December	**604,683**	**33,638**	**638,321**	608,902

This includes sukuk with carrying value of BD 354,258 thousand (2022: 332,242 thousand) pledged against murabaha term financing. (Note 15)

Sukuk with carrying value of BD 14,905 thousand (2022: BD 16,182 thousand) are treated as equity sukuk.

Breakup of sukuk by issuer	2023 BD '000	2022 BD '000
Sovereign Sukuk	**945,518**	797,177
Corporate Sukuk	**57,321**	40,204
	1,002,839	837,381

The rating of corporate sukuk are as follows:

	2023 BD '000	2022 BD '000
Investment grade (AAA - BBB+)	**22,615**	22,712
High Yielding (Below BBB-)	**8,868**	840
Un-rated Sukuk	**25,886**	16,759
Allowance for credit losses	**(48)**	(107)
	57,321	40,204

7 FINANCING ASSETS

	2023				
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Purchased credit-impaired POCI BD '000	Total BD '000
Ijarah*	**829,724**	**23,152**	**33,670**	**5,027**	**891,573**
Murabaha financing	**697,789**	**21,244**	**26,545**	**5,533**	**751,111**
Mudaraba financing	**592,379**	**33,848**	**20,279**	**44**	**646,550**
Musharaka financing	**30,234**	**415**	**152**	**-**	**30,801**
Credit cards	**13,709**	**353**	**1,288**	**-**	**15,350**
Salam financing	**321,848**	**8,807**	**4,752**	**1,396**	**336,803**
Istisnaa financing	**39,734**	**3,000**	**4,769**	**498**	**48,001**
Total financing assets	**2,525,417**	**90,819**	**91,455**	**12,498**	**2,720,189**
Allowance for credit losses	**(16,334)**	**(8,332)**	**(23,922)**	**(435)**	**(49,023)**
Foreign currency translation	**4,993**	**164**	**108**	**29**	**5,294**
	2,514,076	**82,651**	**67,641**	**12,092**	**2,676,460**

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

7 FINANCING ASSETS (continued)

	2022				
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Purchased credit-impaired POCI BD '000	Total BD '000
Ijarah*	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

	2023				
	Stage 1: 12-month ECL BD '000	**Stage 2: Lifetime ECL not credit-impaired BD '000**	**Stage 3: Lifetime ECL credit-impaired BD '000**	**Purchased credit-impaired POCI BD '000**	**Total BD '000**
Balance at 1 January	**17,309**	**12,290**	**19,337**	**-**	**48,936**
Movement between stages, net	**(3,486)**	**(2,427)**	**5,913**	**-**	**-**
Movement on loss allowance, net	**2,511**	**(1,531)**	**19,499**	**(2,317)**	**18,162**
Amounts written off during the year	**-**	**-**	**(20,827)**	**-**	**(20,827)**
Exchange adjustments and other transfers on settlement	**-**	**-**	**-**	**2,752**	**2,752**
Balance at 31 December	**16,334**	**8,332**	**23,922**	**435**	**49,023**

	2022			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Balance at 1 January	15,028	7,279	13,907	36,214
Movement between stages, net	(1,499)	1,067	432	-
Movement on loss allowance, net	5,196	3,944	4,849	13,989
Amounts written off during the year	(1,416)	-	(2)	(1,418)
Exchange adjustments and other transfers on settlement	-	-	151	151
Balance at 31 December	17,309	12,290	19,337	48,936

The POCI assets are currently carried at 25.8% compared to their original contractual outstanding amounts. On a cumulative basis, the impaired assets (Stage 3 and POCI) have an effective loss coverage of 42.1% compared to their original contractual outstanding amounts.

Murabaha financing is reported net of deferred profits of BD 102,116 thousand (2022: BD 71,281 thousand).

During the year, the Group acquired financing assets of BD 479,418 thousand through business combination (note 45).

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

7 FINANCING ASSETS (continued)

*Ijarah Muntahia Bitamleek (IMB)

This represents assets leased (land and buildings) under a IMB arrangement with customers of the Bank. Under this arrangement the Bank (lessor) undertakes to transfer the leased assets to the customer (lessee) at the end of the lease term upon the lessee fulfilling all the obligations under the IMB agreement.

	2023 BD '000	2022 BD '000
Ijarah Muntahia Bitamleek	920,407	778,343
Depreciation	(28,834)	(17,415)
Ijarah Muntahia Bitamleek net of depreciation	891,573	760,928
Allowance for impairment	(8,314)	(9,555)
At 31 December	883,259	751,373

The future minimum lease receivable (excluding future profits) in aggregate are as follows:

	2023 BD '000	2022 BD '000
Due within one year	120,655	83,775
Due in one to five years	237,391	147,883
Due after five years	525,213	519,715
	883,259	751,373

The accumulated depreciation / amortisation netted from IMB assets amounted to BD 154,680 thousand (2022: BD 104,513 thousand).

8 NET IMPAIRMENT CHARGE ON FINANCING ASSETS, INVESTMENTS AND OTHER ASSETS

	2023				
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	POCI BD '000	Total BD '000
Balance at 1 January	18,257	12,327	27,151	-	57,735
- transferred to Stage 1: 12 month ECL	1,122	(777)	(345)	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(3,528)	3,872	(344)	-	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(1,143)	(5,459)	6,602	-	-
Net remeasurement of loss allowance	4,487	(1,476)	19,598	(2,317)	20,292
Recoveries / write-backs	-	-	(461)	-	(461)
Allowance for credit losses	938	(3,840)	25,050	(2,317)	19,831
Exchange adjustments and other transfers	27	-	(77)	2,752	2,702
Exposures written off during the year*	-	-	(25,674)	-	(25,674)
Balance at 31 December	19,222	8,487	26,450	435	54,594

* Represents exposures charged off during the year for which recovery efforts are continuing.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

8 NET IMPAIRMENT CHARGE ON FINANCING ASSETS, INVESTMENTS AND OTHER ASSETS (continued)

	2023				
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	POCI BD '000	Total BD '000
Cash and balances with banks and central bank	**328**	**-**	**-**	**-**	**328**
Placements with financial institutions	**18**	**-**	**-**	**-**	**18**
Investment in sukuk	**508**	**-**	**-**	**-**	**508**
Financing assets (Note 7)	**16,334**	**8,332**	**23,922**	**435**	**49,023**
Financing other assets	**529**	**5**	**333**	**-**	**867**
Other receivables	**-**	**-**	**2,183**	**-**	**2,183**
Financing commitments and financial guarantee contracts	**1,505**	**150**	**12**	**-**	**1,667**
	19,222	**8,487**	**26,450**	**435**	**54,594**

Net impairment charge on financing assets,investments and other assets

	2023 BD '000	2022 BD '000
Net impairment charge on financing assets	**10,593**	8,020
Day 1 ECL, on financing assets acquired	**7,569**	5,969
	18,162	13,989
Net impairment charge on investments	**3,158**	3,714
Net impairment charge on other assets	**1,669**	(5,020)
	22,989	12,683

	2023 BD '000	2022 BD '000
Cash and balances with banks and central bank	**196**	53
Placements with financial institutions	**7**	69
Sukuk	**299**	91
Financing assets (note 7)	**18,162**	13,989
Other Assets	**949**	(5,394)
Financing commitments and financial guarantee contracts	**218**	161
Investments	**3,158**	3,714
	22,989	12,683

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

8 NET IMPAIRMENT CHARGE ON FINANCING ASSETS, INVESTMENTS AND OTHER ASSETS (continued)

	2022				
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	POCI BD '000	Total BD '000
Balance at 1 January	15,627	7,332	21,525	-	44,484
- transferred to Stage 1: 12 month ECL	1,055	(1,050)	(5)	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(1,728)	2,761	(1,033)	-	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(829)	(642)	1,471	-	-
Net remeasurement of loss allowance	5,549	3,926	5,721	(5,478)	9,718
Recoveries / write-backs	-	-	(749)	-	(749)
Allowance for credit losses	4,047	4,995	5,405	(5,478)	8,969
Exchange adjustments and other transfers	(1,417)	-	(3)	(73)	(1,493)
Adjustment on repayment or derecognition	-	-	-	5,551	5,551
Amounts written back during the year, net	-	-	224	-	224
Balance at 31 December	18,257	12,327	27,151	-	57,735

	2022				
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	POCI BD '000	Total BD '000
Cash and balances with banks and central bank	134	-	-	-	134
Placements with financial institutions	73	-	-	-	73
Investment in sukuk	246	-	-	-	246
Financing assets	17,309	12,290	19,337	-	48,936
Financing other assets	1	-	1,646	-	1,647
Other receivables	359	12	5,855	-	6,226
Financing commitments and financial guarantee contracts	135	25	313	-	473
	18,257	12,327	27,151	-	57,735

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

9 NON-TRADING INVESTMENTS

	2023 BD '000	2022 BD '000
At fair value through income statement:		
Equity securities	**79,192**	86,618
Funds	**7,013**	8,253
At fair value through equity	**13,855**	11,925
	100,060	106,796

The Group holds 40% stake (2022: 40%) in Manara Developments Company B.S.C.(c) ("Manara") & Bareeq Al Retaj Real Estate Services WLL ("Bareeq"), incorporated in Bahrain and engaged in the business of property development. The investments measured at fair value through income statement using the fair value scope exemption of FAS 24. As part of restructuring, net assets of Manara will be novated to Bareeq, which is pending legal formalities.

During the year, non-trading investments of BD Nil (2022: BD 19,620 thousand) were aligned as part of a business combination.

10 TAKAFUL ASSETS AND LIABILITIES

	2023 BD '000	2022 BD '000
Retakaful share of outstanding claims	**11,065**	6,837
Retakaful share of unearned contribution	**20,849**	16,275
Takaful and other receivables	**35,456**	28,578
Takaful assets	**67,370**	51,690
Outstanding claims	**27,803**	23,550
Unearned contributions and other reserves	**46,415**	39,615
Unearned commission	**654**	636
Takaful and other payable	**39,621**	27,940
Takaful liabilities	**114,493**	91,741

Movement in Retakaful share of outstanding claims

	2023		
	Gross BD '000	Retakaful BD '000	Net BD '000
Reported claims	15,107	(5,055)	10,052
Incurred But Not Reported (IBNR)	8,443	(1,782)	6,661
At 1 January	**23,550**	**(6,837)**	**16,713**
Change in liabilities	714	(2,049)	(1,335)
Acquisition of subsidiary	3,539	(2,179)	1,360
At 31 December	**27,803**	**(11,065)**	**16,738**
Reported claims	19,776	(8,749)	11,027
IBNR	8,027	(2,316)	5,711
At 31 December	**27,803**	**(11,065)**	**16,738**

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

10 TAKAFUL ASSETS AND LIABILITIES (continued)

	2022		
	Gross BD '000	Retakaful BD '000	Net BD '000
Reported claims	15,768	(6,411)	9,357
Incurred But Not Reported (IBNR)	9,577	(1,120)	8,457
At 1 July	25,345	(7,531)	17,814
Change in liabilities	(1,795)	694	(1,101)
At 31 December	23,550	(6,837)	16,713
Reported claims	15,115	(5,725)	9,390
IBNR	8,435	(1,112)	7,323
At 31 December	23,550	(6,837)	16,713

Movement in Retakaful, share of unearned contribution

	2023		
	Gross BD '000	**Retakaful BD '000**	**Net BD '000**
At 1 January	**39,615**	**(16,275)**	**23,340**
Net movement	**6,800**	**(4,574)**	**2,226**
At 31 December	**46,415**	**(20,849)**	**25,566**

	2022		
	Gross BD '000	Retakaful BD '000	Net BD '000
At 1 July	39,983	(15,727)	24,256
Net movement	(368)	(548)	(916)
At 31 December	39,615	(16,275)	23,340

Takaful related receivables

	2023 BD '000	2022 BD '000
Outstanding claims – Gross	**27,803**	23,550
Unearned contributions, commission and other reserves	**46,415**	39,615

11 INVESTMENT IN REAL ESTATE

	2023 BD '000	2022 BD '000
Land	**76,195**	60,124
Buildings	**1,875**	2,338
	78,070	62,462

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

11 INVESTMENT IN REAL ESTATE (continued)

The movements on investment in real estate classified in Level 3 of the fair value hierarchy are as follows:

	Fair value measurement using significant unobservable inputs Level 3	
	2023	2022
	BD '000	BD '000
At 1 January	**62,462**	57,961
Fair value changes through income statement	**(283)**	(200)
Additions from acquisition of Subsidiary (Refer note 45)	**13,683**	5,982
Additions during the year*	**2,983**	-
Disposals during the year	**(235)**	(1,281)
Others	**(540)**	-
At 31 December	**78,070**	62,462

* Additions to investment in real estate during the year resulted from the Bank obtaining possession of properties held as collateral against financing.

The fair value of the investment in real estate are derived based on valuations carried out by independent external valuers using adjusted sales comparable method and classified as stage 2 in the fair value hierachy.

For sensitivity analysis of the investment in real estate, an increase of 5% in value of properties will impact equity by BD 816 thousand (2022: BD 787 thousand) and decrease of 5% in value of properties will impact income statement by BD 434 thousand (2022: BD 405 thousand).

12 INVESTMENT IN ASSOCIATES, NET

The Group holds 20.9% (2022: 20.9%) 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 26.2% 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.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

12 INVESTMENT IN ASSOCIATES, NET (continued)

The Group applies the equity method for consolidated accounting for measuring these associates in the consolidated financial statements. The Group uses the most recent available financial statements of the associates in applying the equity method of accounting. In general, for listed and overseas associates that do not prepare financials under the same reporting framework, the Bank uses reported results of associates of the previous quarter for the purpose of its equity accounting.

	2023 BD '000	2022 BD '000
Balance at 1 January	**254,006**	14,533
New acquisitions during the year	**-**	217,820
Additional stake acquired during the year	**-**	19,897
Decrecognition of associate due to step up acquisition (Note 45)	**(33,767)**	-
Share of profits	**21,043**	9,329
Share of other changes is equity	**8,511**	(7,411)
Dividends received from associates	**(17,477)**	-
Foreign exchange differences	**(832)**	(162)
Balance 31 December	**231,484**	254,006

Following is the 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.

	Indirect exposure BBK 2023 BD '000	Indirect exposure BBK 2022 BD '000
Group's holding	**26.2%**	26.2%
Total assets	**4,005,203**	3,823,947
Total liabilities	**3,384,400**	3,242,400
Net assets (100%)	**620,803**	581,547
Group's share of recognised net assets	**162,588**	152,307
Acquisition accounting related adjustments	**65,202**	65,202
Carrying amount of interest in associate	**227,790**	217,509
	BBK	BBK
	BD '000	BD '000
Revenue	**163,500**	97,600
Profit (100%)	**84,800**	28,179
Other change in equity (comprehensive income)	**32,497**	(28,300)
Total comprehensive income (100%)	**111,197**	41,121
Group's share of profits	**19,246**	7,380
Groups share of other changes in equity	**8,511**	7,411

The market value of listed associates stood at BD 228.4 million as at 31 December 2023 (2022: BD 215.8 million). The values for disclosure purposes were determined using market value per share and were not adjusted for any block holdings or unit of account related adjustments.

For other associates based on the summarized financial statements, the revenue, profit and Group's share of profit were BD 8,548 thousand (2022: BD 21,068 thousand), BD 1,683 thousand (2022: BD 9,831 thousand) and BD 1,797 thousand (2022: BD 1,949 thousand), respectively.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

13 OTHER ASSETS

	2023 BD '000	2022 BD '000
Assets under conversion (a)		
Loans and advances to customers	**46**	234
Non-trading investments - fair value through equity (b)	**163**	163
	209	397
Other receivables and advances	**37,261**	36,344
Prepayments	**13,753**	11,616
Premises and equipment including right of use assets	**30,005**	19,363
	81,228	67,720

(a) These represent non-Shari'a compliant assets resulting from the acquisition of ASBS, BMI B.S.C. (c) and Bahraini Saudi Bank B.S.C. Income derived from these assets are transferred to charity and as such are not recognised as revenue in the consolidated income statement. During the year, Shari'a prohibited income amounting to BD 343 thousand (2022: BD 450 thousand) has been transferred to charity, which has been included under "Accounts payable" (note 16).

(b) The above investment of fair value through equity are classified as Level 3 in the fair value hierarchy. Movements on fair value through equity investments are as follows:

	Fair value measurement using significant unobservable inputs	
	Level 3	
	2023 BD '000	2022 BD '000
At 1 January	**163**	192
Write down during the year	**-**	(29)
At 31 December	**163**	163

14 GOODWILL AND OTHER INTANGIBLE ASSETS

During the year, the group acquired a controling stake in Al Salam Bank Algeria (ASBA), as a result intangable assets of BD 24,476 thousand was recognised. (refer note 45).

On 7 July 2022, the Group had acquired a portfolio of assets from Ithmaar holding BSC, as result of this transaction BD 19,105 thousand was recognized as intangible assets.

In 30 March 2014, the Bank had acquired 100% of the paid-up capital of BMI. Goodwill of BD 25,971 thousand (2022: BD 25,971 thousand) arose from the business combination and is associated with the banking segment of the Group.

The recoverable amount of goodwill is based on value-in-use, calculated through cash flow projections from financial forecasts approved by the Board of Directors extrapolated for three years projection to arrive at the terminal value. A steady growth rate of 1% and discount rate of 14.2% is applied to the estimated cash flows.

The Bank assesses, on annual basis, whether there is an indication, based on either internal or external source of information, that the goodwill may be impaired in accordance with IAS 36 ('impairment of non-financial assets'). As of 31 December 2023, there are no indication of impairment of the CGU associated with the goodwill.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

14 GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

A sensitivity analysis was conducted to assess the impact of recoverable amount as compared to the carrying value of the CGU. Two variable factors are considered in the analysis, an increase in the discount rate by 1.0% and a reduction of earnings by 0.5%, the recoverable amount is greater than the carrying value of goodwill in the sensitivity analysis and did not result in any impairment.

Particulars	2023 Goodwill BD '000	2023 License BD '000	2023 Core deposits BD '000	2023 Customer Relationship BD '000	2023 Total BD '000	2022 Total BD '000
Balance at 1 January	**33,529**	**-**	**14,878**	**3,591**	**51,998**	25,971
Acquired during the year	**3,723**	**12,000**	**-**	**12,476**	**28,199**	26,663
Amortised during the year	**-**	**-**	**(1,024)**	**(1,028)**	**(2,052)**	(636)
Balance as at 31 December	**37,252**	**12,000**	**13,854**	**15,039**	**78,145**	51,998

15 MURABAHA TERM FINANCING

These represent short-term to long-term financings obtained from various financial institutions and are collateralised by corporate and sovereign sukuk with total carrying value BD 582,508 thousand (2022: BD 408,602 thousand). (note 6)

16 OTHER LIABILITIES

	2023 BD '000	2022 BD '000
Accounts payable	**77,701**	36,854
Accrued expenses	**14,383**	21,436
Manager cheques	**6,370**	5,696
LC margin deposit	**2,875**	8,898
Project payables	**225**	2,817
End of service benefits and other employee related accruals	**2,971**	2,624
Allowance for credit losses relating to financing commitments and financial guarantee contracts	**1,667**	473
	106,192	78,798

17 EQUITY OF INVESTMENT ACCOUNTHOLDERS (EIAH)

Equity of investment accountholders comprise:

	2023 BD '000	2022 BD '000
Wakala from financial institutions	**379,768**	319,339
Wakala and Mudaraba from customers	**2,424,617**	2,013,134
The Group utilizes the funds from EIAH to finance assets.	**2,804,385**	2,332,473

The assets in which EIAH funds are invested are as follows:

Assets	2023 BD '000	2022 BD '000
Mandatory reserve with central bank	**93,158**	92,507
Cash and other balances with central bank	**-**	40,693
Investment in associate	**227,790**	217,509
Placements with financial institutions	**217,380**	113,170
Financing assets	**1,525,505**	1,164,956
Ijara Muntahia Bitamleek	**740,552**	703,638
	2,804,385	2,332,473

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

17 EQUITY OF INVESTMENT ACCOUNTHOLDERS (EIAH) (continued)

Equity of investment accountholder's funds 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 including investments in Banking associate, 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 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 year, 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 year ended 31 December 2023 was 3.6% (2022: 2.4%).

