

Al Salam Bank B.S.C.
CONSOLIDATED FINANCIAL
STATEMENTS
31 December 2024

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2024

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Board of Directors Report

As we reflect on 2024, I am proud to report that Al Salam Bank has delivered another year of exceptional achievements and growth, navigating a complex global economic landscape with agility and clarity. The GCC – a region underpinned by economic diversification, sound fiscal policies, strong consumer confidence, and favourable demographic trends – continued to demonstrate resilience and promise. The region achieved an estimated economic growth rate of 1.6% in 2024, with growth momentum projected to accelerate to 4.2% in 2025 and 2026 (World Bank, 2024).

Bahrain maintained its upward trajectory with real GDP projected to achieve growth of 3% and 3.5% in 2024 and 2025 respectively. GDP growth in Bahrain continues to be primarily driven by the non-oil sector which constitutes nearly 90% of the economy by 2029 (IMF, 2024). In light of these positive developments and reflecting the Government's ongoing fiscal reforms and deficit reduction efforts, S&P reaffirmed Bahrain's 'B+/B' rating with a stable outlook.

In 2024, Al Salam Bank achieved record-breaking financial results, underscoring the effectiveness of our strategic vision and operational strength. The Bank reported gross operating income of BD 393.48 million (US\$ 1.04 billion), marking a 40.9% increase compared to 2023. This performance was driven by both organic growth in our Group operations and the successful execution of strategic acquisitions. Correspondingly, net profit attributable to shareholders grew by 39.8%, reaching BD 59.01 million (US\$ 156.53 million).

The Bank's consolidated asset base increased by 37.2% on a year-on-year basis, closing at BD 7.06 billion (US\$ 18.73 billion) in 2024. The financing book also recorded significant growth of 36.8%, reaching BD 3.66 billion (US\$ 9.71 billion). Our capital adequacy ratio increased to 24.8%, reflecting our financial resilience and prudent risk management.

Based on this exceptional performance, the Board of Directors has recommended a dividend distribution of 14% of the Bank's issued and paid-up share capital (6% cash dividends and 8% stock dividends), aggregating BD 37.5 million (US\$ 99.6 million), subject to AGM and regulatory approval.

The Bank viewed 2024 as an opportunity to advance its strategic vision and client-focused approach, further cementing its position as a leading and diversified financial group in the region. A core aspect of this journey was ensuring sustainable growth aligned with evolving market trends. We continually enhanced our offerings to address the changing needs of our clients and deliver cutting-edge, innovative solutions.

A key milestone was the successful acquisition of Kuwait Finance House - Bahrain, which expanded our asset base by 28.7% and solidified our position as Bahrain's largest Islamic bank. The seamless integration ensured uninterrupted services for clients while creating new avenues for growth and innovation in the industry.

Additionally, we launched ASB Capital, our asset management arm headquartered in the Dubai International Financial Centre (DIFC). With US\$ 4.5 billion in assets under management (AUM), ASB Capital is poised to reshape the regional investment landscape, offering innovative financial solutions and access to exclusive investment opportunities traditionally only available to institutional investors. This initiative demonstrates our commitment to scaling our asset management capabilities and addressing the growing demand for sophisticated financial solutions.

Our commitment to innovation was further highlighted by significant advancements in our digital strategy, redefining client experiences and empowering Bahrain's entrepreneurial ecosystem. The development and launch of the Workspaces portal for MSMEs provided flexible, tailored solutions for SMEs, enhancing their ability to grow and thrive. Additionally, the opening of our fully digital branch improved accessibility and convenience, setting a new standard for client engagement through innovative, technology-driven solutions.

We also achieved PCI DSS 4.0 certification, a globally recognized standard for payment security. Complementing these advancements, we introduced a comprehensive financing campaign offering competitive rates across personal, property, and auto financing schemes, alongside government-backed programs like Mazaya and Tas'heel. These initiatives delivered tangible benefits to clients while reinforcing our commitment to meeting their diverse financial needs.

Sustainability and social responsibility remained integral to our strategy in 2024. Our partnerships supported impactful local development projects, further strengthening our role as a driver of community-focused progress and aligning with Bahrain's broader vision for sustainable development. We also prioritized empowering Bahrain's youth through initiatives such as Youth City 2030, where we offered workshops and training programs designed to equip the next generation of leaders with the skills needed to thrive in a dynamic economic landscape. These programs underscore our continued dedication to nurturing talent, leadership, and inclusivity.

Al Salam Bank's accomplishments in 2024 were recognized both regionally and globally. The Bank was named 'MENA Retail Bank of the Year' and Bahrain's 'Bank of the Year', a reflection of our industry-leading client solutions and operational excellence. We also received the prestigious 'Elite Quality Recognition Award' from JP Morgan for outstanding efficiency in payment processing.