18 SHARE CAPITAL

	2023 BD '000	2022 BD '000
Authorised:		
5,000,000,000 ordinary shares (2022: 5,000,000,000 shares) of BD 0.100 each	**500,000**	500,000
Issued and fully paid: (BD 0.100 per share)		
Number of shares 2,616,930,150 (2022: 2,492,314,429)	**261,693**	249,231

Names and nationalities of the major shareholders and the number of equity shares in which they own 5% or more of outstanding share as of 31 December 2023 is as follows:

Investor Name	Nationality	No. of Shares	% of the outstanding shares
Bank Muscat (S.A.O.G.)	Omani	385,639,674	14.7%
Overseas Investment S.P.C.	Bahraini	250,278,483	9.6%
Sayacorp B.S.C (c)	Bahraini	164,262,106	6.3%

A distribution schedule of equity shares, setting out the number of holders and the percentages as of 31 December 2023 is presented below:

Categories	No. of Shares	No. of the shareholders	% of the outstanding shares
Less than 1%	**906,542,809**	**22,816**	**34.6**
1% up to less than 5%	**910,207,078**	**13**	**34.8**
5% up to less than 10%	**414,540,589**	**2**	**15.8**
10% up to less than 20%	**385,639,674**	**1**	**14.8**
Total	**2,616,930,150**	**22,832**	**100.0**

18.1 Appropriation

The Board of Directors is proposing a cash dividend of 7 fils per share or 7% (2022: 5%) of the par value of BD 0.100 per share excluding treasury shares and 5% of the paid up capital to be paid by issue of bonus shares (1 share for every 20 shares held). This amounts to BD 31,032 thousand (2022: BD 24,821 thousand) for the year ended 31 December 2023.

18.2. Treasury shares

Total number of treasury shares outstanding as of 31 December 2023 was 53,005,000 shares (2022: 20,384,279 shares).

18.3. Employee incentive scheme

The Bank operates a long term share based incentive scheme under which share awards were issued to employees with future performance conditions. As of 31 December 2023, 105,552,007 (2022: 124,615,721 shares) share awards remain unvested.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

19 STATUTORY RESERVE

As required by Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net profit for the year is assigned to be transferred to the statutory reserve. The Group may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital of the Bank. The reserve is not distributable except in such circumstances as stipulated in the Commercial Companies Law and approval of the CBB.

20 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share (EPS) is calculated by dividing the net profit for the year attributable to shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. There were no dilutive instruments issued by the Bank.

	2023	2022
Net profit attributable to Shareholders of the Bank (BD '000)	**42,226**	31,593
Weighted average number of shares (thousand)	**2,457,468**	2,463,839
Basic and diluted earnings per share (fils)	**17.2**	12.8

21 FINANCE INCOME

	2023 BD '000	2022 BD '000
Murabaha financing	**50,543**	28,614
Mudaraba financing	**39,949**	25,086
Ijarah income, net*	**51,053**	36,469
Musharaka	**2,266**	1,867
Salam financing	**16,003**	-
Istisna financing	**2,013**	-
Placements with financial institutions	**12,176**	3,122
	174,003	95,158

* Ijarah income is net of depreciation of BD 28,834 thousand (2022: BD 17,415 thousand).

22 INCOME FROM NON-TRADING INVESTMENTS, NET

	2023 BD '000	2022 BD '000
Fair value changes on investments	**(2,241)**	(729)
Loss on sale of investments, net	**(6,887)**	-
Dividend income	**1,221**	213
Gain on sale of investments, net	**-**	3,236
Gain on bargain purchase (Note 45)	**15,560**	-
	7,653	2,720

23 FEES AND COMMISSION, NET

	2023 BD '000	2022 BD '000
Transaction related fees and income	**5,017**	2,728
Arrangement fees	**2,324**	1,727
LC and LG commission	**4,522**	1,206
Card income and others	**4,520**	2,167
	16,383	7,828

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

24 INCOME FROM TAKAFUL OPERATIONS, NET

	2023 BD '000	2022 BD '000
Net premium earned	**41,079**	20,782
Net commission earned	**4,340**	1,147
	45,419	21,929
Less: Net claims incurred	**(29,895)**	(14,398)
Less: General and administrative expenses – Takaful operations	**(7,953)**	(3,758)
Income from Takaful operations, net	**7,571**	3,773

25 OTHER INCOME

	2023 BD '000	2022 BD '000
Recoveries	**-**	2,330
Foreign exchange gain / (loss)	**2,476**	(482)
Gain / (Loss) from properties,net	**48**	(222)
Others	**1,327**	176
	3,851	1,802

26 STAFF COST

	2023 BD '000	2022 BD '000
Salaries and short term benefits	**27,322**	21,748
Employees' social insurance expenses	**2,850**	1,727
Other staff expenses	**1,593**	89
	31,765	23,564

During the year 2022, under the future performance awards structure of the Bank, an LTIP scheme was introduced where the employees are compensated in form of shares as a percentage on achievement of certain pre-determined performance conditions. The LTIP sets performance and service conditions and has a rateable vesting schedule over a period of five years. Accelerated vesting may occur on exceeding performance conditions leading to true up of share- based payment charges. The issue price is determined based on a defined adjustment to market price on the date of the award. The LTIP shares include financing features and are entitled to dividends, if any, released along with the vested shares.

27 OTHER OPERATING EXPENSES

	2023 BD '000	2022 BD '000
Business related expenses	**9,644**	5,119
Information Technology expenses	**4,968**	2,864
Professional expenses	**2,698**	2,261
Board of directors related expenses	**1,717**	1,372
Other expenses	**11,002**	11,183
	30,029	22,799

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

28 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 31 December 2023 and 31 December 2022 were as follows:

	2023				
	Associates and joint ventures BD '000	**Major shareholders BD '000**	**Directors and related entities BD '000**	**Senior management BD '000**	**Total BD '000**
Assets:					
Cash and balances with banks and central bank	**-**	**95**	**-**	**-**	**95**
Financing assets	**23,237**	**9,376**	**1,637**	**1,340**	**35,590**
Non-trading investments	**67,054**	**-**	**-**	**-**	**67,054**
Investment in associates	**231,484**	**-**	**-**	**-**	**231,484**
Liabilities and equity of investment accountholders:					
Customers' current accounts	**1,846**	**463**	**4,136**	**467**	**6,912**
Equity of investment accountholders	**4,376**	**1,646**	**6,926**	**2,651**	**15,599**
Other liabilities	**91**	**-**	**953**	**16**	**1,060**
Contingent liabilities and commitments	**8**	**-**	**651**	**-**	**659**

	2022				
	Associates, and joint ventures BD '000	Major shareholders BD '000	Directors and related entities BD '000	Senior management BD '000	Total BD '000
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

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

28 RELATED PARTY TRANSACTIONS (continued)

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

	2023				
	Associates and joint ventures BD '000	**Major shareholders BD '000**	**Directors and related entities BD '000**	**Senior management BD '000**	**Total BD '000**
Income:					
Finance income	**1,401**	**690**	**123**	**55**	**2,269**
Fees and commission, net	**18**	**-**	**8**	**-**	**26**
Share of profit from associates	**21,043**	**-**	**-**	**-**	**21,043**
Expenses:					
Takaful Expenses	**451**	**-**	**-**	**-**	**451**
Share of profits on equity of investment accountholders	**154**	**299**	**362**	**88**	**903**
Other operating expenses	**-**	**-**	**3,863**	**162**	**4,025**
Net impairment charge on investments	**3,070**	**-**	**-**	**-**	**3,070**

	2022				
	Associates and joint ventures BD '000	Major shareholders BD '000	Directors and related entities BD '000	Senior management BD '000	Total BD '000
Income:					
Finance income	1,066	378	177	190	1,811
Fees and commission, net	18	63	9	8	98
Loss from properties, net	-	-	-	(12)	(12)
Share of profit from associates	9,329	-	-	-	9,329
Expenses:					
Finance expense on placements from financial institutions	-	147	-	-	147
Share of profits on equity of investment accountholders	13	267	253	65	598
Other operating expenses	-	-	1,320	-	1,320
Net impairment charge on investments	2,713	-	612	-	3,325

Key management personnel compensation

Board of Directors' remuneration for the year 2023 amounted to BD 965 thousand (2022: BD 780 thousand) and sitting fees for the year 2023 amounted to BD 519 thousand (2022: BD 498 thousand).

Sharia Supervisory Boards' remuneration for the year 2023 amounted to BD 55 thousand (2022: BD 52 thousand).

Key management personnel of the Bank comprise key members of management having authority and responsibility for planning, directing and controlling the activities of the Bank. Compensation of key management personnel for the year 2023 includes salaries and other benefits of BD 5,732 thousand (2022: BD 4,427 thousand).

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

29 CONTINGENT LIABILITIES AND COMMITMENTS

	2023 BD '000	2022 BD '000
Contingent liabilities on behalf of customers		
Guarantees	**137,932**	60,217
Letters of credit	**170,259**	12,611
Acceptances	**1,648**	1,254
	309,839	74,082
Unutilised commitments		
Unutilised financing commitments	**313,076**	196,652
Unutilised non-funded commitments	**37,261**	4,912
	350,337	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.

30 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;

	2023		2022	
	Notional Amount BD '000	Fair Value BD '000	Notional Amount BD '000	Fair Value BD '000
FX Wa'ad instruments				
Assets position	**42,630**	**563**	62,926	1,247
Liabilities position	**52,515**	**337**	14,509	440

31 RISK MANAGEMENT

31.1 Introduction - Risk management of Banking operations

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk appetite limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk, operational risk, information security risk and market risk. It is also subject to early settlement risk.

The Group's risk function is independent of lines of business and the Chief Risk Officer reports to the Audit and Risk Committee with access to the Group Chief Executive Officer.

The independent risk control process does not include business risks such as changes in the environment, technology and industry as they are monitored through the Group's strategic planning process.

Board of Directors

The Board of Directors is responsible for setting the overall risk management framework and appetite encompassing the risk strategies and policies.

Shari'a Supervisory Board

The Group's Shari'a Supervisory Board is entrusted with the responsibility to ensure the Group's adherence to Shari'a rules and principles in its transactions and activities.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

31 RISK MANAGEMENT (continued)

31.1 Introduction (continued)

Credit Investment Committee

Credit and Investment Committee (CIC) reviews the Credit Risk Policies and Investment Policies to ensure they are consistent with the corporate values and strategy of the Bank. The Committee will discuss, review and approve all investments and financing transactions.

The Committee establishes the framework for setting country, product and sector limits, consider proposals for changes in such limits, review periodic reports to monitor compliance and agree actions to be taken to address exceptions.

It assesses and approves credit risk parameters (including pricing) relating to new products and changes in credit risk for existing products.

Asset and Liability Committee

The Asset and Liability Committee (ALCO) establishes policy and objectives for the asset and liability management of the Group's financial position in terms of ICAAP, Stress Testing, Step-in Risk, Recovery Plan, Risk and Return and its impact on profitability. It also monitors the cash flow, tenor and cost / yield profiles of assets and liabilities and evaluates the Group's financial position both from profit rate sensitivity and liquidity points of view, making corrective adjustments based upon perceived trends and market conditions, monitoring liquidity, monitoring foreign exchange exposures and positions.

Operational Risk Committee

The Operational and Market Risk (OPMA) and Compliance Committee - it reviews the risk management policies (excluding Credit Risk policies). It ensures Bank's compliance with applicable Regulations with the assistance of the relevant stakeholders.

Information Security Committee

Information Security Committee is an advisory committee appointed by the Management Executive Committee of the Bank to develop, review and execute a comprehensive Information Security Management System for the Bank. The Committee will regularly review the information security risk exposure of the Bank.

Audit and Risk Committee

The Audit and Risk Committee is appointed by the Board of Directors who are non-executive directors of the Group. The Audit and Risk Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting, the audit thereof, the soundness of the internal controls of the Group, reviewing and monitoring the overall risk framework and profile of the Group as well as its adherence to stipulated policies and limits, and the methods for monitoring compliance with laws, regulations and supervisory and internal policies.

The Audit and Risk Committee reviews Group's accounting and financial practices, risk management reports, integrity of the Group's financial and internal controls and consolidated financial statements. It also reviews the Group's compliance with legal requirements, recommends the appointment, compensation and oversight of the Group's external and internal auditors. The Committee has the responsibility to review and recommend to the Board for approval the overall risk process and policies within the Bank.

Internal Audit

Risk management processes throughout the Group are audited by the internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit and Risk Committee.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

31 RISK MANAGEMENT (continued)

31.1 Introduction (continued)

Risk measurement and reporting systems

The Group's risk management policies aim to identify, measure, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. The Group's risk management department is also responsible for identifying risk characteristics inherent in new and existing products, activities and setting exposure limits to mitigate these risks.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across respective risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, the Audit and Risk Committee, Credit and Investment Committee, The Operational and Market Risk and Compliance Committee, Information Security Committee and ALCO, whenever required. The reports include aggregate credit quality and exposures, market risk exposures, operational risk metrics, Information Security updates, limit exceptions, liquidity ratios, stress testing, and risk profile changes. A detailed report is produced on a quarterly basis with simplified reports produced on a monthly basis. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Audit and Risk Committee of the Board receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess the risks of the Group.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information. Briefing is given to all relevant members of the Group on the utilization of market limits, proprietary investments and liquidity, plus any other risk developments.

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

31.2 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 attempts to control credit risk by monitoring credit exposures, setting limits for transactions with counterparties, and continually assessing the creditworthiness of counterparties.

In addition to monitoring credit limits, the Group manages the credit exposures by entering into collateral arrangements with counterparties in appropriate circumstances and by limiting the duration of the exposure.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

Credit risk grades

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of customer. Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates. Each exposure is allocated to a credit risk grade at initial recognition based on available information about the customer. Exposures are subject to ongoing monitoring which may result in an exposure being moved to a different credit risk grade.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

31 RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements (continued)

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown net of provision, before the effect of mitigation through the use of master netting and collateral agreements.

	Gross maximum exposure 2023 BD '000	Gross maximum exposure 2022 BD '000
ASSETS		
Balances with other banks	**126,902**	183,646
Placements with financial institutions	**293,598**	113,169
Corporate Sukuk	**57,369**	40,311
Financing assets	**2,725,483**	2,035,401
Financing contracts under other assets	**2,376**	1,881
Total	**3,205,728**	2,374,408
Contingent liabilities and commitments	**660,176**	275,646
Total credit risk exposure	**3,865,904**	2,650,054

Where financial contracts are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Type of credit risk

Various contracts entered into by the Group comprise Murabaha financing, Mudaraba financing, Musharaka, Credit card receivables, Corporate Sukuk and IMB contracts. Murabaha contracts cover financing of land, buildings, commodities, motor vehicles and others non-financial assets. Mudaraba financing consist of financing transactions entered through other Islamic banks and financial institutions. Mudaraba is a partnership agreement in which the Islamic bank acts as the provider of funds (the Rabalmal) while the recipient of the funds (the Mudarib or the manager) provides the professional, managerial and technical know-how towards carrying out the venture, trade or service with an aim of earning profit.

The Group follows an internal rating mechanism for grading relationships for financial assets. All financial assets are assigned a rating in accordance with the defined criteria. The Group utilises a scale ranging from 1 to 10 for credit relationships, with 1 to 7 denoting performing grades and 8 to 10 denoting non-performing grades. Ratings 1 to 4 represent good credit grade, 5 to 7 represents a satisfactory credit grade and 8 to 10 represents default grade.

For externally rated exposures, credit risk ratings of an authorised Credit Rating Agency are converted into internal ratings which are calibrated with the risk appetite of the Bank. Conversion of an external credit risk rating to an internal risk rating is done to ensure consistency across publicly rated and unrated entities.

The Group endeavors continuously to improve upon the internal credit risk rating methodologies and credit risk management policies and practices to reflect the true underlying credit risk of the portfolio and the credit culture in the Group.

Measurement of ECL

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective profit rate of the financial asset.

The key parameters into the measurement of ECL are the following variables:

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

These parameters are generally derived from internally developed models, historical and projected data. These are further adjusted to reflect forward-looking scenarios as described below.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

31 RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

Definition of default

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

Probability of default

PDs estimates are estimated at a certain date, which are calculated based on the Bank's default experience, and assessed using rating tools tailored to the segment of counterparties and exposures. These estimations are based on internally compiled data comprising both quantitative and qualitative factors. In case of lack of default history, market data may also be used to derive the PD for selected segment of counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD.

Generating the term structure PD

Credit risk grades are a primary parameters into the determination of the term structure of 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 credit risk estimation models for analysing the data collected and generate estimates of PD of exposures and how these are expected to change as a result of the passage of time.

Incorporation of forward - looking information

The Group uses industry recognized models to estimate impact of macro-economic factors on historical observed default rates. In case the results of forecasted PDs are significantly different from the expected default rates that may be observed for the forecasted economic conditions, conservative and discretionary overlays shall be used by the management after analyzing the portfolio and impact. The key macro-economic indicators include gross domestic product (GDP) growth and oil prices. The key macro-economic indicators include gross domestic product (GDP) growth and oil prices.

Incorporating forward-looking information requires continuous assessment 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). The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed yearly.

Loss Given Default

LGD is the magnitude of the likely loss if there is a default. LGD parameters based on the history of recovery rates of claims against defaulted counterparties, based on historical data using both internal and external factors. The LGD is estimated using below factors:

Cure Rate: Defined as the ratio of accounts which have fallen to default and have managed to move backward to the performing accounts.

Recovery Rate: Defined as the ratio of liquidation value to market value of the underlying collateral at the time of default would also account for expected recovery rate from a general claim on the individual's assets for the unsecured portion of the exposure.

In case of non-availability of recovery data, the Bank uses LGD estimate based on market practice.

Discounting Rate: Defined as the opportunity cost of the recovery value not being realized on the day of default adjusted for time value. Where the Group does not have stable or adequate internal loss or recovery experience, an expert judgement measure using market benchmarks as inputs is considered.

Exposure At Default

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty. The EAD of a financial asset is its gross carrying amount. For financing commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

31 RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

Significant Increase in Credit Risk

A SICR occurs when there has been a significant increase in the risk of a default occurring over the expected life of a financial instrument. In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a financing facility, which would result in the financial asset moving from 'stage 1' to 'stage 2'.

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

The criteria for determining whether credit risk has increased significantly vary on a portfolio level and include quantitative and qualitative factors, including days past due, restructured status and relative migration in risk rating. Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk grade deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 4 and 5.

The Group continues to assess customer for other indicators of unlikeliness to pay, taking into consideration the underlying cause of any financial difficulty and whether it is likely to be temporary as a result of prevailing economic condtions or longer term.

Management overlays are applied to the model outputs consistent with the objective of identifying a significant increase in credit risk.

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 (prior to restructuring), then such restructured accounts are categorized under stage 3.

Backward transition

FAS 30 staging model is of symmetrical nature as exposures may migrate from lifetime ECL measurement (Stage 2 and Stage 3) to 12 month ECL measurement (Stage 1). However, movement across stages are not immediate once SICR indicators are no longer triggered. Once such indicators are no longer triggered, movement back to Stage 1 or Stage 2 has to be calibrated and cannot be automatic or immediate. Certain criteria like cooling off year, SICR indicators and payment history are considered for migrating customers to Stage 2 or Stage 1.

Credit Conversion Factor

The estimation of EAD takes into account any unexpected changes in the exposure after the assessment date, including 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 for 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 the CCF considered for capital charge.

The Bank applies regulatory CCF as defined by the Central Bank of Bahrain.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

31 RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

Expected credit Losses

ECLs were estimated based on a range of forecast economic conditions as at that date the Group has considered the impact of volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECL determination.

The following table summarizes the key judgements and assumptions in relation to the model inputs and the interdependencies between those inputs during the current year.

Key model inputs	Model assumptions
Probability of default (PD's)	Point-in-time PD's updated using latest available macro-economic forecasts by using historical correlation to Volume of imports of goods and services; Inflation average consumer prices; Domestic credit growth (%); Unemployment rate and Gross national savings as percentage of GDP
Probability weighted outcomes	Probability weights - Base 65, Stressed 25, Improved 10
Loss Given Default (LGD)	Unsecured LGD is 65% and it is consistent with those used in 2022.

The Group had also stressed financing exposures with regards to specific industries which were expected to be most impacted due to prevailing economic conditions and considered for ECL in its probability weighted scenarios. However, the staging of these exposures reported in the tables below reflect their account position on the reporting date. The Group continues to individually assess significant corporate exposures to adequately safeguard against any adverse movements due to prevailing economic conditions.

The Group has previously performed historical analysis and identified key economic variables impacting credit risk and ECL for each portfolio and expert judgement has also been applied in this process. These economic variables and their associated impact on PD, EAD and LGD vary by financial instrument.

Judgement is involved in determining which forward looking information variables are relevant for particular financing portfolios and for determining the sensitivity of the parameters to movements in these forward-looking variables. As with any economic forecasts, the projections and likelihoods of the occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

a) The credit quality of balances with banks and placements with financial institutions subject to credit risk is as follows:

	2023			
	Stage 1: 12-month ECL BD '000	**Stage 2: Lifetime ECL not credit-impaired BD '000**	**Stage 3: Lifetime ECL credit-impaired BD '000**	**Total BD '000**
Good (R1-R4)	**327,751**	**-**	**-**	**327,751**
Satisfactory (R5-R7)	**92,749**	**-**	**-**	**92,749**
Allowance for credit losses	**(346)**	**-**	**-**	**(346)**
	420,154	**-**	**-**	**420,154**

	2022			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Good (R1-R4)	238,035	-	-	238,035
Satisfactory (R5-R7)	58,780	-	-	58,780
Allowance for credit losses	(207)	-	-	(207)
	296,608	-	-	296,608

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

31 RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

b) The following tables sets out information about the credit quality of financial assets. For financing commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed.

i) Corporate Sukuk

	2023			
	Stage 1: 12-month ECL BD '000	**Stage 2: Lifetime ECL not credit-impaired BD '000**	**Stage 3: Lifetime ECL credit-impaired BD '000**	**Total BD '000**
Good (R1-R4)	**47,308**	**-**	-	**47,308**
Satisfactory (R5-R7)	**10,061**	**-**	-	**10,061**
Allowance for credit losses	**(48)**	**-**	-	**(48)**
	57,321	**-**	-	**57,321**

	2022			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Good (R1-R4)	26,876	-	-	26,876
Satisfactory (R5-R7)	13,435	-	-	13,435
Allowance for credit losses	(107)	-	-	(107)
	40,204	-	-	40,204

ii) Financing assets

	2023				
	Stage 1: 12-month ECL	**Stage 2: Lifetime ECL not credit-impaired BD '000**	**Stage 3: Lifetime ECL credit-impaired BD '000**	**POCI**	**Total BD '000**
Good (R1-R4)	**2,327,900**	**30,400**	**-**	**-**	**2,358,300**
Satisfactory (R5-R7)	**202,510**	**60,583**	**-**	**-**	**263,093**
Default (D8-D10)	**-**	**-**	**91,563**	**12,527**	**104,090**
Allowance for credit losses and impairment	**(16,334)**	**(8,332)**	**(23,922)**	**(435)**	**(49,023)**
	2,514,076	**82,651**	**67,641**	**12,092**	**2,676,460**

	2022				
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	POCI	Total BD '000
Good (R1-R4)	1,804,731	38,538	-	-	1,843,269
Satisfactory (R5-R7)	63,863	78,498	-	-	142,361
Default (D8-D10)	-	-	39,846	9,925	49,771
Allowance for credit losses and impairment	(17,309)	(12,290)	(19,337)	-	(48,936)
	1,851,285	104,746	20,509	9,925	1,986,465

As 31 December 2023, profit in suspense amounted to BD 24,980 thousand (2022: BD 22,549 thousand).

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

31 RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

iii) Financing other assets

	2023			
	Stage 1: 12-month ECL BD '000	**Stage 2: Lifetime ECL not credit-impaired BD '000**	**Stage 3: Lifetime ECL credit-impaired BD '000**	**Total BD '000**
Good (R1-R4)	**1,487**	**-**	**-**	**1,487**
Satisfactory (R5-R7)	**297**	**65**	**-**	**362**
Default (D8-D10)	**-**	**-**	**527**	**527**
Allowance for credit losses	**(529)**	**(5)**	**(333)**	**(867)**
	1,255	**60**	**194**	**1,509**

	2022			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Good (R1-R4)	154	-	-	154
Satisfactory (R5-R7)	-	-	-	-
Default (D8-D10)	-	-	1,727	1,727
Allowance for credit losses	(1)	-	(1,646)	(1,647)
	153	-	81	234

iv) Financing commitments and financial guarantee contracts

	2023			
	Stage 1: 12-month ECL BD '000	**Stage 2: Lifetime ECL not credit-impaired BD '000**	**Stage 3: Lifetime ECL credit-impaired BD '000**	**Total BD '000**
Good (R1-R4)	**486,192**	**1,117**	**-**	**487,309**
Satisfactory (R5-R7)	**161,588**	**5,067**	**-**	**166,655**
Default (D8-D10)	**-**	**-**	**6,212**	**6,212**
Allowance for credit losses	**(1,505)**	**(150)**	**(12)**	**(1,667)**
	646,275	**6,034**	**6,200**	**658,509**

	2022			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Good (R1-R4)	262,631	7,192	752	270,575
Satisfactory (R5-R7)	260	2,713	2,098	5,071
Default (D8-D10)	-	-	-	-
Allowance for credit losses	(135)	(25)	(313)	(473)
	262,756	9,880	2,537	275,173

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

31 RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

iv) Financing commitments and financial guarantee contracts (continued)

The aging analysis of Financing Assets:

	2023			
	Stage 1 BD '000	**Stage 2 BD '000**	**Stage 3 / POCI BD '000**	**Total BD '000**
Current	**2,417,399**	**65,656**	**28,155**	**2,511,210**
< 30 days	**93,746**	**8,164**	**2,611**	**104,521**
30 to 90 Days	**19,265**	**17,163**	**12,070**	**48,498**
> 90 days	**-**	**-**	**61,254**	**61,254**
	2,530,410	**90,983**	**104,090**	**2,725,483**

	2022			
	Stage 1 BD '000	Stage 2 BD '000	Stage 3 / POCI BD '000	Total BD '000
Current	1,744,738	92,147	14,793	1,851,678
< 30 days	122,667	3,773	1,796	128,236
30 to 90 Days	1,189	21,116	28,710	51,015
> 90 days	-	-	4,472	4,472
	1,868,594	117,036	49,771	2,035,401

The maximum credit risk, without taking into account the fair value of any collateral and Shari'a-compliant netting agreements, is limited to the amounts on the consolidated statement of financial position plus commitments to customers disclosed in note 29 except capital commitments.

During the year BD 24,536 thousand (2022: BD 25,630 thousand) of financing facilities were renegotiated. Most of the renegotiated facilities are performing and are secured.

Write-off policy

The Group writes off an asset/security balance (net of any related allowances for impairment losses) when it determines that the asset/security are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the counterparty's financial position such that they can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. During the year, the Group has written back net financing facilities amounting to BD Nil thousand (2022: BD 224 thousand) which were fully impaired.

Collateral held and other credit enhancements

The Group accepts the following type of collateral, as defined in CBB rule book. The collateral can be in Bahraini Dinars or other Foreign Currencies-in such cases, haircut as appropriate as per the credit risk policy is applied.

- Cash Margin and deposits
- Sukuk-Long Term – rated & unrated
- Equities listed and not listed in main index
- Units in collective investment schemes
- Other physical assets including real estate

The Group holds collateral and other credit enhancements against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

Type of credit exposure	Principal type of collateral held	**2023 BD '000**	2022 BD '000
Financing assets to corporates	Cash, Property, or listed Shares and Sukuk	**2,009,902**	1,380,953
Financing assets to retail customers	Cash, Property, or listed Shares and Sukuk	**1,383,696**	1,181,410

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

31 RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

iv) Financing commitments and financial guarantee contracts (continued)

FTV ratio

Financing to value (FTV) is calculated as the ratio of the gross amount of the financing or the amount committed for financing commitments to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral.

	2023 **BD '000**	2022 BD '000
Less than 50%	**864,185**	988,811
51-70%	**134,188**	229,424
71-90%	**182,617**	273,392
91-100%	**201,788**	160,682
More than 100%	**1,342,705**	383,092
	2,725,483	2,035,401

Key drivers of credit risk and credit losses

Credit risk arises from all transactions that give rise to actual, contingent or potential claims against any counterparty, obligor or client (which is referred to collectively as "counterparties"). This is the most frequent and substantial risk faced by any financing Bank.

Credit risk may have the following consequences leading to credit losses:

- Delayed fulfilment of a payment obligation
- Partial loss of the credit exposure
- Complete loss of the credit exposure

The various types of credit risk are defined as follows:

- Default Risk
- Country Risk
- Settlement Risk
- Replacement cost-risk
- Concentration risk
- Residual risk (e.g. legal risk, documentation risk, or liquidity risk)

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used included the key indicators for Bahrain such as the oil price, net financing, population, GDP growth and government expenditure.

31.3 Legal risk and claims

Legal risk is the risk arising from the potential that unenforceable contracts, lawsuits or adverse judgments can disrupt or otherwise negatively affect the operations of the Group. The Group has developed controls and procedures to identify legal risks and believes that losses will be minimised.

As at 31 December 2023, legal suits amounting to BD 1,555 thousand (2022: BD 1,302 thousand) were pending against the Group. Based on the opinion of the Group's legal counsel, the total estimated liability arising from these cases is not considered to be material to the Group's consolidated financial position as the Group has also filed counter cases against these parties.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

31 RISK MANAGEMENT (continued)

31.4 Operational risk management

The BCP was thoroughly tested during the year, including the implemented measures like working from the BCP site and from home. The measures continued to work satisfactorily.

As of 31 December 2023, the Group did not have any significant issues relating to operational risks.

31.5 Risk Management for Takaful operations of the Group

The activity of Solidarity Group Holding BSC (c), one of the principal subsidiaries of the Group is to issue takaful contracts of its personal and corporate clients. The risk under Takaful contract is the possibility that on event occurs and the uncertainty of the amount payable under the Takaful contract resulting from such occurrence referred to as the claim. By the very nature of takaful contract, this risk is fortuitous, random and therefore unpredictable. The principal risks that the Group faces in writing a portfolio of takaful contracts are the frequency of occurrence of the events and the severity of resulting claims. The Group's risk profile is improved by having sufficient large numbers, diversification by nature of risk and geographical spread of these risks. This reduces the vulnerability of the Group's financial position and profits to large losses or a high frequency as there will be a larger income to sustain such impacts. The exposure of high frequency and severe large losses are also protected contract provides by a comprehensive retakaful program placed with highly reputable international retakaful contract provider.

(i) Underwriting Policy

The Group principally issues takaful contracts marine (cargo and hull), motor (own damage and third-party liability), property (material damage and business interruption), liability and general accident. These policies usually cover twelve months duration. For the above general takaful contracts, the most significant risks arise from accidents including motor or other incidents causing fire and accidental damage, negligence resulting in accidents or liabilities against third parties, natural disasters and other activities causing damage by riots, civil commotion and terrorist acts. The level of risks vary in relation to the location of the risk covered and type of risk covered and by industry.

(ii) Retakaful Policy

As part of the underwriting process the next risk control measure in respect of the takaful risk is the transfer of the risks to third parties through a retakaful contract or facility. The Group has in place proportional facilities, referred to as treaties, which are used to transfer a proportion of the risks automatically subject to pre-agreed conditions with the retakaful contracts provider. The portion of the risk retained by the Group is also guided by a strict retention policy adopted by the Group. Any claim will be recovered in the same proportion. Furthermore, the Group also has in place non-proportional treaties which pay a proportion of losses above a pre-agreed priority level for each loss or an aggregation of losses arising out of one event. The placements of retakaful contracts are diversified with a panel of internationally reputed reinsurers so that the Group is not dependent on a single retakaful contracts provider or a retakaful contract. The Group also transfers risk on a case-by-case basis referred to as facultative retakaful. This is used in cases when the risk under consideration is either too large for the treaty capacities or else has risks which are excluded from the treaties. In this case the Group seeks internationally rated retakaful contracts providers but also places some small shares in the local markets as exchange of business.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

32 CONCENTRATIONS

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The Group manages its exposure through diversification of financing activities to avoid undue concentrations of risks with customers in specific locations or businesses.

The distribution of assets, liabilities and equity of investment accountholders by geographic region and industry sector was as follows:

	2023			2022		
	Assets BD '000	**Liabilities and equity of investment account holders BD '000**	**Contingent liabilities and Commitments BD '000**	Assets BD '000	Liabilities, and equity of investment account holders BD '000	Contingent liabilities and Commitments BD '000
Geographic region						
GCC	**4,043,110**	**3,220,903**	**271,629**	3,652,878	3,071,611	266,346
Middle East and North Africa	**930,425**	**1,161,581**	**216,105**	80,126	216,848	7,504
Europe	**70,385**	**215,535**	**60,504**	65,514	196,728	18
Asia	**5,260**	**68,462**	**-**	8,794	32,140	738
America	**79,948**	**16,567**	**111,938**	81,480	20,492	1,040
Others	**17,982**	**55,412**	**-**	10,569	24,187	-
	5,147,110	**4,738,460**	**660,176**	3,899,361	3,562,006	275,646

	2023			2022		
	Assets BD '000	**Liabilities and equity of investment account holders BD '000**	**Contingent liabilities and Commitments BD '000**	Assets BD '000	Liabilities, and equity of investment account holders BD '000	Contingent liabilities and Commitments BD '000
Industry sector						
Government and public sector	**1,180,065**	**245,592**	**47,338**	1,273,552	301,168	41,390
Banks and financial institutions	**1,327,682**	**786,189**	**40,608**	102,058	690,306	61,071
Real estate	**273,681**	**90,793**	**78,441**	394,200	101,511	48,096
Trading and manufacturing	**688,935**	**422,595**	**397,490**	131,925	109,239	64,208
Aviation	**383**	**-**	**-**	-	-	-
Individuals	**1,249,470**	**2,471,106**	**43,182**	1,370,883	1,595,041	32,867
Others	**426,894**	**722,185**	**53,117**	626,743	764,741	28,014
	5,147,110	**4,738,460**	**660,176**	3,899,361	3,562,006	275,646

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

33 MARKET RISK

Market risk arises from fluctuations in global yields on financial contracts and foreign exchange rates that could have an indirect effect on the Group's assets value and equity prices. The Board has set limits on the risk that may be accepted. This is monitored on a regular basis by the Audit and Risk Committee as well as ALCO of the Group.

33.1 Equity price risk

Equity price risk arises from fluctuations in equity prices. The Board has set limits on the overall investment exposure of the Bank. This is monitored on an ongoing basis by the Group's Investment Committee and Risk Management.

The effect on income (as a result of changes in the fair values of non-trading investments held at fair value through profit or loss and fair value through equity investments) solely due to reasonably possible changes in equity indexes, is as follows:

	2023			
	10% increase		**10% decrease**	
	Effect on net profit BD '000	**Effect on equity BD '000**	**Effect on net profit BD '000**	**Effect on equity BD '000**
Quoted investment	**1,014**	**2,231**	**(1,014)**	**(2,231)**

	2022			
	10% increase		10% decrease	
	Effect on net profit BD '000	Effect on equity BD '000	Effect on net profit BD '000	Effect on equity BD '000
Quoted investment	1,189	888	(1,189)	(888)

33.2 Profit return risk

Profit rate risk arises from the possibility that changes in profit rates will affect the future profitability or the fair values of financial assets. The Board has set limits on the risk that may be accepted. This is monitored on a regular basis by the Audit and Risk Committee as well as ALCO of the Group.

The Group manages exposures to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows.

The sensitivity on income solely due to reasonably possible immediate and sustained changes in profit return rates, affecting both floating rate assets and liabilities and fixed rate assets and liabilities with maturities up to one year (re-pricing maturity on cumulative basis) are as follows:

	2023			
	Change in rate %	**Effect on net profit net profit BD '000**	**Change in rate rate %**	**Effect on net profit net profit BD '000**
Bahraini dinars	**0.10**	**(14,714)**	**(0.10)**	**14,714**

	2022			
	Change in rate %	Effect on net profit net profit BD '000	Change in rate rate %	Effect on net profit net profit BD '000
Bahraini dinars	0.10	(13,652)	(0.10)	13,652

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

33 MARKET RISK (continued)

33.2 Profit return risk (continued)

Profit rate benchmark reform (PBOR)

The Group has implemented a tool to enable it to adopt the recommendations of the Alternative Reference Rate Committee, The Central Bank, ISDA and IIFM regarding the new conventions for profit rate accrual for new exposures and/or legacy contracts in line with the market practice.

33.3 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency. Positions are monitored on a yearly basis by the Audit and Risk Committee as well as ALCO to ensure positions are maintained within established limits.

Substantial portion of the Group's assets and liabilities are denominated in Bahraini Dinars, US Dollars or Saudi Riyals. As the Bahraini Dinar and Saudi Riyals are pegged to the US Dollars, positions in these currencies are not considered to represent significant currency risk as of 31 December 2023 and 2022.

The Group's net exposure for denominated in foreign currencies as at 31 December for its financial instruments are as follows:

	Long (short) 2023 BD '000	Long (short) 2022 BD '000
Sterling Pounds	**(58)**	(19,260)
Euro	**895**	-
Algerian Dinar	**-**	(46,827)
Others	**144**	1,897

Standard scenarios that are considered include a 10% increase or decrease in exchange rates other than GCC pegged currencies. An analysis of the Group's sensitivity to an increase or decrease in foreign exchange rates (assuming all other variables primarily profit rates, remain constant) is as follows:

	Change in currency rate %	**Effect on profit 2023 BD '000**	**Effect on equity 2023 BD '000**	Change in currency rate %	Effect on profit 2022 BD '000	Effect on equity 2022 BD '000
Sterling Pounds	**10**	**(6)**	-	10	(1,926)	-
Euro	**10**	**90**	-	10	-	-
Algerian Dinar	**10**	**-**	-	10	-	(4,683)
Others	**10**	**14**	-	10	190	-
Total		**98**	-		(1,736)	(4,683)

34 LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its liabilities as they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may impact certain sources of funding. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining an adequate balance of cash, cash equivalents and readily convertible marketable securities. Liquidity position is monitored on an ongoing basis by the Risk and Audit Committee as well as ALCO of the Group.

The Bank has computed the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) as per the requirements of the CBB rulebook. The LCR at the Group level as at 31 December 2023 is 146.7% and the simple average of the daily consolidated LCRs of the last three months is 185.0%. The NSFR as at 31 December 2023 is 115.5%.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

34 LIQUIDITY RISK (continued)

The maturity profile of sukuk, placements with or from financial institutions, financing assets and murabaha term financing has been presented using the contractual maturity year. For other balances, maturity profile is based on expected cash flows / settlement profile of the respective assets and liabilities.

The management of the Group has enhanced its monitoring of the liquidity and funding requirements. ALCO meetings are convened more frequently in order to carryout granular assessment of funding requirements with the objective to explore available sources of funding and to drawdown the existing funding sources as and when necessary to maintain enough liquidity at a reasonable cost of funding.

As at the reporting date the liquidity and funding position of the Group remains strong and is well placed to absorb and manage the impacts of this disruption. Further information on the regulatory liquidity and capital ratios as at 31 December 2023 have been disclosed in note 44 to the consolidated financial statements.

	2023				
	Up to 3 months BD '000	3 months to 1 year BD '000	1 to 5 years BD '000	Over 5 years BD '000	Total BD '000
ASSETS					
Cash and balances with banks and central bank	537,874	-	-	-	537,874
Placements with financial institutions	279,961	13,403	-	216	293,580
Investment in sukuk	118,376	130,455	409,346	344,662	1,002,839
Financing assets	298,904	308,395	909,368	1,159,793	2,676,460
Non-trading investments	-	5,874	1,885	92,301	100,060
Takaful and related assets	-	67,370	-	-	67,370
Investment in real estate	-	-	-	78,070	78,070
Investment in associates	-	-	-	231,484	231,484
Other assets	5,403	9,341	6,484	60,000	81,228
Goodwill and other intangible assets	-	-	-	78,145	78,145
	1,240,518	534,838	1,327,083	2,044,671	5,147,110
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS					
Placements from financial institutions	71,258	65,253	-	-	136,511
Customers' current accounts	1,062,093	-	2	3,936	1,066,031
Murabaha term financing	379,961	105,536	21,854	3,497	510,848
Takaful and related liabilities	-	114,493	-	-	114,493
Other liabilities	37,982	40,823	4	27,383	106,192
Equity of investment accountholders	1,611,766	874,860	292,732	25,027	2,804,385
	3,163,060	1,200,965	314,592	59,843	4,738,460

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

34 LIQUIDITY RISK (continued)

	2022				
	Up to 3 months BD '000	3 months to 1 year BD '000	1 to 5 years BD '000	Over 5 years BD '000	Total BD '000
ASSETS					
Cash and balances with banks and central bank	367,747	-	-	-	367,747
Placements with financial institutions	84,488	28,608	-	-	113,096
Investment in sukuk	37,793	58,238	467,328	274,022	837,381
Financing assets	208,458	271,127	674,069	832,811	1,986,465
Non-trading investments	-	-	-	106,796	106,796
Takaful and related assets	-	51,690	-	-	51,690
Investment in real estate	-	-	-	62,462	62,462
Investment in associates	-	-	-	254,006	254,006
Other assets	35,436	10,494	2,083	19,707	67,720
Goodwill and other intangible assets	-	-	-	51,998	51,998
	733,922	420,157	1,143,480	1,601,802	3,899,361
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS					
Placements from financial institutions	145,111	42,613	-	-	187,724
Customers' current accounts	550,281	-	-	-	550,281
Murabaha term financing	203,651	89,399	22,557	5,382	320,989
Takaful and realted liabilities	-	91,741	-	-	91,741
Other liabilities	38,321	2,249	512	37,716	78,798
Equity of investment accountholders	1,109,264	822,348	310,064	90,797	2,332,473
	2,046,628	1,048,350	333,133	133,895	3,562,006

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2023 and 2022 based on contractual undiscounted payment obligation:

	2023					
	On demand BD '000	**Up to 3 months BD '000**	**3 months to 1 year BD '000**	**1 to 5 years BD '000**	**Over 5 years BD '000**	**Total BD '000**
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, COMMITMENTS AND CONTINGENT LIABILITIES						
Placements from financial institutions	**-**	**71,772**	**66,822**	**-**	**-**	**138,594**
Customers' current accounts	**1,066,031**	**-**	**-**	**-**	**-**	**1,066,031**
Murabaha term financing	**-**	**379,962**	**105,536**	**21,854**	**5,382**	**512,734**
Equity of investment accountholders	**518,016**	**1,099,257**	**902,087**	**306,314**	**50,324**	**2,875,998**
Contingent liabilities and commitments	**-**	**142,951**	**167,990**	**322,782**	**26,453**	**660,176**
Other financial liabilities	**18,925**	**-**	**-**	**-**	**-**	**18,925**
	1,602,972	**1,693,942**	**1,242,435**	**650,950**	**82,159**	**5,272,458**

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

34 LIQUIDITY RISK (continued)

	2022					
	On demand BD '000	Up to 3 months BD '000	3 months to 1 year BD '000	1 to 5 years BD '000	Over 5 years BD '000	Total BD '000
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, COMMITMENTS AND CONTINGENT LIABILITIES						
Placements from financial institutions	-	145,802	43,690	-	-	189,492
Customers' current accounts	550,281	-	-	-	-	550,281
Murabaha term financing	-	204,807	90,281	22,557	5,382	323,027
Equity of investment accountholders	247,908	861,623	838,363	322,813	90,886	2,361,593
Contingent liabilities and commitments	-	67,199	114,109	70,827	23,511	275,646
Other financial liabilities	20,863	-	-	-	-	20,863
	819,052	1,279,431	1,086,443	416,197	119,779	3,720,902

35 SEGMENT INFORMATION

Primary segment information

For management purposes, after completion of the recent acqusitions (refer note 45), 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 subsidiaries in Seychelles and Algeria. 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 investmet in certain associates and joint ventures.

Takaful Represents the Group's investment in Solidarity Group Holding BSC (c) which is pimarily 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.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

35 SEGMENT INFORMATION (continued)

Segment information is disclosed as follows:

	2023					
	Banking BD '000	Treasury BD '000	Investments BD '000	Takaful BD '000	Unallocated BD '000	Total BD '000
Finance income	161,474	11,103	-	1,426	-	174,003
Income from sukuk	-	47,550	-	1,205	-	48,755
Fees and commission, net	13,320	3,063	-	-	-	16,383
Income from non-trading investments, net	15,394	(7,923)	(1,026)	1,208	-	7,653
Share of profit from associates, net	19,246	-	1,763	34	-	21,043
Income from Takaful operations, net	-	-	-	7,571	-	7,571
Other income	2,269	1,162	(115)	535	-	3,851
Finance expense on placements from financial institutions	(179)	(8,267)	-	-	-	(8,446)
Finance expense on murabaha term financing	-	(25,517)	-	-	-	(25,517)
Return on equity of investment accountholders	(83,309)	(16,770)	(8)	-	-	(100,087)
Net operating income	128,215	4,401	614	11,979	-	145,209
Staff cost	25,221	5,615	929	-	-	31,765
Premises cost & depreciation	6,679	929	131	-	-	7,739
Other operating expenses	19,686	3,801	1,072	5,470	-	30,029
Operating income before impairment allowances	76,629	(5,944)	(1,518)	6,509	-	75,676
Net impairment charge	(19,914)	(194)	(2,793)	(88)	-	(22,989)
Tax for the year	(4,509)	-	-	-	-	(4,509)
Segment result	52,206	(6,138)	(4,311)	6,421	-	48,178
Segment assets	3,274,290	1,485,734	181,630	158,944	46,512	5,147,110
Segment liabilities	3,387,058	1,184,538	1,315	107,580	57,969	4,738,460

Goodwill and other intangibles include BD 66,865 thousand (2022: BD 44,441 thousand) allocated from prior acquisitions within the banking segment and BD 11,280 thousand (2022: BD 7,557 thousand) attributable to the takaful segment.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

35 SEGMENT INFORMATION (continued)

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

	2022					
	Banking BD '000	Treasury BD '000	Investments BD '000	Takaful BD '000	Unallocated BD '000	Total BD '000
Finance income	90,666	3,848	-	644	-	95,158
Income from sukuk	-	34,395	-	383	-	34,778
Fees and commission, net	5,238	2,590		-	-	7,828
Income from non-trading investments, net	-	-	2,880	(160)	-	2,720
Share of profit from associates, net	7,380	-	1,937	12	-	9,329
Income from Takaful operations, net	-	-	-	3,773	-	3,773
Other income	2,212	(374)	(64)	28	-	1,802
Finance expense on placements from financial institutions	(334)	(4,621)	-	-	-	(4,955)
Finance expense on murabaha term financing	-	(6,046)	-	-	-	(6,046)
Return on equity of investment accountholders	(41,138)	(6,848)	(5)	-	-	(47,991)
Net operating income	64,024	22,944	4,748	4,680	-	96,396
Staff cost	17,618	4,949	997	-	-	23,564
Premises cost & depreciation	3,188	935	157	-	-	4,280
Other operating expenses	15,764	3,503	1,243	2,289	-	22,799
Operating income before impairment allowances	27,454	13,557	2,351	2,391	-	45,753
Net impairment charge	(8,956)	(13)	(3,714)	-	-	(12,683)
Segment result	18,498	13,544	(1,363)	2,391	-	33,070
Segment assets	2,211,788	1,286,557	197,264	154,523	49,229	3,899,361
Segment liabilities	2,451,096	937,770	952	93,397	78,791	3,562,006

Goodwill resulting from BMI acquisition is allocated to banking segment.

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

	2023			2022		
	Assets BD '000	**Liabilities and equity of investment account holders BD '000**	**Contingent liabilities and Commitments BD '000**	Assets BD '000	Liabilities and equity of investment account holders BD '000	Contingent liabilities and Commitments BD '000
GCC	**4,043,110**	**3,220,903**	**271,629**	3,652,878	3,071,611	266,346
International	**1,104,000**	**1,517,557**	**388,547**	246,483	490,395	9,300
Total	**5,147,110**	**4,738,460**	**660,176**	3,899,361	3,562,006	275,646

Secondary segment information

The Group primarily operates in the GCC and derives substantially all its operating income and incurs all operating expenses in the GCC.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

36 FIDUCIARY ASSETS

Funds under management at the year end amounted to BD 108,814 (2022: BD 111,500 thousand). These assets are held in a fiduciary capacity, measured at remaining subscription amounts and are not included in the consolidated statement of financial position. Further, the Group through its SPV's, acts as an agent/custodian on behalf of certain clients to facilitate transactions as per terms and instructions from their customers.

37 SHARI'A SUPERVISORY BOARD

The Bank's Shari'a Supervisory Board ("SSB") consists of four Islamic scholars who review the Bank's compliance with general Shari'a rules and principles, specific fatwas and rulings issued by SSB and the guidelines of the Central Bank of Bahrain ("CBB") in relation to Shari'a governance and compliance. Their review includes examination and approval of products, documentation, procedure manuals and policies, services and related charges and fees that are presented to it to ensure that the Bank's adopted activities are conducted in accordance with Shari'a rules and principles, and consequently, issue report on the bank's compliance following the review and approval of the financial statements.

38 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

During the year, the Group earned Shari'a prohibited income totalling BD 343 thousand (2022: BD 450 thousand). These include income earned from the conventional financing and investments due to acquiring BMI, ASBS and BSB, penalty charges from customers and interest on balances held with correspondent banks. These funds were allocated to charitable account for disbursment.

39 SOCIAL RESPONSIBILITY

The Group discharges its social responsibility through charity fund expenditures and donations to individuals and organisations which are used for charitable purposes. During the year, the Group paid an amount of BD 677 thousand (2022: 478 thousand) out of which BD 302 thousand (2022: BD 110 thousand) was paid from Sharia prohibited income pool.

40 ZAKAH

Pursuant to a resolution of the shareholders in an Extra-ordinary General Meetings (EGM) held on 12 November 2009, it was resolved to amend the articles of association of the Bank to inform the shareholders of their obligation to pay Zakah on income and net worth. Consequently, Zakah is not recognised in the consolidated income statement as an expense. The total Zakah payable by the shareholders for 2023 has been determined by the Shari'a supervisory board as 1.2 fils (2022: 2.7 fils) per share. Under FAS 39, Zakah payable for the year ended 2023 was calculated at 2.577% of the Zakah base of BD 118,596 thousand (2022: BD 245,883 thousand) which was determined on the Net assets method.

41 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 consolidated statement of financial position:

31 December 2023	Level 1 BD '000	Level 2 BD '000	Level 3 BD '000	Total BD '000
Sovereign sukuk at fair value through equity	270,865	69,970	-	340,835
Corporate sukuk at fair value through equity	23,337	346	-	23,683
Equity securities at fair value through income statement	3,611	6,622	75,972	86,205
Equity securities at fair value through equity	11,133	-	2,722	13,855
FX Wa'ad assets position	-	563	-	563
	308,946	77,501	78,694	465,141
FX Wa'ad liabilities position	-	337	-	337
	-	337	-	337

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

41 FAIR VALUE HIERARCHY (continued)

Financial instruments measured at amortized cost

	Level 1 BD '000	Level 2 BD '000	Level 3 BD '000	Total BD '000
Sovereign sukuk at amortized cost	**540,408**	**64,275**	**-**	**604,683**
Corporate sukuk at amortized cost	**33,638**	**-**	**-**	**33,638**
	574,046	**64,275**	**-**	**638,321**

The fair value of sukuk carried at amortized cost is BD 750,394 thousand at 31 December 2023

(2022: BD 579,528 thousand) 31 December 2022.

31 December 2022	Level 1 BD '000	Level 2 BD '000	Level 3 BD '000	Total BD '000
Sovereign sukuk at fair value through equity	73,071	139,635	-	212,706
Corporate sukuk at fair value through equity	15,423	350	-	15,773
Equity securities at fair value through income statement	11,898	302	82,915	95,115
Equity securities at fair value through equity	8,881	-	2,800	11,681
FX Wa'ad assets position	-	1,247	-	1,247
	109,273	141,534	85,715	336,522
FX Wa'ad liabilities position	-	440	-	440
	-	440	-	440

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

	2023 BD '000	2022 BD '000
At 1 January	**85,718**	87,173
Transferred from Solidarity	**-**	2,805
Purchases	**-**	49
Disposals	**-**	(23)
Transfers	**(1,462)**	-
Fair value changes	**(2,410)**	(275)
Impairment	**(3,152)**	(4,014)
At 31 December	**78,694**	85,715

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

Valuation technique used	Key unobservable inputs	Fair value at 31 December 2023 BD'000	Reasonable possible shift +/- (in average input)	Increase/ (decrease) in valuation
Asset Valuation	Underlying real estate	104,101	+/- 5%	5,217 / (5,217)

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

	2023 BD '000	2022 BD '000
At 1 January	**14,313**	-
Reclassified from FVTE	**(14,313)**	11,774
Additions / redemptions	**-**	2,539
At 31 December	**-**	14,313

The estimated fair value of yielding financing assets and financing liabilities approximates their carrying value as their pricing is not materially different to expected market return on such contracts.

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

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

42 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.

Russia-Ukraine conflict

The current ongoing conflict between Russia-Ukraine has triggered a global economic disruption and has, amongst other impacts, led to increased volatility in financial markets and commodity prices due to disruption of supply chain which may affect a broad range of entities across different jurisdictions and industries.

The management has carried out an assessment of its portfolio and has concluded that it does not have any direct exposures to / from the impacted countries. However, potential for indirect exposures continue to exist. At this stage it is difficult to quantify the full impact of this conflict since it depends largely on the nature and duration of uncertain and unpredictable events, such as further military action, additional sanctions, and reactions to ongoing developments by global financial markets. The management will continue to closely monitor impact of this evolving situation on its portfolio to assess indirect impact, if any. As at 31 December 2023 the Group does not have any direct material impact of this conflict.

43 DEPOSIT PROTECTION SCHEME

Certain customers' deposits of the Bank are covered by deposit protection schemes established by the CBB. Customers' deposits held with the Bank in the Kingdom of Bahrain are covered by the Regulation Protecting Deposits and Equity of unrestricted investment accounts issued by the CBB in accordance with Resolution No.(34) of 2010. This scheme covers eligible 'natural persons' (individuals) up to a maximum of BD 20,000 as set out by CBB requirements. A yearly contribution as mandated by the CBB is paid by the Bank under this scheme.

44 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 31 December 2023 and 31 December 2022, is as follows:

	Total weighted value	
	2023	2022
	BD '000	BD '000
Stock of HQLA	**640,852**	538,323
Net cashflows	**351,585**	219,621
LCR %	**185.0%**	251.4%
Minimum required by CBB	**100%**	100%

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

44 REGULATORY RATIOS (continued)

2) Capital Adequacy Ratio

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.

	As at 31 December	
	2023	2022
	BD '000	BD '000
CET 1 Capital before regulatory adjustments	**337,263**	302,173
Less: regulatory adjustments	**49,667**	34,562
CET 1 Capital after regulatory adjustments	**287,596**	267,611
AT 1 Capital	**3,574**	44
T 2 Capital adjustments	**52,160**	38,415
Regulatory Capital	**343,330**	306,070
Risk weighted exposure:		
Credit Risk Weighted Assets	**1,548,447**	1,244,559
Market Risk Weighted Assets	**1,300**	38,237
Operational Risk Weighted Assets	**137,610**	113,494
Total Regulatory Risk Weighted Assets	**1,687,357**	1,396,290
Total Adjusted Risk Weighted Exposures	**1,687,357**	1,396,290
Capital Adequacy Ratio	**20.4%**	21.9%
Tier 1 Capital Adequacy Ratio	**17.3%**	19.2%
Minimum required by CBB	**12.5%**	12.5%

As of 31 December 2023, aggregate of modification loss of BD 16,512 thousand (2022: BD 24,768 thousand) has been added back to Tier 1 capital.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

44 REGULATORY RATIOS (continued)

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 effective from 2019. The minimum NSFR ratio as per CBB is 100%.

The NSFR (as a percentage) as at 31 December 2023 is calculated as follows:

BD'000	Unweighted Values (before applying relevant factors)				
Item	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	325,754	-	-	52,160	377,914
Retail deposits and deposits from small business customers:					
Stable deposits	-	340,231	15,956	10,512	348,890
Less stable deposits	-	1,215,891	363,513	273,026	1,694,490
Wholesale funding:					
Other wholesale funding	-	2,028,868	133,881	104,315	610,515
Other liabilities:					
All other liabilities not included in the above categories	-	144,683	-	-	-
Total ASF	325,754	3,729,673	513,350	440,013	3,031,809
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	38,622
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	-	415,492	883	4,333	67,098
Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	854,332	262,593	1,124,303	1,480,761
With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	-	-	-	166,799	108,419
Performing residential mortgages, of which:	-	-	-	355,894	231,331
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	355,894	231,331
Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	18,929	7,212	2,789	15,441
Other assets:					
All other assets not included in the above categories	682,607	18,413	1,638	93,168	758,424
OBS items	-	659,523	-	-	32,976
Total RSF	682,607	1,966,689	272,326	1,580,487	2,624,653
NSFR (%)	-	-	-	-	115.5%

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

44 REGULATORY RATIOS (continued)

3) Net Stable Funding Ratio (NSFR) (continued)

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

BD'000	Unweighted Values (before applying relevant factors)				
Item	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Available Stable Funding (ASF):					
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
Required Stable Funding (RSF):					
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:	-	357,123	154,489	1,222,473	1,268,029
With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	-	-	-	134,393	87,356
Performing residential mortgages, of which:	-	-	-	221,246	143,810
With a risk weight of less than or equal to 35% under the CBB	-	-	-	221,246	143,810
Capital Adequacy Ratio Guidelines Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	12,236	2,458	12,357	17,850
Other assets:					
All other assets not included in the above categories	557,037	14,025	-	88,124	652,174
OBS items	-	275,333	-	-	13,767
Total RSF	**557,037**	944,096	156,947	1,550,696	2,179,566
NSFR (%)	-	-	-	-	108.3%

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

45 BUSINESS COMBINATION

2023

Acquisition of subsidiary

During the year, the Group has increased its stake in Al Salam Bank Algeria (ASBA) to 68.0%, thereby establishing control, accordingly the Group has applied the 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 below 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	BD '000
Cash and bank balances with Central Bank of Algeria	297,407
Financing portfolio	479,418
Investment properties	13,683
Other assets	15,034
Intangible assets	24,476
Total assets (A)	**830,018**
LIABILITIES ASSUMED	
Customer current accounts	401,096
Other liabilities	35,873
Total liabilities	**436,969**
Equity of investment accountholders	293,422
Total liabilities and equity of investment accountholders (B)	**730,391**
Total identifiable net assets acquired (C = A-B)	**99,627**

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

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2023

45 BUSINESS COMBINATION (continued)

c) Gain on bargain purchase

	BD '000
Consideration	**18,450**
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)	**99,627**
Gain on bargain purchase	**15,560**

For the year ended 31 December 2023 , ASBA contributed revenue of BD 34,878 thousand and profit of BD 12,395 thousand net of provisional acquisition adjustments to the Group's results. If the acquisition had occured on 1 January 2023, management estimates that consolidated revenue would have been BD 45,331 thousand. It is impracticable to determine the profit or loss of the combined entity for the current reporting period assuming the acquisition had occured on 1 January 2023, due to the impact of acquistion accounting adjustments and foreign exchange differences.

2022

Acquisition of certain group of assets

In the first quarter of 2022, the Bank entered into definitive discussions in relation to the acquisition of certain group of assets from Ithmaar Holding's group of companies consisting of the consumer banking business of Ithmaar Bank, the entire 26.2% underlying shareholdings of Ithmaar Holding in Bank of Bahrain and Kuwait B.S.C. (BBK) and 55.9% holdings in Solidarity Group Holding. The acquisition was completed to on 7 July 2022 after obtaining required regulatory and corporate approvals.

The transaction was structured as a balanced carve out of agreed assets and liabilities of Ithmaar Holding. As consideration for acquisition of the acquired group of assets, the Group has assumed certain liabilities and equity of investment account holders of the consumer banking division of Ithmaar Bank BSC (c) of an equivalent value.

46 COMPARATIVE FIGURES

Certain of the prior year figures have been regrouped to conform to the current year presentation. Such grouping did not affect previously reported net profit, total assets, total liabilities and total equity of the Group.

Basel III - Pillar III Disclosures

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Basel III - Pillar III - Disclosures (continued)

As at 31 December 2023

1 INTRODUCTION

The Central Bank of Bahrain ("CBB") requirements, which act as a common framework for the implementation of the Basel III accord in the Kingdom of Bahrain came into effect on 1 January 2015.

The Basel III accord is built on three pillars:

- **Pillar I** deals with the basis for the computation of the regulatory capital adequacy ratio. It defines the calculation of Risk Weighted Assets (RWAs) for credit risk, market risk and operational risk, as well as the derivation of the regulatory capital base. The capital adequacy ratio is then calculated as the ratio of the Bank's regulatory capital to its total RWAs.
- **Pillar II** involves the process of supervisory review of a financial institution's risk management framework and its capital adequacy.
- **Pillar III** relates to market discipline and requires the Bank to publish detailed qualitative and quantitative information of its risk management and capital adequacy policies and processes to complement the first two pillars and the associated supervisory review process.

The disclosures in this document are in addition to the disclosures included in the consolidated financial statements which are prepared in accordance with Financial Accounting Standards issued by Accounting and Auditing Organization for Islamic Financial Institutions and in conformity with the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2) and relevant CBB directives.

2 FINANCIAL PERFORMANCE AND POSITION

The Bank was incorporated on 19 January 2006 in the Kingdom of Bahrain. The Bank operates under Islamic Shari'a principles in accordance with the regulatory requirements for Islamic banks set by the CBB. The Bank's ordinary shares are listed in the Bahrain Bourse and Dubai Financial Market and operates under an Islamic retail banking license issued by CBB.

During 2016, the Bank acquired 70% stake in Al Salam Bank Seychelles Limited ("ASBS"), (previously "BMIO") an offshore bank in Seychelles. In accordance with CA-B.1.4 of the CBB Rulebook, for the purpose of disclosure of risk weighted exposures and for capital adequacy calculation, the Bank has obtained an approval from the CBB to aggregate the risk weighted exposures of ASBS and hence, the risk weighted exposures of ASBS do not form part of all disclosures in this Basel III - Pillar III Disclosure Document.

In the first quarter of 2022, the Bank had entered into definitive discussions in relation to the acquisition of certain group of assets from Ithmaar Holding's group of companies consisting of the consumer banking business of Ithmaar Bank, the entire 26.19% underlying shareholdings of Ithmaar Holding in Bank of Bahrain and Kuwait B.S.C. (BBK) and 55.91% holdings in Solidarity Group Holding. The acquisition was completed on 7 July 2022 after obtaining required regulatory and corporate approvals.

During the year, the Group has increased its stake in Al Salam Bank Algeria (ASBA) to 68.0%, thereby establishing control. For further details refer note 45 of the consolidated financial statements for the year ended 31 December 2023.

The Bank and its principal banking subsidiaries operates through 17 branches in the Kingdom of Bahrain, 1 branch in Seychelles and 24 branches in Algeria and offer a full range of Shari'a-compliant banking services and products. The activities of the Bank includes managing profit sharing investment accounts, offers 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. The Bank together with its subsidiaries are referred to as the "Group."

The consolidated financial statements and capital adequacy regulatory disclosures of the Group have been prepared on a consistent basis where applicable.

Basel III - Pillar III - Disclosures (continued)

As at 31 December 2023

2 FINANCIAL PERFORMANCE AND POSITION (continued)

Table 2.1 Key Financial Indicators (PD 1.3.9 a,b,c)

						(BD '000s)
	Dec-2023	Dec-2022	Dec-2021	Dec-2020	Dec-2019	Dec-2018
Net operating income	145,209	96,396	66,737	57,420	53,527	57,094
Net profit	48,178	33,070	21,224	9,118	21,130	18,520
Total assets	5,147,110	3,899,361	2,684,571	2,261,353	2,042,803	1,710,379
Total equity	408,650	337,355	296,759	281,167	320,074	304,822
Key Ratios						
Earnings per share (fils)	17.2	12.8	8.8	3.9	9.7	8.7
Return on average assets (%)	1.1	1.0	0.9	0.4	1.1	1.1
Return on average equity (%)	13.2	10.5	7.4	3.0	6.8	6.1
Cost to Net operating income (%)	47.9	52.5	49.4	52.3	55.6	48.9
Dividend payout ratio (%)	42.5	39.1	42.6	-	42.0	40.5
Dividend yield ratio (%)	5.9	9.9	7.1	6.8	8.0	7.0
Net profit margin on average Islamic assets (%)	2.6	2.8	2.9	3.4	2.7	2.9

Table 2.2 Financial Summary

						(BD '000s)
Consolidated Financial Position	Dec-2023	Dec-2022	Dec-2021	Dec-2020	Dec-2019	Dec-2018
Cash and balances with banks and Central Bank	537,874	367,747	309,149	288,266	219,456	82,257
Placements with financial institutions	293,580	113,096	133,860	37,965	114,803	140,304
Investment in sukuk	1,002,839	837,381	639,688	409,503	367,467	386,438
Financing assets	2,676,460	1,986,465	1,364,452	1,283,812	1,075,498	825,797
Non-trading investments	100,060	106,796	91,591	98,034	108,991	107,508
Takaful and related assets	67,370	51,690	-	-	-	-
Investment in real estate	78,070	62,462	60,904	70,529	75,717	80,551
Investment in associates	231,484	254,006	14,533	12,036	10,640	15,972
Other assets	81,228	67,720	44,423	35,237	44,260	45,581
Goodwill and other intangible assets	78,145	51,998	25,971	25,971	25,971	25,971
Placements from financial institutions and customers	136,511	187,724	126,891	116,883	211,459	850,118
Customers' current accounts	1,066,031	550,281	482,739	363,970	289,456	251,842
Murabaha term financing	510,848	320,989	100,216	221,671	145,590	155,543
Takaful and related liabilities	114,493	91,741	-	-	-	-
Other liabilities	106,192	78,798	53,789	52,282	41,481	48,293
Equity of Investment Accountholders (EIAH)	2,804,385	2,332,473	1,624,177	1,225,380	1,034,743	99,761
of which: Wakala from financial institutions	379,768	319,339	299,607	264,784	210,887	-
of which: Wakala and mudaraba from customers	2,424,617	2,013,134	1,324,570	960,596	823,856	-
Capital						
Capital adequacy (%)	20.4	21.9	28.5	26.5	21.2	20.6
Equity / Total assets (%)	7.9	8.7	11.1	12.4	15.7	17.8
Total customer deposits / Equity (times)	8.5x	7.6x	6.1x	4.7x	4.1x	3.2x

Basel III - Pillar III - Disclosures (continued)

As at 31 December 2023

2 FINANCIAL PERFORMANCE AND POSITION (continued)

Table 2.2 Financial Summary (continued)

Liquidity and Other Ratios	Dec-2023	Dec-2022	Dec-2021	Dec-2020	Dec-2019	Dec-2018
Islamic financing contracts / Total assets (%)	52.0	50.9	50.8	56.8	52.6	48.3
Investments / Total assets (%)	27.4	32.3	30.1	26.1	27.6	34.5
Liquid assets / Total assets (%)	21.2	20.1	32.7	18.3	22.7	23.2
Liquid assets / Current and URIA deposits (%)	28.2	27.2	41.7	26.0	35.0	112.7
Customer Deposits / Total assets (%)	67.8	66.0	67.3	58.6	54.5	57.7
Due from banks and financial institutions/ Total Assets (%)	5.7	2.9	5.0	1.7	5.6	8.2
Interbank Assets / Interbank Liabilities (%)	215.1	63.9	105.5	32.5	54.3	65.4
Islamic financing contracts / Customer deposits (%)	76.7	77.2	75.5	96.9	96.6	83.6
Number of employees	518	577	376	363	355	341

3 GROUP AND CAPITAL STRUCTURE

3.1 Group Structure

The consolidated financial statements for the year comprise of the financial statements of the Bank and its subsidiaries (together referred to as "the Group").

The principal subsidiaries and associates as at 31 December 2023 and their treatment for capital adequacy purposes are as follows:

	Entity classification as per CA Module	Treatment by the Bank
Subsidiaries		
Al Salam Bank Seychelles	Banking subsidiary	Aggregation of risk weighted assets
Al Salam Bank Algeria	Banking subsidiary	Consolidation of risk weighted assets
Kenaz Al Kadam Real Estate Investment W.L.L.	Commercial entity	Risk weighting using look- through approach
Wahat Al Muharraq Real Estate Investment W.L.L.		
Solidarity Group Holding BSC (c)	Insurance Subsidiary	Risk weighting of investment exposure
Associates		
Gulf African Bank	Financial entity	Risk weighting of investment exposure
Bank of Bahrain and Kuwait B.S.C.		
Bareeq Al Retaj Real Estate Services W.L.L	Commercial entity	Risk weighting using look-through approach
Manara Development Company BSC (c)		
NS Real Estate Company W.L.L.		
Darari Investment Company W.L.L.		
Burj Al Safwa Property Investment Company W.L.L.		

3.2 Capital Structure

The Group's regulatory total capital of BD 343,330 thousand comprises of CET 1, AT1 and Tier 2 capital which is detailed in the following table: (PD 1.3.11)

The issued and paid up share capital of the Group was BD 261,693 thousand at 31 December 2023, comprising of 2,616,930 thousand shares of BD 0.100 each. (PD 1.3.11)

The management believes that the current capital structure addresses the current and future activities of the Group.

Basel III - Pillar III - Disclosures (continued)

As at 31 December 2023

3 GROUP AND CAPITAL STRUCTURE (continued)

3.2 Capital Structure (continued)

Table 3.1 Breakdown of the Bank's Capital Base (PD 1.3.12, 13, 14, 15, 16, 20)

			(BD '000s)
	CET1	AT1	T2
Issued and fully paid up ordinary shares	261,693	-	-
Treasury shares	(6,799)	-	-
Employee stock incentive program funded by the bank (outstanding)	(8,770)	-	-
General Reserves	2,120	-	-
Legal/statutory reserves	25,982	-	-
Share premium	209	-	-
Retained earnings	16,410	-	-
Current interim cumulative net income / losses	40,164	-	-
Unrealized gains and losses on available for sale financial instruments	(2,607)	-	-
Gains and loss resulting from converting foreign currency subsidiaries to the parent currency	(1,860)	-	-
Total Minority Interest in banking subsidiaries given recognition in CET1 capital	10,723	-	-
Total CET1 capital prior to regulatory adjustments	**337,263**	-	-
Less:			
Goodwill & Intangibles	(49,667)	-	-
Total Common Equity Tier 1 capital after regulatory adjustments above	**287,596**	-	-
Instruments issued by banking subsidiaries to third parties	-	3,574	4,766
Asset revaluation reserve - Property, plant, and equipment	-	-	22,691
General financing loss provisions	-	-	24,703
Total Available AT1 & T2 Capital	-	**3,574**	**52,160**
Total Tier 1	-	**291,170**	
Total Capital (PD 1.3.20 a)	-	-	**343,330**

Table 3.2

			(BD '000s)
	Risk Weighted Exposures		
	Credit	Operational	Market
Risk Weighted Exposures (self-financed)	1,151,913	136,786	1,300
Risk Weighted Exposures (URIA)	387,890	-	-
Aggregation of Risk Weighted Exposures	8,644	824	-
Risk Weighted Exposures after Aggregation *	**1,548,447**	**137,610**	**1,300**
Total Risk Weighted Exposures	-	-	**1,687,356**

	CET 1	T1	Total Capital
% of Total Risk Weighted Exposures (CAR) (PD 1.3.20 a)	**17.04%**	**17.26%**	**20.35%**
Minimum Required by CBB Regulations under Basel III (before CCB)	**6.50%**	**8.00%**	**10.00%**
Capital Conservation Buffer (CCB)	**2.50%**	**2.50%**	**2.50%**
Minimum Required by CBB Regulations under Basel III (after CCB)	**9.00%**	**10.50%**	**12.50%**

(PD 1.3.20 b)

Capital Adequacy Ratio of the group's significant subsidiaries**	CET 1	T1	Total Capital
Al Salam Bank Algeria*	12.18%	12.18%	13.15%

* Calculated in accordance with the Capital Adequacy requirements issued by the foreign subsidiary's respective Central bank.

**ASBS has not been considered as a significant subsidiary as the regulatory capital is less than 5% of the Group's consolidated capital base.

Basel III - Pillar III - Disclosures (continued)

As at 31 December 2023

4 CAPITAL ADEQUACY RATIOS (CAR)

No impediments on the transfer of funds or reallocation of regulatory capital exist and the Group has adequate capital to support the current and future activities of the Group. **(PD 1.3.6.c and PD 1.3.16)**

4.1 Capital Management

Internal Capital Adequacy Assessment Process (ICAAP)

The Group's capital management aims to maintain an optimum level of capital to enable it to pursue strategies that build long-term shareholder value, whilst always maintaining minimum regulatory ratio requirements and for Pillar II risks.

The key principles driving capital management include:

- Adequate capital is maintained as buffer for unexpected losses to protect stakeholders i.e. shareholders and depositors.
- Optimize risk adjusted return on capital and generate sustainable return above the cost of capital.

The adequacy of the Group's capital is monitored using, primarily, the rules and ratios established by the CBB. The primary objective of the Group's capital management is to ensure that it complies with externally imposed capital requirements. The Group complied in full with all externally imposed capital requirements during the year ended 31 December 2023.

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE

The Group has adopted the standardized approach for credit risk and market risk and the basic indicator approach for operational risk for regulatory reporting purposes. The Group's risk-weighted capital requirement for credit, market and operational risks are given below.

5.1 Credit Risk

A Definition of exposure classes per Standard Portfolio (PD 1.3.21 a)

The Group has a diversified funded and unfunded credit portfolio. The exposures are classified as per the Standard portfolio approach mentioned under the CBB's Basel III capital adequacy framework covering the standardized approach for credit risk.

The descriptions of the counterparty classes along with the risk weights to be used to derive the risk weighted assets are as follows:

a. Claims on sovereigns

These pertain to exposures to governments and their central banks. Claims on Bahrain and GCC sovereigns are risk weighted at 0%. Claims on all other sovereigns are given a risk weighting of 0% where such claims are denominated and funded in the relevant domestic currency of that sovereign. Claims on sovereigns, other than those mentioned above are risk weighted based on their credit ratings.

b. Claims on public sector entities (PSEs)

Bahrain PSEs are assigned 0% risk weight. Other sovereign PSE's, in the relevant domestic currency and for which the local regulator has assigned risk weight as 0%, are assigned 0% risk weight by the CBB. PSEs other than those mentioned above are risk weighted based on their credit ratings.

c. Claims on banks

Claims on banks are risk weighted based on the ratings assigned to them by external rating agencies, however, short term claims on locally incorporated banks may be assigned a risk weighting of 20% where such claims on the banks are of an original maturity of three months or less and the claims are denominated and funded in either Bahraini Dinars or US Dollars.

Preferential risk weights that are one category more favorable than the standard risk weighting are assigned to claims on foreign banks licensed in Bahrain of an original maturity of three months or less denominated and funded in the relevant domestic currency. Such preferential risk weights for short-term claims on banks licensed in other jurisdictions are allowed only if the relevant supervisor also allows this preferential risk weighting to short-term claims on its banks.

No claim on an unrated bank would receive a risk weight lower than that applied to claims on its sovereign of incorporation. Significant investment in subordinated debt of banking, securities and financial entities are risk weighted at 250% and investments in excess of 15% of the Bank's CET1, then the excess amount will be deducted from the bank's capital.

Basel III - Pillar III - Disclosures (continued)

As at 31 December 2023

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.1 Credit Risk (continued)

d. Claims on corporate portfolio, including insurance companies

Claims on corporate portfolio including insurance companies are risk weighted based on credit ratings. Risk weightings for unrated corporate claims are assigned at 100%.

e. Claims on regulatory retail portfolio

Retail claims that are included in the regulatory retail portfolio are assigned risk weights of 75% (except for past due Islamic financing contracts), if it meets the criteria mentioned in the CBB's rule book.

f. Mortgages

Claims secured by mortgages on residential mortgage and commercial real estate are subject to a minimum of 35%, 75% and 100% risk weight respectively. Residential mortgage exposures granted under the Social Housing Scheme of the Kingdom of Bahrain is assigned a risk weight of 25%.

g. Past due receivables (PD 1.3.22 a)

The unsecured portion of the account receivables and lease payment receivables (other than a qualifying residential mortgage financing contract) that is past due for more than 90 days, is risk-weighted as follows (net of specific provisions and including partial write-offs):

(a) 150% risk weight when specific provisions are less than 20% of the outstanding amount of the facility.

(b) 100% risk weight when specific provisions are 20% or more of the outstanding amount of the facility.

h. Investment in securities and sukuk

Investments in listed equities are risk weighted at 100% while unlisted equities are risk weighted at 150%. Investments in sukuk are risk weighted based on respective counterparty's credit ratings.

i. Holding of real estate

All other holdings of real estate by banks (i.e. owned directly, subsidiaries or associate companies or other arrangements such as trusts, funds or REITs) are risk-weighted at 200%. Investment in listed real estate companies and investment in unlisted real estate companies are risk-weighted at 300% and 400% respectively. Premises occupied by the Group are weighted at 100%.

j. Other assets

These are risk weighted at 100%.

Basel III - Pillar III - Disclosures (continued)

As at 31 December 2023

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.1 Credit Risk (continued)

Table 5.1 Funded and Unfunded Exposures (PD-1.3.17)

(BD '000s)

	Self Financed				
Exposure type	**Gross Credit Exposure**	**CRM**	**Net Credit Exposure**	**Risk-Weighted Assets (RWA)**	**Minimum Capital Charge**
Cash and balances with banks and Central Bank	431,491	-	431,491	30,843	3,855
Sovereign Sukuk	922,989	-	922,989	8,992	1,124
Placements with financial institutions	2,849	-	2,849	1,425	178
Corporate Sukuk	38,959	-	38,959	30,000	3,750
Murabaha financing	86,397	11,711	74,686	73,425	9,178
Mudaraba financing	59,110	3,108	56,002	60,112	7,514
Finance lease assets	208,633	55,928	152,705	70,524	8,816
Salam financing	127,206	8,595	118,611	119,905	14,988
Istisna financing	38,182	872	37,310	37,659	4,707
Musharaka	2,367	-	2,367	2,446	306
Credit Cards	432	-	432	387	48
Non-trading investments	80,388	-	80,388	316,400	39,550
Investment in real estate	73,920	-	73,920	147,840	18,480
Investment in associates	3,458	-	3,458	8,646	1,081
Other assets	61,508	-	61,508	64,484	8,061
Goodwill and other intangible assets*	17,197	-	17,197	8,599	1,075
Total funded exposures	**2,155,086**	**80,214**	**2,074,872**	**981,687**	**122,711**
Contingent Liabilities & Commitments	257,774	30,044	227,730	170,226	21,278
Total unfunded exposures	**257,774**	**30,044**	**227,730**	**170,226**	**21,278**
Aggregation of Risk Weighted Exposures for AlSalam Bank Seychelles Limited	-	-	-	8,644	1,081
Total exposures	**2,412,860**	**110,258**	**2,302,602**	**1,160,557**	**145,070**

* Gross exposure excludes goodwill and other intangibles amounting to BD 49,667 thousand which is subject to dedcuction from regulatory capital.

(BD '000s)

	Funded by EAIH				
Exposure Type	**Gross Credit Exposure**	**CRM**	**Net Credit Exposure**	**Risk-Weighted Assets (RWA)*30%**	**Minimum Capital Charge**
Cash and balances with banks and Central Bank	90,837	-	90,837	-	-
Placements with financial institutions	275,839	-	275,839	29,055	3,632
Murabaha financing	649,086	53,503	595,583	106,744	13,343
Mudaraba financing	577,709	137,779	439,930	67,389	8,424
Finance lease assets	673,521	110,313	563,208	75,137	9,392
Salam financing	219,306	30,690	188,616	56,585	7,073
Istisna financing	8,891	1,517	7,374	2,212	277
Musharaka	28,334	2,249	26,085	7,781	973
Credit Cards	13,700	-	13,700	3,238	405
Investment in an associate	227,790	-	227,790	34,169	4,271
Investment in Subsidiary	37,200	-	37,200	5,580	698
Total funded exposures	**2,802,213**	**336,051**	**2,466,162**	**387,890**	**48,486**
Contingent Liabilities & Commitments	-	-	-	-	-
Total unfunded exposures	**-**	**-**	**-**	**-**	**-**
Total exposures	**2,802,213**	**336,051**	**2,466,162**	**387,890**	**48,486**

Note a: In accordance with the Public Disclosure requirements to disclose the regulatory capital requirements for credit risk under standardised approach, have been extracted from the workings prepared based on the Form PIRI submitted to the CBB by the Bank.

Note b: The gross credit exposure is arrived at after considering the following:

- inclusion of unfunded exposure (after CCF); and
- Gross credit exposure is reflected as gross of stage 1 and 2 expected credit loss (ECL) and net of specific provision

Note c: The unfunded exposure before (CCF) as of 31 December 2023 is BD 660,176 thousand.

Basel III - Pillar III - Disclosures (continued)

As at 31 December 2023

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.1 Credit Risk (continued)

Excessive risk concentration (PD 1.3.26 a)

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on country and counterparty limits and maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Following is the Gross credit exposure by Islamic financing contracts which represents the exposure on accounts receivable and lease payments receivable which are covered by eligible collateral: **(PD 1.3.17) (PD 1.3.25 b, c)**

Table 5.2 Gross Credit Exposures (PD 1.3.26 b)

(BD '000s)

Current Credit Exposure by Type of Islamic Financing Contracts	Gross Positive Fair Value (Net of specific provision)	Netting Benefits	Netted Current Credit Exposures	Eligible Collaterals Held (after appropriate haircuts)*				
				Cash	Govt. Securities	Guarantees	Real Estate	Total
Murabaha financing	735,483	-	735,483	53,687	31,622	-	-	**85,309**
Mudaraba financing	636,819	-	636,819	158,296	-	-	-	**158,296**
Finance lease assets (Ijarah Muntahia Bittamleek)	882,154	-	882,154	14,752		-	379,162	**393,914**
Salam financing	346,512	-	346,512	39,285				**39,285**
Istisna financing	47,073	-	47,073	2,389				**2,389**
Musharaka	30,701	-	30,701	2,249		-	-	**2,249**
Credit Cards	14,132	-	14,132	-	-	-	-	**-**
Total	**2,692,874**	**-**	**2,692,874**	**270,658**	**31,622**	**-**	**379,162**	**681,442**

* Over and above the collateral, considered as eligible under the CA Module, the Bank maintains additional collateral in the form of mortgage of residential properties, corporate guarantees and other tangible assets, which could be invoked to claim the amount owed in the event of default.

Credit risk concentrations and thresholds

The first level of protection against undue credit risk is through country, industry and threshold limits, together with customer and customer bank credit limits, set by the Board. Credit exposure to individual customers or customer banks is then controlled through a tiered hierarchy of delegated approval authorities.

Single name concentrations are monitored on an individual basis. Under the CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's approval for any planned exposure to a single counterparty, or group of closely related counterparties exceeding regulatory thresholds prescribed in CBB rulebook.

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

Exposures in excess of regulatory limits (PD 1.3.23 f)

As at 31 December 2023, the Group's exposures in excess of 15% of the obligor limits to individual counterparties, excluding Central Bank and exempt exposures by CBB were BHD nil.

Basel III - Pillar III - Disclosures (continued)

As at 31 December 2023

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.1 Credit Risk (continued)

Table 5.3 Gross Credit Exposures (PD 1.3.23 a)

(BD '000s)

Self Financed		
Exposure Type	**Gross Credit Exposure***	**Average Gross Credit Exposure****
Cash and balances with banks and Central Bank	444,716	406,924
Placements with financial institutions	76,218	47,530
Investment in sukuk	1,002,839	948,952
Financing assets	423,498	312,325
Non-trading investments	100,060	105,578
Takaful and related assets	67,370	59,407
Investment in real estate	78,070	73,391
Investment in associates	3,694	12,536
Other assets	81,228	76,279
Goodwill and other intangible assets	78,145	70,017
Total funded exposures	**2,355,838**	**2,112,938**
Contingent Liabilities & Commitments	660,176	528,790
Total unfunded exposures	**660,176**	**528,790**
Total exposures	**3,016,014**	**2,641,727**

(BD '000s)

Funded by EAIH		
Exposure Type	**Gross Credit Exposure***	**Average Gross Credit Exposure ****
Cash and balances with banks and Central Bank	93,158	100,578
Placements with financial institutions	217,362	166,040
Financing assets	2,252,962	2,160,704
Investment in associates	227,790	225,375
Total funded exposures	**2,791,272**	**2,652,697**
Contingent Liabilities & Commitments	-	-
Total unfunded exposures	**-**	**-**
Total exposures	**2,791,272**	**2,652,697**

* Exposures are net of ECL

** The Group has calculated the average gross credit exposures based on average quarterly balances

Risk mitigation, collateral and other credit enhancements (PD 1.3.26 a)

The amount and type of collateral depends on an assessment of the credit risk of the counterparty. The types of collateral mainly include cash, lien on property and guarantees from directors, corporates and high net worth individuals and banks. As at 31 December 2023, the collaterals eligible for CRM (after applying regulatory haircuts) amounted to BD 681,442 thousand.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses with respect to financing facilities. The Bank also makes use of master netting agreements with counterparties where relevant. **(PD 1.3.25 a)**

The main types of guarantors include rated banks and other financial institutions, Corporates and Sovereigns which are rated by ECAI's along with personal guarantees of the Board of Directors of the borrower and other high net worth individuals.

The Group obtains additional collateral as and when the value of the collateral originally obtained is assessed at lower than the minimum acceptable Loan to Value (LTV) ratio of collateral. Also, where the customer is not in a position to provide additional collateral, the Group reviews the situation and a suitable decision is made on the exposure to the said customer.

The Group ensures that at the inception of the facility, third parties valuation of the tangible collaterals is obtained and performs an annual review of the facility whereby the revised collateral valuation is obtained from the Bank's approved valuators.

In case of default, the Group will work with the counterparty to discuss how the outstanding facility can be settled. As a last resort, the counterparty's assets will be used to settle the outstanding obligation.

Basel III - Pillar III - Disclosures (continued)

As at 31 December 2023

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.1 Credit Risk (continued)

5.1.1 Geographical Distribution of Exposures

The exposures are allocated to individual geographic areas based on the country where the exposure risk specific to the facility exists. The Geographical distribution of exposures by exposure type (including financing contracts, non trading investments, investments in real estate, development property and investment in associates) and funded or unfunded by is as follows:

Table 5.4 (PD 1.3.23 b)

							(BD '000s)
	Self Financed						
Exposure type	GCC Countries	Middle East and North Africa	Europe	Asia	America	Others	Total
Cash and balances with banks and Central Bank	65,312	285,102	12,248	438	74,614	7,002	**444,716**
Investment in sukuk	949,942	-	41,061	-	5,334	6,502	**1,002,839**
Placements with financial institutions	61,483	2,849	10,219	-	-	1,667	**76,218**
Murabaha financing	33,012	54,156	-	-	-	-	**87,168**
Mudaraba financing	47,642	8,355	-	-	-	-	**55,997**
Finance lease assets	50,121	44,129	-	-	-	-	**94,250**
Salam financing	-	159,845	-	-	-	-	**159,845**
Istisna financing	-	23,768	-	-	-	-	**23,768**
Musharaka	-	2,321	-	-	-	-	**2,321**
Credit Cards	149	-	-	-	-	-	**149**
Non-trading investments	100,060	-	-	-	-	-	**100,060**
Takaful and related assets	67,370	-	-	-	-	-	**67,370**
Investment in real estate	62,970	15,100	-	-	-	-	**78,070**
Investment in associates	3,694	-	-	-	-	-	**3,694**
Other assets	52,232	14,505	6,857	4,822	-	2,812	**81,228**
Goodwill and other intangible assets	53,669	24,476	-	-	-	-	**78,145**
Total funded exposures	**1,547,656**	**634,606**	**70,385**	**5,260**	**79,948**	**17,983**	**2,355,838**
Contingent Liabilities & Commitments	271,629	216,105	60,504	-	111,938	-	**660,176**
Total unfunded exposures	**271,629**	**216,105**	**60,504**	**-**	**111,938**	**-**	**660,176**
Total exposures	**1,819,285**	**850,711**	**130,889**	**5,260**	**191,886**	**17,983**	**3,016,014**

Table 5.5 (PD 1.3.23 b)

							(BD '000s)
	Funded by EIAH						
Exposure type	GCC Countries	Middle East and North Africa	Europe	Asia	America	Others	Total
Cash and balances with banks and Central Bank	93,158	-	-	-	-	-	**93,158**
Placements with financial institutions	217,362	-	-	-	-	-	**217,362**
Murabaha financing	592,814	62,408	-	-	-	-	**655,222**
Mudaraba financing	570,982	5,831	-	-	-	-	**576,813**
Finance lease assets	730,786	49,663	-	-	-	-	**780,449**
Salam financing	-	175,799	-	-	-	-	**175,799**
Istisna financing	-	21,380	-	-	-	-	**21,380**
Musharaka	25,332	5,213	-	-	-	-	**30,545**
Credit Cards	12,754	-	-	-	-	-	**12,754**
Investment in associates	227,790	-	-	-	-	-	**227,790**
Total funded exposures	**2,470,978**	**320,294**	**-**	**-**	**-**	**-**	**2,791,272**
Contingent Liabilities & Commitments	-	-	-	-	-	-	-
Total unfunded exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total exposures	**2,470,978**	**320,294**	**-**	**-**	**-**	**-**	**2,791,272**

Basel III - Pillar III - Disclosures (continued)

As at 31 December 2023

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.1 Credit Risk (continued)

5.1.1 Geographical Distribution of Exposures (continued)

Table 5.6 The geographical distribution of exposures including impaired assets and the related impairment provisions (PD 1.3.23 i)

(BD '000s)

	Gross Financing Contracts - Past Due not impaired	12 month ECL and Lifetime ECL not impaired (Stage 1 & 2)	Gross Impaired Financing Contracts	Life time ECL credit impaired (Stage 3)
GCC Countries	126,378	(1,792)	86,645	(20,717)
Middle east and North Africa	36,515	(901)	17,446	(3,640)
Total	**162,893**	**(2,693)**	**104,091**	**(24,357)**

5.1.2 Exposure by Industry

Table 5.7 Exposure by type of credit exposure (PD 1.3.23 c)

(BD '000s)

	Self Financed						
Exposure Type	**Trading and Manufacturing**	**Banks and Financial Institutions**	**Real Estate**	**Individuals**	**Government and Public Sector Entities**	**Others**	**Total**
Cash and balances with banks and Central Bank	-	444,716	-	-	-	-	**444,716**
Investment in sukuk	-	38,013	19,308	-	945,518	-	**1,002,839**
Placements with financial institutions	-	41,712	-	-	34,506	-	**76,218**
Murabaha financing	41,073	14,436	-	23,143	-	8,516	**87,168**
Mudaraba financing	30,862	785	1,263	-	-	23,087	**55,997**
Finance lease assets	25,703	1,680	6,538	33,787	-	26,542	**94,250**
Salam financing	138,389	-	-	-	-	21,456	**159,845**
Istisna financing	20,517	-	-	-	-	3,251	**23,768**
Musharaka	575	422	-	-	-	1,324	**2,321**
Credit Cards	-	-	-	149	-	-	**149**
Non-trading investments	-	20,216	79,844	-	-	-	**100,060**
Takaful and related assets	-	67,370	-	-	-	-	**67,370**
Investment in real estate	-	-	78,070	-	-	-	**78,070**
Investment in associates	-	3,694	-	-	-	-	**3,694**
Other assets	14,602	37,614	-	19,302	-	9,710	**81,228**
Goodwill and other intangible assets	-	78,145	-	-	-	-	**78,145**
Total funded exposures	**271,721**	**748,803**	**185,023**	**76,381**	**980,024**	**93,886**	**2,355,838**
Contingent Liabilities & Commitments	397,490	40,608	78,441	43,182	47,338	53,117	**660,176**
Total unfunded exposures	**397,490**	**40,608**	**78,441**	**43,182**	**47,338**	**53,117**	**660,176**
Total exposures	**669,211**	**789,411**	**263,464**	**119,563**	**1,027,362**	**147,003**	**3,016,014**

Basel III - Pillar III - Disclosures (continued)

As at 31 December 2023

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.1 Credit Risk (continued)

5.1.2 Exposure by Industry (continued)

Table 5.8 Exposure by type of credit exposure (PD 1.3.23 c)

(BD '000s)

	Funded by EIAH						
Exposure Type	**Trading and Manufacturing**	**Banks and Financial Institutions**	**Real Estate**	**Individuals**	**Government and Public Sector Entities**	**Others**	**Total**
Cash and balances with banks and Central Bank	-	93,158	-	-	-	-	**93,158**
Placements with financial institutions	-	217,362	-	-	-	-	**217,362**
Murabaha financing	61,072	21,781	24,458	416,600	54,682	76,629	**655,222**
Mudaraba financing	46,884	18,788	39,655	153,343	141,763	176,380	**576,813**
Finance lease assets	113,108	-	6,951	585,086	3,596	71,708	**780,449**
Salam financing	170,511	-	-	-	-	5,288	**175,799**
Istisna financing	20,426	-	-	-	-	954	**21,380**
Musharaka	5,213	-	17,592	5,306	-	2,434	**30,545**
Credit Cards	-	-	-	12,754	-	-	**12,754**
Investment in associates	-	227,790	-	-	-	-	**227,790**
Total funded exposures	**417,214**	**578,879**	**88,656**	**1,173,089**	**200,041**	**333,393**	**2,791,272**
Contingent Liabilities & Commitments	-	-	-	-	-	-	**-**
Total unfunded exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total exposures	**417,214**	**578,879**	**88,656**	**1,173,089**	**200,041**	**333,393**	**2,791,272**

Table 5.9 The exposure by industry including impaired assets and the related impairment is as follows: (PD 1.3.23 h)

(BD '000s)

	Gross Financing Contracts - Past Due not impaired	**12 month ECL and Lifetime ECL not impaired (Stage 1 & 2)**	**Gross Impaired Financing Contracts**	**Life time ECL credit impaired (Stage 3)**
Trading and Manufacturing	31,199	(415)	17,652	(4,557)
Banks and Financial Institutions	-	-	10,458	(5,184)
Real Estate	37,927	(761)	33,009	(4,077)
Individuals	30,882	(913)	26,011	(4,331)
Government and public sector entities	56,928	-	-	-
Others	5,957	(604)	16,961	(6,208)
Total	**162,893**	**(2,693)**	**104,091**	**(24,357)**

Table 5.10 Ageing Analysis (PD 1.3.24 b)

(BD '000s)

	Gross Impaired and Past Due Contracts					
	up to 1 Year	**Over 1 year up to 3 years**	**Over 3 years**	**Expected Credit Losses (ECL) / Specific Provisions**	**Net Outstanding**	**Market Value of Collateral**
Trading and Manufacturing	47,677	255	919	(4,972)	43,879	35,247
Banks and Financial Institutions	10,458	-	-	(5,184)	5,274	1,000
Real Estate	70,337	540	59	(4,838)	66,098	55,650
Individuals	55,661	1,224	8	(5,244)	51,649	35,610
Government and public sector entities	56,928	-	-	-	56,928	-
Others	22,904	-	14	(6,812)	16,106	16,331
Total	**263,965**	**2,019**	**1,000**	**(27,050)**	**239,934**	**143,838**

Basel III - Pillar III - Disclosures (continued)

As at 31 December 2023

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.1 Credit Risk (continued)

5.1.3 Movement In Net Allowance For Credit Losses / Impairment (PD 1.3.24 d)

Table 5.11 The balance of allowance for credit loss in the below table includes all financial assets and off-balance sheet exposures in addition to financing assets:

(BD '000s)

	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	POCI	Total ECL
Balance at the beginning of the year	**18,257**	**12,327**	**27,151**	**-**	**57,735**
- transferred to Stage 1: 12 month ECL	1,122	(777)	(345)	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(3,528)	3,872	(344)	-	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(1,143)	(5,459)	6,602	-	-
Net remeasurement of loss allowance	4,487	(1,476)	19,598	(2,317)	20,292
Recoveries / write-backs	-	-	(461)	-	(461)
Allowance for credit losses	**938**	**(3,840)**	**25,050**	**(2,317)**	**19,831**
Exchange adjustments and other movements	27	**-**	(77)	2,752	**2,702**
Exposures written off during the year	-	-	(25,674)	-	**(25,674)**
Balance at the end of the year	**19,222**	**8,487**	**26,450**	**435**	**54,594**

5.1.4 Exposure by External Credit Rating

The Group uses public information provided by external rating agencies (accredited External Credit Assessment Institutions – ECAI) such as Standard & Poor's. The lowest of the ratings based on information available to the public is used as an input in computing rated exposures. **(PD 1.3.22 c, d, e)**

Table 5.12

(BD '000s)

Exposure Type	Gross Credit Exposure*	Rated Exposure	Unrated Exposure
Cash	42,306	-	42,306
Claims on sovereigns	1,336,667	8,012	1,328,655
Claims on banks	392,212	282,094	110,118
Claims on corporate portfolio	1,163,687	-	1,163,687
Regulatory retail portfolio	343,701	-	343,701
Mortgages	1,017,936	-	1,017,936
Past due receivables over 90 days	79,732	-	79,732
Investments in Securities and Sukuk	268,954	-	268,954
Holding of Real Estate	165,648	-	165,648
Other assets and Specialized financing	404,230	-	404,230
Total	**5,215,073**	**290,106**	**4,924,967**

*Gross credit exposure above have been extracted from the workings prepared based on the Form PIRI submitted to the CBB by the Bank.

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio through the internal risk rating system. As such, the Group uses internal risk ratings that are supported by a variety of financial analytics, combined with processed market information, to provide main inputs for measurement of counterparty credit risk. All internal ratings are tailored to various categories and are derived in accordance with the Group's credit policy and are assessed and updated on a regular basis. **(PD 1.3.22 e)**

Note a: In accordance with the Public Disclosure requirements to disclose the regulatory capital requirements for credit risk under standardised approach, the above amounts have been extracted from the workings prepared based on the Form PIRI submitted to the CBB by the Bank.

Note b: The gross credit exposure is arrived at after considering the following:
- inclusion of unfunded exposure (after CCF);
- Gross credit exposure is reflected as gross of stage 1 and 2 expected credit loss (ECL) and net of specific provision

Basel III - Pillar III - Disclosures (continued)

As at 31 December 2023

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.1 Credit Risk (continued)

5.1.5 Maturity Analysis of Exposures

The table below summarizes the notional principal amounts and the relative exposure before applying credit risk mitigation:

Table 5.13

	Notional Principal	(BD '000s) Credit Exposure *
Contingent liabilities on behalf of customers	309,839	183,329
Irrevocable unutilised commitments	350,337	74,445
Total	**660,176**	**257,774**

* Credit exposure is after applying CCF.

Table 5.14 Contractual maturity analysis by major type of credit exposure - Funded (PD 1.3.23 g) (PD 1.3.24 a) (PD 1.3.38)

Exposure Type	Up to 3 months	3 months to 1 year	Total within 12 months	1 – 5 years	5 - 10 years	10 - 20 years	Over 20 years	Total Over 12 months	(BD '000s) Total
Cash and balances with banks and Central Bank	537,874	-	**537,874**	-	-	-	-	**-**	**537,874**
Investment in sukuk	118,377	130,455	**248,832**	409,346	279,903	39,272	25,486	**754,007**	**1,002,839**
Placements with financial institutions	279,961	13,403	**293,364**	-	216	-	-	**216**	**293,580**
Financing assets and finance lease assets	298,904	308,395	**607,299**	909,368	864,257	260,932	34,604	**2,069,161**	**2,676,460**
Non-trading investments	-	5,874	**5,874**	1,885	92,301	-	-	**94,186**	**100,060**
Takaful and related assets	-	67,370	**67,370**	-	-	-	-	**-**	**67,370**
Investment in real estate	-	-	**-**	-	78,070	-	-	**78,070**	**78,070**
Investment in associates	-	-	**-**	-	231,484	-	-	**231,484**	**231,484**
Other assets	5,403	9,341	**14,744**	6,484	60,000	-	-	**66,484**	**81,228**
Goodwill and other intangible assets	-	-	**-**	-	78,145	-	-	**78,145**	**78,145**
Total	**1,240,519**	**534,838**	**1,775,357**	**1,327,083**	**1,684,376**	**300,204**	**60,090**	**3,371,753**	**5,147,110**

Table 5.14 (a) Contractual maturity analysis by major type of credit exposure - Unfunded

Exposure Type	Up to 3 months	3 months to 1 year	Total within 12 months	1 – 5 years	5 - 10 years	10 - 20 years	Over 20 years	Total Over 12 months	(BD '000s) Total
Unutilised commitments	80,777	73,450	**154,227**	169,855	22,177	2,205	1,873	**196,110**	**350,337**
Contingent liabilities	62,174	94,540	**156,714**	152,928	197	-	-	**153,125**	**309,839**
Total	**142,951**	**167,990**	**310,941**	**322,783**	**22,374**	**2,205**	**1,873**	**349,235**	**660,176**

The above contractual maturity analysis is based on consolidated statement of financial position classification.

Basel III - Pillar III - Disclosures (continued)

As at 31 December 2023

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.1 Credit Risk (continued)

5.1.5 Maturity Analysis of Exposures (continued)

Table 5.15 Contractual maturity analysis by major type of funding (PD 1.3.38)

(BD '000s)

Exposure Type	Up to 3 months	3 months to 1 year	Total within 12 months	1 – 5 years	5 - 10 years	10 - 20 years	Over 20 years	Total Over 12 months	Total
Placements from financial institutions and customers	71,258	65,253	**136,511**	-	-	-	-	**-**	**136,511**
Customers' current accounts	1,062,093	-	**1,062,093**	2	3,936	-	-	**3,938**	**1,066,031**
Murabaha term financing	379,961	105,536	**485,497**	21,854	3,497	-	-	**25,351**	**510,848**
Takaful and related liabilities	-	114,493	**114,493**	-	-	-	-	**-**	**114,493**
Other liabilities	37,982	40,823	**78,805**	4	27,383	-	-	**27,387**	**106,192**
Equity of Investment Accountholders	1,611,766	874,860	**2,486,626**	292,732	25,022	5	-	**317,759**	**2,804,385**
Total	**3,163,060**	**1,200,965**	**4,364,025**	**314,592**	**59,838**	**5**	**-**	**374,435**	**4,738,460**

5.2 Market Risk

Market risk arises from fluctuations in market prices on financial instruments and foreign exchange rates that could have an indirect effect on the Group's assets value and equity prices. The Board of Directors has set limits on the risk that may be accepted. This is monitored on a regular basis by the Group's Asset and Liability Committee. **(PD 1.3.27 a, b)**

Table 5.16 The Group's capital charge in respect of market risk in accordance with the standardized methodology is as follows:

(BD '000s)

	Risk Weighted Asset	Capital Requirement	Period end Capital Charge	Capital Requirement – Minimum*	Capital Requirement – Maximum*
Foreign exchange risk	1,300	162	104	79	3,151
Total market risk	**1,300**	**162**	**104**	**79**	**3,151**

* The information in these columns shows the minimum and maximum capital charge of each of the market risk categories on a quarterly basis during the year ended 31 December 2023.

The Group maintains a conservative market risk exposure that is focused on the foreign exchange risk coming from the Group's banking book positions. The open positions were taken in order of running the Group's day to day operations that include funding for the Group's investment portfolio. The Group monitors and manages these open positions on a daily basis. **(PD 1.3.21 b) (PD 1.3.27 a)**

5.3 Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes or systems, or from external events. Operational risk is inherent in all business activities and can never be eliminated entirely; however shareholder value can be preserved and enhanced by managing, mitigating and, in some cases, insuring against operational risk. To achieve this goal, the Group has developed an operational risk framework which encompasses identification, measurement, management and monitoring of risk through risk control and mitigation. A variety of underlying processes are being deployed across the Group including risk and control self assessments, Key Risk Indicators (KRI), event management, new product review and approval processes and business contingency plans. **(PD 1.3.21 c)**

Basel III - Pillar III - Disclosures (continued)

As at 31 December 2023

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.3 Operational Risk (continued)

The Group's policy and procedures dictates that the operational functions of booking, recording and monitoring of transactions are carried out by staff that are independent of the individuals initiating the transactions. Each business line including Operations, Information Technology, Human Resources, Legal, Compliance and Financial Control is further responsible for employing the aforementioned framework processes and control programs to manage its operational risk within the guidelines established by the policy, and to develop internal procedures that comply with these policies. To ensure that all operational risks to which the Group is exposed to are adequately managed, support functions are also involved in the identification, measurement, management, monitoring and control/mitigation of operational risk, as appropriate. **(PD 1.3.28) (PD 1.3.29)**

Consistent with the fundamental principle of ownership, the relevant business units are accountable and responsible for managing the operational risks relevant to their respective businesses. Consequently, business and support units have documented procedures and controls in place along with departmental instruction manuals. Procedures are reviewed by the respective business or support unit and approved at the management level. **(PD 1.3.28) (PD 1.3.29)**

The Group has a well established Business Continuity Policy and Disaster Recovery Program, and has documented updated procedures covering all activities necessary for business continuity in case of a business disrupting event. Internal Audit also provides an independent assessment to evaluate the program's effectiveness. **(PD 1.3.19) (PD 1.3.30 a, b)**

In accordance with the basic indicator approach methodology of Basel III, the total consolidated minimum capital charge in respect of operational risk was BD 17,201 thousand. This capital charge was computed by multiplying the bank's average gross income for the last three financial years by a predefined beta factor and adding the aggregation of operational risk weighted exposures of ASB Seychelles amounting to BD 824 thousand.

Table 5.17

	(BD '000s) Dec-2023
Average gross income	72,953
Risk weighted exposures	136,786
Minimum capital charge	17,098

The Group uses the Temenos T24 core system developed by Globus, for obtaining the data needed for analysis of events and data related to credit, market and operational risk assessment. The Bank uses a dedicated system namely 'Risk Nucleus' system developed by BenchMatrix for effective operational risk management.

Non-Shari'a compliant income for the period ended 31 December 2023 amounted to BD 343 thousand. This has arisen primarily from conventional financing and investments, penalty charges from customers and income on current accounts balances held with correspondent banks. No Sharia violations were identified during the year ended 31 December 2023. **(PD 1.3.30 b.ii)**

5.4 Rate of Return Risk (PD 1.3.39)

Rate of return risk arises from the possibility that changes in return rates will affect future profitability or the fair values of financial instruments. The Group is exposed to rate of return risk as a result of mismatches of return rate repricing of assets and liabilities. In addition, rate of return risk can also affect the Group through market wide rate changes that are brought on by changes in the economy. The effect of the market rates is reflected and can be seen in the Group's pricing of contracts as they carry competitive pricing that follows the market. When risks are high, the market tends to place a higher rate of return to maintain the risk/return profile. Accordingly, the market reduces the rate of return when it identifies a decrease in the market wide risk that would be reflected by banks decreasing their rate of return pricing.

The Group's cautious asset liability strategy avoids funding long term lending facilities from short term borrowings. The Group has set limits for profit return risk and these are monitored on an ongoing basis by the Group's Asset and Liability Committee (ALCO).

The below tables provide the asset and liability re-pricing profile on the contractual repricing or maturity dates, whichever is earlier for the year ended 31 December 2023 . **(PD 1.3.27 c) (PD 1.3.40)**

Basel III - Pillar III - Disclosures (continued)

As at 31 December 2023

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.4 Rate of Return Risk (PD 1.3.39) (continued)

Table 5.18

(BD '000s)

Assets	Total	Up to 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	>1 to 2 years	>2 to 3 years	>3 years	Profit insensitive
Cash and balances with banks and Central Bank	537,874	-	-	-	-	-	-	-	537,874
Investment in sukuk	1,002,839	22,331	91,222	53,102	73,448	138,982	87,232	536,522	-
Placements with financial institutions	293,580	272,942	7,019	-	171	-	-	13,448	-
Murabaha financing	738,270	31,007	170,749	73,504	68,041	113,469	92,578	188,922	-
Mudaraba financing	633,482	16,370	86,154	39,012	97,119	197,991	50,691	146,145	-
Finance lease assets	874,700	7,435	11,281	81,271	36,380	67,618	60,519	610,196	-
Salam financing	339,218	37,732	92,686	141,978	52,707	4,176	3,052	6,887	-
Istisna financing	47,073	9,137	9,476	17,055	8,355	871	545	1,634	-
Musharaka	30,804	1,311	2,578	221	1,356	19,598	1,514	4,226	-
Credit Cards	12,913	-	-	-	-	-	-	-	12,913
Non-trading investments	100,060	-	-	-	-	-	-	-	100,060
Investment in real estate	78,070	-	-	-	-	-	-	-	78,070
Investment in associates	231,484	-	-	-	-	-	-	-	231,484
Takaful and related assets	67,370	-	-	-	-	-	-	-	67,370
Other assets	81,228	-	-	-	-	-	-	-	81,228
Goodwill and other intangible assets	78,145	-	-	-	-	-	-	-	78,145
Total Assets (A)	**5,147,110**	**398,265**	**471,165**	**406,143**	**337,577**	**542,705**	**296,131**	**1,507,980**	**1,187,144**
Liabilities									
Placements from financial institutions and customers	136,511	23,818	47,440	62,874	2,379	-	-	-	-
Customers' current accounts	1,066,031	-	-	-	-	-	-	-	1,066,031
Murabaha term financing	510,848	170,875	209,086	97,179	7,980	-	-	25,728	-
Takaful and related liabilities	114,493	-	-	-	-	-	-	-	114,493
Other liabilities	106,192	-	-	-	-	-	-	-	106,192
Equity of investment accountholders	2,804,385	1,219,716	520,930	375,363	438,732	158,269	22,353	62,083	6,939
Total Liabilities	**4,738,460**	**1,414,409**	**777,456**	**535,416**	**449,091**	**158,269**	**22,353**	**87,811**	**1,293,655**
Shareholders funds	408,650	-	-	-	-	-	-	-	408,650
Total Liabilities & Shareholders Funds	**5,147,110**	**1,414,409**	**777,456**	**535,416**	**449,091**	**158,269**	**22,353**	**87,811**	**1,702,305**
Off-Balance Sheet Liabilities	660,176	37,884	37,884	75,768	75,768	75,768	-	10,004	347,100
Total liabilities with Off-Balance Sheet Items (B)	**5,807,286**	**1,452,293**	**815,340**	**611,184**	**524,859**	**234,037**	**22,353**	**97,815**	**2,049,405**
Gap (A - B)		(1,054,028)	(344,175)	(205,041)	(187,282)	308,668	273,778	1,410,165	
Cumulative Gap		**(1,054,028)**	**(1,398,203)**	**(1,603,244)**	**(1,790,526)**	**(1,481,858)**	**(1,208,080)**	**202,085**	

Basel III - Pillar III - Disclosures (continued)

As at 31 December 2023

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.4 Rate of Return Risk (PD 1.3.39) (continued)

Table 5.18 (a)

Profit rate risk in the Banking Book	(BD '000s)
200bp Profit Rate Shocks	
Upward rate shocks on net profit	579
Downward rate shocks on net profit	(579)
Impact on Economic Value of Equity	7.4%

5.5 Equity Position Risk (PD 1.3.21 d) (PD 1.3.31)

Equity position risk arises from the possibility of changes in the price of equities or equity indices and the corresponding effect they will have on future profitability or the fair values of financial instruments. The Group is exposed to equity risk in the non-trading position and investment portfolio primarily in its core international and GCC markets.

Equity risk in the banking book is effectively managed by the active involvement of the Executive and Investment committees; adhering to the policies and procedures in place; involvement of competent professionals; adequate internal control environment and independent internal audit department.

Executive and Investment Committee Oversight

The Board of Director's involvement begins with the approval of the Investment Policy which essentially determines the following: aggregate portfolio parameters, asset class restrictions, approval authorities, risk tolerance, maturity considerations, exit strategy and governance issues.

The Executive Committee has delegated authority within the overall Board authority. It provides direction to the Executive Management on all business matters and assumes the role of the Board to address matters arising between Board meetings. The Committee is responsible for business matters concerning credit risk, strategy review and recommendations to the Board. The Credit and Investment Committee reviews and approves all transactions related to corporate and real estate investments, as well as monitoring their performance on an ongoing basis. In addition, the Committee is responsible to oversee the performance of the fund managers and recommend exit strategies to maximize return to its investors.

Internal Controls

With regard to internal controls, the investment activity is subject to the same rigorous checks and balances in place for the commercial banking activity. Adequacy of internal controls is ensured by the recruitment of adequate qualified professionals, proper definition and communication of departmental and personnel roles, segregation of responsibilities of origination and implementation, independent reporting by the Financial Controls Department, periodic internal audit of the existence and implementation of processes and controls. All recommendations of the Strategy and Planning Department (SPD) are documented in the form of Investment Portfolio Reports and Investment Memorandums and are subject to independent review by the Credit and Investment Committee. Responsibility for all deployments and receipt of redemption proceeds vests with the SPD. The SPD ensures transparency in valuation by sourcing pricing from the available sources and using conservative valuation principles in accordance with international accounting standards. In addition, the SPD operates as an independent department responsible for due diligence of investments and specializes in sourcing deals and performing the initial analysis. Moreover, the Investment Administration Department will perform the investment management duties of monitoring the investments and preparing performance reports along with other required documentation. This set-up helps streamline processes as each unit focuses on specific set of duties at the same time having independence controls.

Basel III - Pillar III - Disclosures (continued)

As at 31 December 2023

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.5 Equity Position Risk (PD 1.3.21 d) (PD 1.3.31) (continued)

Table 5.19 Equity positions in the Banking Book

	(BD '000s) Gross Credit Exposure
Quoted Equities	3,307
Unquoted Equities	96,753
Investment in associates - equity accounted	231,484
Net realized gain during the year	8,673
Net unrealized loss during the year	(2,241)

(BD '000s)

Asset Categories for Credit Risk	Gross Credit Exposure	Risk-Weighted Assets (RWA)	Minimum Capital Charge
Equity Investments - Unlisted	205	308	38
Investments in unrated funds - Unlisted	302	452	57
Significant investment in the common shares of financial entities >10%	268,449	48,394	6,049
Investment in listed real estate companies	3,307	9,921	1,240
Investment in unlisted real estate companies	76,988	307,953	38,494

The Group's equity positions strategy consists of investments that are expected to bring in capital gains or for strategic reasons. The strategy has been drafted after considering the Board's risk appetite and the Board's approved liquidity, market risk and capital management policies. In line with the Board's approved policies, the investment strategy is conservative in the sense that it avoids investments with high volatility returns.

5.6 Displaced Commercial Risk (PD 1.3.41 a) (PD 1.3.21 f) (PD 1.3.32 i)

The Group is exposed to displaced commercial risk in the event of having Equity of Investment Accounts (EOIA) profit rates that are lower than market rates, thus putting the Group in risk of paying EOIA holders from shareholders funds to cover the profit volatility risk. ASB has mitigated this risk through regular monitoring of liquidity gaps, deposit rates and concentrations in terms of the funding requirements by the Asset Liability Committee (ALCO). The ALCO reviews and monitors peer review analysis which includes average deposit rates paid by its peers in order to realign the deposit rates with the current market.

5.7 Liquidity Risk (PD 1.3.36) (PD 1.3.37)

The Group monitors in an active manner its liquidity profile through analysis of the liquidity gap across specific timeframes in order to maintain the net asset liability position that is within the Board's risk appetite. The maintenance of the net asset liability position is done through the monitoring of the Group's liquidity indicators through which the Group's liquidity profile can be assessed. In addition, the Group further mitigates its liquidity risk by establishing multiple funding sources to decrease it's correlation to an individual funding counterparty and concentration. The multiple funding lines can be used to offset any shortage resulting from the Group's obligations and/or to settle any shortage from each of the current accounts and Equity of investment accounts. The liquidity coverage ratio as of 31 December 2023 was 146.74%.

6 EQUITY OF INVESTMENT ACCOUNTHOLDERS (EIAH) (PD 1.3.32)

Equity of investment accountholders' fund is commingled with Group's and Wakala fund to form one general Mudaraba pool. This pooled fund is used to fund and invest in banking assets generating income, 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 EIAH accountholders. Only the profits earned on pool of assets funded from EIAH and owners' equity 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 85% is retained by the Group as Mudarib share. The Group did not charge any administration expenses to investment accounts.

Basel III - Pillar III - Disclosures (continued)

As at 31 December 2023

6 EQUITY OF INVESTMENT ACCOUNTHOLDERS (EIAH) (continued)

The funds are invested and managed in accordance with Shari'a principles. **(PD 1.3.32 b)**

According to the terms of acceptance of the unrestricted investment accounts, 100% of the funds are invested. In order to avoid excessive risk concentration the Group invests the commingled funds in such a way so as to comply with the CBB's large exposures limits. All Equity of investment accounts are classified as Mudarabas where fees are deducted before profit allocation, as there is no limit against their withdrawal. It should however be noted that Mudaraba account fees are subject to being partially or totally waived in order to match investment account holder market returns. **(PD 1.3.32 c, j, k)**

The Risk weighted assets of the Group include the contribution from EIAH which are subject to the 30% risk weight.

The EIAH and other customers can use the Group's relationship managers for any advice, mediation services, grievances and complaints. **(PD 1.3.32 f, g)**

There is no variation between Mudarib agreed sharing and contractual agreed ratio. Profit earned and paid and rate of return comparatives for the Equity of investment account holders for the years ended 2023, 2022, 2021, 2020, 2019 and 2018 are as follows: (**PD 1.3.33**) **(PD 1.3.41)**

Table 6.1

						(BD '000s)
	Dec-2023	**Dec-2022**	**Dec-2021**	**Dec-2020**	**Dec-2019**	**Dec-2018**
Profit earned on the assets funded by EIAH	168,658	110,403	68,425	60,186	50,271	492
Profit paid for EIAH	100,087	47,991	35,977	29,335	28,425	246
Balance of:						
PER	-	-	-	-	-	-
IRR	-	-	-	-	-	-
Annual Rate of Return Benchmark	3%	3%	3%	3%	3%	3%
Annual Rate of Return (EIAH) - Profit earned	6.01%	4.73%	4.21%	4.91%	4.86%	0.53%
Annual Rate of Return (EIAH) - Profit paid	3.57%	2.06%	2.22%	2.39%	2.75%	0.27%
PER Amount	-	-	-	-	-	-
PER %	-	-	-	-	-	-
IRR Amount	-	-	-	-	-	-
IRR %	-	-	-	-	-	-
Reconciliation						
Mudaraba Profit Earned	168,658	110,403	68,425	60,186	50,271	492
Mudarib fees	(68,571)	(62,412)	(32,448)	(30,851)	(21,846)	(246)
Profit credited to EIAH accounts	**100,087**	**47,991**	**35,977**	**29,335**	**28,425**	**246**
Mudarib fee as a percentage of total investment profit	41%	57%	47%	51%	43%	50%
EIAH Balance	2,804,385	2,332,473	1,624,177	1,225,380	1,034,743	99,761
RWA as per PIRI Report	387,890	343,730	203,389	170,292	11,469	6,886

Table 6.2

	Dec-2023	**Dec-2022**	**Dec-2021**	**Dec-2020**	**Dec-2019**	**Dec-2018**
Rate of Return	3.57%	2.06%	2.22%	2.39%	2.75%	0.25%
Return on average EIAH assets (ROAA)	6.57%	5.58%	4.80%	5.45%	15.23%	0.49%
Return on average equity (Total Owner's Equity) (ROAE)	45.22%	34.82%	23.68%	20.89%	16.15%	0.16%

Basel III - Pillar III - Disclosures (continued)

As at 31 December 2023

6 EQUITY OF INVESTMENT ACCOUNTHOLDERS (EIAH) (continued)

Table 6.3 Equity of investment accountholders by Counterparty Type and Islamic Product (PD 1.3.33 h, i)

Total assets (net of ECL) - Breakdown by EIAH & Self financed

(BD '000s)

	Total Exposures	Funded by EIAH	Self Financed	% of EIAH to Total
Sovereign	1,180,065	200,041	980,024	17%
Financial Institutions	1,327,682	578,879	748,803	44%
Corporate	1,389,893	839,263	550,630	60%
Retail	1,249,470	1,173,089	76,381	94%
Total	**5,147,110**	**2,791,272**	**2,355,838**	**54%**

Table 6.4 The changes in asset allocation are as follows: (PD 1.3.32 d)

(BD '000s)

	Cash and balances with banks and Central Bank		Placements with financial institutions		Investment in associate		Financing Assets		Finance Lease Assets	
	EIAH	Self Financed	EIAH	Self Financed	EIAH	Self Financed	EIAH	Self Financed	EIAH	Self Financed
Asset Allocation as on 31 December 2023	93,158	444,716	217,362	76,218	227,790	3,694	1,472,513	329,247	780,449	94,251
Asset Allocation as on 31 December 2022	133,200	234,547	113,096	-	217,509	36,497	1,151,621	83,471	699,664	51,709
Asset Allocation as on 31 December 2021	189,403	119,746	133,860	-	-	-	766,248	42,295	519,632	36,277
Asset Allocation as on 31 December 2020	107,134	181,132	37,965	-	-	-	747,538	66,911	320,029	149,334
Asset Allocation as on 31 December 2019	117,829	101,627	76,660	38,143	-	-	656,985	28,771	183,269	206,473
Asset Allocation as on 31 December 2018	-	-	99,761	40,543	-	-	-	-	-	-

There are no off-balance sheet exposures arising from investment decisions attributable to the EIAH.

7 OTHER DISCLOSURES

7.1 Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency. Positions are monitored on a daily basis by the Market Risk department and on a periodic basis by the Audit and Risk Committee as well as ALCO to ensure positions are maintained within established limits. Substantial portion of the Group's assets and liabilities are denominated in Bahraini Dinars, US Dollars or Saudi Riyals. As the Bahraini Dinar and Saudi Riyals are pegged to the US Dollars, positions in these currencies are not considered to represent significant currency risk as of 31 December 2023.

The Group has an investment in a foreign banking subsidiary wherein the transactions are denominated in US Dollars (USD) and since the BHD is pegged to USD there is no foreign exchange translation effect on the investment. The group also has an investment in subsidiary denominated in Algerian Dinar. The impact of foreign currency translation is included under Foreign Currency Translation Reserve (FCTR) in equity. (PD 1.3.42)

The foreign currency translations are used to record exchange rate differences arising from the translation of the financial statements of foreign subsidiaries: The foreign currency translation reserve balance of Al Salam Bank Algeria with currency of Algerian Dinar is BHD 760 thousand.

Basel III - Pillar III - Disclosures (continued)

As at 31 December 2023

7 OTHER DISCLOSURES (continued)

7.2 Related Party Transactions

Related parties represent associated companies, major shareholders, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's Senior Management. For further details refer Note28 titled Related Party Transactions in the condensed consolidated interim financial information for the year ended 31 December 2023. The intra-group and related party transactions are made at agreed commercial terms and are approved by the board. (PD 1.3.10 e) (PD 1.3.23 d)

7.3 Restructured Facilities

As at 31 December 2023, the balance of the renegotiated financing facilities to individuals and corporate was BD 24,536 thousand. In general, facilities are renegotiated to optimize a facility's credit profile with respect to its recoverability. This can involve changing any of the profit rate, tenure or security package. Previous restructuring of any facilities to individual and corporate customers did not have any significant impact on present and future earnings. (PD 1.3.23 j)

7.4 Assets Sold Under Recourse Agreements

The Group has not entered into any recourse agreement during the year ended 31 December 2023. (PD 1.3.23 k)

7.5 Legal Risk and Claims

As at 31 December 2023, legal suits amounting to BD 1,555 thousand (2022: BD 1,302 thousand) were pending against the Group. Based on the opinion of the Group's legal counsel, the total estimated liability arising from these cases is not considered to be material to the Group's consolidated financial position as the Group has also filed counter cases against these parties. (PD 1.3.30 c)

7.6 Deposit Protection Scheme

Certain customers' deposits of the Group are covered by deposit protection schemes established by the Central Bank of Bahrain (CBB). Customers' deposits held with the Bank in the Kingdom of Bahrain are covered by the Regulation Protecting Deposits and Equity of unrestricted investment accounts issued by the CBB in accordance with Resolution No.(34) of 2010. This scheme covers eligible 'natural persons' (individuals) up to a maximum of BD 20,000 as set out by CBB requirements. A periodic contribution as mandated by the CBB is paid by the Group under this scheme. (PD 4.4.2)

7.7 Exposure to highly-leveraged and other high-risk counterparties

The bank has no exposure to highly-leveraged and other high-risk counterparties as per the definition provided in the CBB rulebook **(PD 1.3.23 e) (PD 1.3.24 e)**

7.8 CBB Penalties (PD 1.3.44)

During the year an amount of BD 50 was paid as penalty to the Central Bank of Bahrain (CBB) for failure to comply with CBB requirements, relating to one unclean account in the Bahrain Credit Reference Bureau's ("BCRB") system.

Basel III - Pillar III - Disclosures (continued)

As at 31 December 2023

APPENDIX I - COMPOSITION OF CAPITAL DISCLOSURE

Appendix PD-2: Reconciliation requirements

Step 1: Disclosure of Balance Sheet under Regulatory scope of Consolidation

There are no differences between the regulatory and accounting consolidation, other than Solidarity Group Holding BSC (c), which is not consolidated being a non-banking subsidiary. Furthermore, the Bank has obtained an approval from the CBB to aggregate the risk weighted exposures of Al Salam Bank - Seychelles ("ASBS") instead of the line-by-line consolidation approach.As mandated by the Central Bank of Bahrain ("CBB"), financing facilities and investments have been grossed up with collective impairment provision, as presented below:

	BHD '000
Balance sheet as per published financial statements	**5,147,110**
Collective provision impairment	27,709
Less: Provision related to Contingent Liabilities and Commitments	(1,655)
Balance sheet as in Regulatory Return	**5,173,164**

Step 2: Reconcilation of published financial balance sheet to regulatory reporting as at 31 December 2023

	Balance sheet as in published financial statements	Consolidated PIRI data	Reference BHD '000
Assets			
Cash and balances with banks and Central Bank	**537,874**	**538,203**	
of which Self financed		445,045	
of which financed by URIA		93,158	
Placements with banks and similar financial institutions	**293,580**	**293,598**	
of which Self financed	-	76,218	
of which financed by URIA	-	217,380	
Held-to-maturity investments	**638,321**	**638,603**	
of which Sovereign Sukuk	604,683	-	
of which Corporate Sukuk	33,638	-	
Available-for-sale investments	**364,518**	**364,743**	
of which Sovereign Sukuk	340,835		
of which Corporate Sukuk	23,683		
Financing assets	**2,676,460**	**2,701,126**	
of which Self financed		435,069	
of which financed by URIA		2,266,057	
Investment properties	**78,070**	**78,070**	
Investment in associates	**231,484**	**231,484**	
of which Self financed		3,694	
of which financed by URIA		227,790	
Property, plant, and equipment (PPE)	**30,005**	**30,005**	
Other Assets	**296,798**	**297,332**	
Non-Trading investment	100,060	100,060	
Other receivables and prepayments	51,223	51,757	
Takaful assets	67,370	67,370	
Goodwill & Intangibles	**78,145**	**78,145**	
of which eligible for deduction from CET1		49,667	**G**
of which not eligible for CET1 deduction		28,478	
Total Assets	**5,147,110**	**5,173,164**	

Basel III - Pillar III - Disclosures (continued)

As at 31 December 2023

APPENDIX I - COMPOSITION OF CAPITAL DISCLOSURE (continued)

Appendix PD-2: Reconciliation requirements (continued)

Step 2: Reconcilation of published financial balance sheet to regulatory reporting as at 31 December 2023 (continued)

BHD '000

	Balance sheet as in published financial statements	Consolidated PIRI data	Reference
Placements from financial institutions	**136,511**	**136,511**	
Customers' current accounts	**1,066,031**	**1,066,031**	
Funding Liabilities (e.g. reverse commodity murabaha, etc.)	**510,848**	**510,848**	
of which Murabaha Term Financing	510,848	-	
Accruals, deferred income, other liabilities, current and deferred tax liabilities (DTLs)	**220,685**	**219,030**	
of which Takaful Liabilities	114,493	114,493	
of which Other liabilities	106,192	104,537	
Unrestricted Investment Accounts	**2,804,385**	**2,804,385**	
Total Liabilities	**4,738,460**	**4,736,805**	
Owners' Equity			
Total share capital	**246,123**	**246,123**	**A**
Share capital	261,692	261,692	
Treasury stock	(6,799)	(6,799)	
Employee incentive scheme shares	(8,770)	(8,770)	
Reserves and retained earnings	**91,280**	**91,280**	
Share premium	209	209	**C-1**
Statutory reserve	25,982	25,982	**C-2**
Retained earnings (excluding profit for the year), of which:	2,123	2,123	
Amount eligible for CET1	(816)	(816)	**B-1**
Amount not eligible for CET1	796	796	
Subsidy from government	2,143	2,143	
of which amount added-back to CET1 as per CBB concessionary measures		714	**B-2**
of which amount to be added-back to CET1 in 2023 and 2024 as per CBB concessionary measures		1,429	
Modification Loss	(24,768)	(24,768)	
of which amount deducted from CET1 as per CBB concessionary measures		(8,256)	**B-3**
of which amount to be deducted from CET1 in 2023 and 2024 as per CBB concessionary measures		(16,512)	
Modification loss amortization	24,768	24,768	**B-4**
Net profit for the year	42,226	42,226	
of which amount eligible for CET1	40,164	40,164	**B-5**
of which amount not eligible for CET1	2,062	2,062	
Fx translation adjustment	(1,464)	(1,464)	
of which amount eligible for CET1		(1,860)	**C-3**
of which amount not eligible for CET1		396	
Changes in fair value - amount eligible for CET1	(2,607)	(2,607)	**C-4**
Share grant scheme	2,120	2,120	**C-5**
Real estate fair value reserve - amount eligible for T2	22,691	22,691	**D**
Minority interest in subsidiaries' share capital	**71,247**	**71,247**	
of which amount eligible for CET1		10,723	**E-1**
of which amount eligible for AT1		3,574	**E-2**
of which amount eligible for T2		4,766	**E-3**
of which amount not eligible for regulatory capital		52,184	
Expected credit losses (Stages 1 & 2)		**27,709**	**F**
of which amount eligible for T2		24,703	
of which amount not eligible for regulatory capital		3,005	
Total Owners' Equity	**408,650**	**436,359**	
Total Liabilities + Owners' Equity	**5,147,110**	**5,173,164**	

Basel III - Pillar III - Disclosures (continued)

As at 31 December 2023

APPENDIX I - COMPOSITION OF CAPITAL DISCLOSURE (continued)

Appendix PD-1: Reconciliation requirements & Template

Step 3: Composition of Capital Common Template as at 31 December 2023

	Composition of Capital and mapping to regulatory reports	Component of regulatory capital	BHD '000 Reference numbers of balance sheet under the regulatory scope of consolidation from step 2
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital plus related stock surplus	246,123	A
2	Retained earnings	56,574	B1+B2+B3+B4+B5
3	Accumulated other comprehensive income (and other reserves)	23,843	C1+C2+C3+C4+C5
4	Not Applicable		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	10,723	E1
6	**Common Equity Tier 1 capital before regulatory adjustments**	337,263	
	Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments	-	
8	Goodwill (net of related tax liability)	49,667	G
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
11	Cash-flow hedge reserve	-	
12	Shortfall of provisions to expected losses	-	
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	-	
14	Not applicable		
15	Defined-benefit pension fund net assets	-	
16	Investments in own shares	-	
17	Reciprocal cross-holdings in common equity	-	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	
20	Mortgage servicing rights (amount above 10% threshold)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
22	Amount exceeding the 15% threshold	-	
23	of which: significant investments in the common stock of financials	-	
24	of which: mortgage servicing rights	-	
25	of which: deferred tax assets arising from temporary differences	-	
26	CBB specific regulatory adjustments	-	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	**Total regulatory adjustments to Common equity Tier 1**	49,667	
29	**Common Equity Tier 1 capital (CET1)**	**287,596**	

Basel III - Pillar III - Disclosures (continued)

As at 31 December 2023

APPENDIX I - COMPOSITION OF CAPITAL DISCLOSURE (continued)

Appendix PD-1: Reconciliation requirements & Template (continued)

Step 3: Composition of Capital Common Template as at 31 December 2023 (continued)

	Composition of Capital and mapping to regulatory reports	Component of regulatory capital	BHD '000 Reference numbers of balance sheet under the regulatory scope of consolidation from step 2
	Additional Tier 1 capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	3,574	E-2
35	of which: instruments issued by subsidiaries subject to phase out	-	
36	**Additional Tier 1 capital before regulatory adjustments**	**3,574**	
	Additional Tier 1 capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments plus related stock surplus	-	
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)**	**3,574**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**291,170**	
	Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	22,691	D
47	Directly issued capital instruments subject to phase out from Tier 2	-	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	4,766	E-3
49	of which: instruments issued by subsidiaries subject to phase out	-	
50	Provisions	24,703	F
51	**Tier 2 capital before regulatory adjustments**	**52,160**	
	Tier 2 capital: regulatory adjustments		
52	Investments in own Tier 2 instruments	-	
53	Reciprocal cross-holdings in Tier 2 instruments	-	
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	

Basel III - Pillar III - Disclosures (continued)

As at 31 December 2023

APPENDIX I - COMPOSITION OF CAPITAL DISCLOSURE (continued)

Appendix PD-1: Reconciliation requirements & Template (continued)

Step 3: Composition of Capital Common Template as at 31 December 2023 (continued)

	Composition of Capital and mapping to regulatory reports	Component of regulatory capital	BHD '000 Reference numbers of balance sheet under the regulatory scope of consolidation from step 2
56	National specific regulatory adjustments		
57	**Total regulatory adjustments to Tier 2 capital**	**-**	
58	**Tier 2 capital (T2)**	**52,160**	
59	**Total capital (TC = T1 + T2)**	**343,330**	
60	**Total risk weighted assets**	**1,687,357**	
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	**17.04%**	
62	Tier 1 (as a percentage of risk weighted assets)	**17.26%**	
63	Total capital (as a percentage of risk weighted assets)	**20.35%**	
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement expressed as a percentage of risk weighted assets)	**9.00%**	
65	of which: capital conservation buffer requirement	**2.50%**	
66	of which: bank specific countercyclical buffer requirement	**0.00%**	
67	of which: D-SIB buffer requirement	**0.00%**	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	**17.04%**	
	National minima including CCB (if different from Basel 3)		
69	CBB Common Equity Tier 1 minimum ratio	**9.00%**	
70	CBB Tier 1 minimum ratio	**10.50%**	
71	CBB total capital minimum ratio	**12.50%**	
	Amounts below the thresholds for deduction (before risk weighting)		
72	Non-significant investments in the capital of other financials	**-**	
73	Significant investments in the common stock of financials	**-**	
74	Mortgage servicing rights (net of related tax liability)	**-**	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	**-**	
	Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	27,709	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	24,703	
78	N/A		
79	N/A		
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2019 and 1 Jan 2023)		
80	Current cap on CET1 instruments subject to phase out arrangements	-	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	
82	Current cap on AT1 instruments subject to phase out arrangements	-	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	
84	Current cap on T2 instruments subject to phase out arrangements	-	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	

Basel III - Pillar III - Disclosures (continued)

As at 31 December 2023

APPENDIX I - COMPOSITION OF CAPITAL DISCLOSURE (continued)

Appendix PD-3: Features of regulatory capital
For the period ended 31 December 2023

1	Issuer	Al Salam Bank B.S.C.
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	SALAM
3	Governing law(s) of the instrument	All applicable laws and regulations of the Kingdom of Bahrain
	Regulatory treatment	
4	Transitional CBB rules	Common Equity Tier 1
5	Post-transitional CBB rules	Common Equity Tier 1
6	Eligible at solo/group/group & solo	Group
7	Instrument type (types to be specified by each jurisdiction)	Common Equity shares
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	BD 261.692 Million
9	Par value of instrument	BD 0.100
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	13-Apr-06
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Dividend as decided by the Shareholders
18	Coupon rate and any related index	Not applicable
19	Existence of a dividend stopper	Not applicable
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Non cumulative
23	Convertible or non-convertible	Non convertible
24	If convertible, conversion trigger (s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write-down feature	No
31	If write-down, write-down trigger(s)	Not applicable
32	If write-down, full or partial	Not applicable
33	If write-down, permanent or temporary	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not applicable
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	Not applicable

Basel III - Pillar III - Disclosures (continued)

As at 31 December 2023

APPENDIX II - NET STABLE FUNDING RATIO (NSFR) DISCLOSURE

BACKGROUND:

Al Salam Bank ("ASB") has been subjected to the Basel III NSFR standards from December 2019, pursuant to CBB circular No. EDBS/KH/54/2018 dated 16th August 2018. ASB is required to maintain NSFR of at least 100% on an on-going basis.

The objective of NSFR is to improve the resiliency of banks by promoting long term funding stability. NSFR is designed to limit the risks emanating from excessive maturity mismatches over the medium to long term. More specifically, the NSFR requires ASB to fund illiquid assets with a minimum amount of stable liabilities over a horizon of one year.

The NSFR requires banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. CBB circular stipulates the applicable Required Stable Funding ("RSF") factor for each category of asset and Available Stable Funding ("ASF") factor for each type of funding source.

ASB seeks to ensure that its NSFR remains above the specified regulatory minimum requirements. This is achieved by:(i) Monitoring the NSFR closely against an established internal early warning trigger and management target.(ii) Managing and developing strategies to build a diversified funding base with access to funding sources across retail and wholesale channels.

ANALYSIS AND MAIN DRIVERS:

Al Salam Bank strategy is to maintain stable and well-diversified funding sources by focusing on raising more stable free float and long-term deposits from core customer base in Bahrain and across other key GCC markets where strong banking relationships have been successfully established. The main driver of this strategy is to fund bank's core business activities with the widest deposit base and hence maintaining comfortable funding mix for the long-term assets and subsequently healthy NSFR.

The Assets and Labilities Committee (ALCO) regularly reviews the different liquidity indicators -including the NSFR- and set appropriate action plans in maintaining adequate, sustainable and healthy liquidity position. ALCO review takes global economic indicators as well as local micro economic factors into consideration. Hence effective liquidity management is set into practice steered by treasury and risk department and collaborated with other key business units.

As at 31 December 2023, the weighted value of the Available Stable Funding (ASF) stood at BD 3.0 billion, while the total weighted value of the Required Stable Funding (RSF) stood at BD 2.6 billion. The resultant NSFR stood at 115.51%, well above the current 100% threshold stipulated by CBB. The ASF is primarily driven by a strong capital base, substantial retail and private banking deposit base and deposits from non-financial corporate customers.

Post application of the relevant factors, the contribution of regulatory capital, retail deposits and deposits from non-financial corporates stood at 12%, 62% and 14% respectively. The bank does not rely on financial market funding sources and interbank funding activities are primarily used for short term funding gaps.

The RSF post application of relevant factors is driven by financing provided to non-financial corporate customers, retail and small business customers, and some unlisted investments.

ASB's High-Quality Liquid Assets (HQLA) requires minimum funding due to its sovereign nature and high liquidity which, after applying the relevant factors, makes up 1% of the RSF portfolio. unencumbered financing and placements account for 68% and Investment exposures account for 16% of the RSF.

At ASB, there is considerable focus on growing and maintaining stability of demand and term deposits provided by private, corporate and retail customers which will continue to form a significant part of the funding.

Basel III - Pillar III - Disclosures (continued)

As at 31 December 2023

APPENDIX II - NET STABLE FUNDING RATIO (NSFR) DISCLOSURE (continued)

BHD '000

No.	Item	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	
Available Stable Funding (ASF):						
1	Capital:					
2	Regulatory Capital	325,754	-	-	52,160	**377,914**
3	Other Capital Instruments	-	-	-	-	**-**
4	Retail deposits and deposits from small business customers:					
5	Stable deposits	-	340,231	15,956	10,512	**348,890**
6	Less stable deposits	-	1,215,891	363,513	273,026	**1,694,490**
7	Wholesale funding:					
8	Operational deposits	-	-	-	-	**-**
9	Other wholesale funding	-	2,028,868	133,881	104,315	**610,515**
10	Other liabilities:					
11	NSFR Shari'a-compliant hedging contract liabilities		-	-	-	
12	All other liabilities not included in the above categories	-	144,683	-	-	**-**
13	**Total ASF**					**3,031,809**
Required Stable Funding (RSF):						
14	Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	**38,622**
15	Deposits held at other financial institutions for operational purposes	-	-	-	-	**-**
16	Performing financing and sukuk/ securities:					
17	Performing financing to financial institutions secured by Level 1 HQLA	-	-	-	-	**-**
18	Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	415,492	883	4,333	**67,098**
19	Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	854,332	262,593	1,124,303	**1,480,761**
20	With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	-	-	-	166,799	**108,419**
21	Performing residential mortgages, of which:	-	-	-	355,894	**231,331**
22	With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	355,894	**231,331**
23	Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	18,929	7,212	2,789	**15,441**
24	Other assets:					
25	Physical traded commodities, including gold	-				**-**
26	Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs		-	-	-	**-**
27	NSFR Shari'a-compliant hedging assets		-	-	-	**-**
28	NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted		-	-	-	**-**
29	All other assets not included in the above categories	682,607	18,413	1,638	93,168	**758,424**
30	OBS items		659,523	-	-	**32,976**
31	**Total RSF**		-	-	-	**2,624,653**
32	**NSFR (%)**					**115.51%**

Basel III - Pillar III - Disclosures (continued)

As at 31 December 2023

APPENDIX III - LIQUIDITY COVERAGE RATIO (LCR)

CBB issued its regulations on Liquidity Risk Management in August 2018. The regulations mandate that banks are required to maintain LCR of at least 100% on a daily basis. The objective of LCR is to manage assets and liabilities to create strong short-term resilience and sufficient liquidity that is enough to fund cash outflow for 30 days.

Below is the bank's average consolidated LCR for the period:

					BHD '000
		Q4-2023		Q3-2023	
		Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)
High-quality liquid assets					
1	Total HQLA		**640,852**		**667,210**
Cash outflows					
2	**Retail deposits and deposits from small business customers, of which:**				
3	Stable deposits	304,878	9,146	253,649	7,609
4	Less stable deposits	604,639	60,464	614,554	61,455
5	**Unsecured wholesale funding, of which:**				
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-
7	Non-operational deposits (all counterparties)	1,171,023	673,741	1,051,659	616,790
8	Unsecured sukuk	-	-	-	-
9	**Secured wholesale funding**		**-**		-
10	**Additional requirements, of which:**				
11	Outflows related to Shari'a-compliant hedging instruments exposures and other collateral requirements	-	-	-	-
12	Outflows related to loss of funding on financing products	-	-	-	-
13	Credit and liquidity facilities	246,985	95,439	178,882	74,602
14	**Other contractual funding obligations**	-	**-**	-	-
15	**Other contingent funding obligations**	429,803	16,819	352,728	13,038
16	Total Cash Outflows		**855,608**		**773,494**
Cash inflows					
17	Secured lending (e.g. reverse repos)	-	-	-	-
18	Inflows from fully performing exposures	205,072	105,358	130,300	69,672
19	Other cash inflows	409,914	398,665	341,275	325,705
20	Total Cash Inflows	614,986	**504,023**	471,575	**395,377**
			Total adjusted Value		**Total adjusted Value**
21	**Total HQLA**		**640,852**		**667,210**
22	**Total net cash outflows**		**351,585**		**378,117**
23	**Liquidity Coverage Ratio (%)***		**185.03%**		**177.91%**

*Represents simple average of daily LCR

Basel III - Pillar III - Disclosures (continued)

As at 31 December 2023

APPENDIX IV - LEVERAGE RATIO

CBB in June 2018 issued guidelines on leverage ratio as part of updates to the Capital Adequacy Module. The ratio measures how well the banks' Tier 1 capital covers its total exposures (self-financed exposures and adjusted exposures funded by EOIA) both on-balance sheet and off-balance sheet. CBB has mandated a minimum consolidated leverage ratio of 3%.

Below is the bank's consolidated financial leverage ratio as at 31 December 2023:

S.No.	Description	BHD '000
1	Total Self Financed Assets	2,188,419
2	Total URIA Financed Assets	2,812,212
3	Off Balance Sheet items - with relevant Credit Conversion Factors	306,897
4	**Leverage ratio exposure [(1) + (2)*30% + (3)]**	**3,338,980**
5	Regulatory Adjustments	49,667
6	**Total exposures for the calculation of the leverage ratio[(4)-(5)]**	**3,289,313**
7	**Tier 1 Capital**	**276,087**
	Leverage Ratio [(7)/(6)]	**8.39%**
	Minimum Leverage Ratio as required by CBB	3%

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