As we step into 2025, Al Salam Bank is poised to build on the solid foundations laid over the past year, guided by a clear strategic vision and a commitment to innovation and excellence. Our focus remains on creating sustainable value for our shareholders, delivering exceptional experiences to our clients, empowering our employees, and contributing meaningfully to the communities we serve. With the trust of our stakeholders and the dedication of our team, we are well-prepared to embrace the opportunities and challenges that lie ahead, driving the Bank toward even greater success.

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 2024.

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	120,000	60,000	-	-	180,000	-	-	-	-	-	-	180,000	-
2-Mr. Alhur Mohammed Al Suwaidi	120,000	72,000	-	-	192,000	-	-	-	-	-	-	192,000	-
3-Mr. Tariq Abdul Hafidh Al- Aujaili	120,000	76,000	-	-	196,000	-	-	-	-	-	-	196,000	-
4-Mr. Ahmed Habib Kassim	120,000	56,000	-	-	176,000	-	-	-	-	-	-	176,000	-
Second: Non-Executive Directors:													
1-H. E. Shaikh Khalid Al Mashani	150,000	95,000	-	-	245,000	-	-	-	-	-	-	245,000	-
2-Mr. Matar Mohamed Al Blooshi	120,000	60,000	-	-	180,000	-	-	-	-	-	-	180,000	-
3-Mr. Salman Saleh Al Mahmeed	120,000	52,000	-	-	172,000	-	-	-	-	-	-	172,000	-
4- Mr. Zayed Ali Al-Amin	120,000	64,000	-	-	184,000	-	-	-	-	-	-	184,000	-
5- Mr. Hisham Saleh Al-Saie	120,000	52,000	-	-	172,000	-	-	-	-	-	-	172,000	-
Total	1,110,000	587,000	-	-	1,697,000	-	-	-	-	-	-	1,697,000	-

Note: All amounts 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 2024, 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 2024	Aggregate Amount
Top 6 remunerations for executives, including CEO* and Senior Financial Officer**	1,905,900	1,821,486	1,691,065	5,418,451

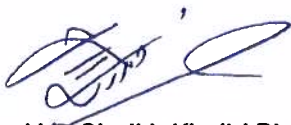
Note: All amounts must be stated in Bahraini Dinars.

* 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 Other cash remuneration include sales based incentives and board remuneration earned by executive management from their role in investee companies or other subsidiaries.
- 3 In addition to the benefits reported above, the Bank also 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. No new share awards were made during 2024. 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
6 February 2025
Manama, Kingdom of Bahrain

In the name of Allah, the Beneficent and the Merciful

Praise be to Allah; Prayers and peace be upon the most ennobled 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 2024.

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

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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 and standards issued by Accounting and Auditing Organization for Islamic Financial Institutions "AAOIFI". 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

Signature: 

Dr. Fareed Yaqoob AlMeftah


Signature: 

Dr. Nedham Mohamed Yaqoobi

Signature: 

Dr. Osama Mohamed Bahar

Signature: 


Dr. Mohammed Arbouna
Head -Shari'a Compliance
Department



KPMG Fakhro
Audit
12th Floor, Fakhro Tower,
P.O. Box 710, Manama,
Kingdom of Bahrain

Telephone +973 17224807
Telefax +973 17227443
Website: www.kpmg.com/bh
CR No. 6220 - 2

Independent auditors' report

To the Shareholders of

*Al Salam Bank B.S.C.
Manama
Kingdom of Bahrain*

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 2024, the consolidated statements of income, comprehensive income, income and attribution related to quasi-equity, changes in owners' equity, cash flows and changes in off-balance sheet assets under management 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 2024, and its consolidated results of operations, consolidated income and attribution related to quasi-equity, consolidated changes in owners' equity, consolidated cash flows, and consolidated changes in off-balance sheet assets under management for the year then ended in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI").

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 2024.

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 contracts	
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 (32.2) to the consolidated financial statements.	
The key audit matter	How the matter was addressed in our audit
<p>We focused on this area because:</p> <ul style="list-style-type: none"> ▪ of the significance of financing contracts representing 52% of total assets; ▪ impairment of financing contracts involves: <ul style="list-style-type: none"> ➢ 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; ▪ 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. 	<p>Our procedures included, but not limited to:</p> <ul style="list-style-type: none"> ▪ 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 <p>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:</p> <ul style="list-style-type: none"> ▪ 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. <p>Tests of details Key aspects of our testing involved:</p> <ul style="list-style-type: none"> ▪ 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 exposure (stage 3) in accordance with the applicable FAS.

Use of specialists

For the relevant portfolios examined, we have involved our 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 credit risk 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 contracts by reference to the requirements of relevant accounting standards.

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
<p>During the year, the Group completed the acquisition of ASB Finance B.S.C.(c) formerly Kuwait Finance House (Bahrain) B.S.C.(c) which has been accounted for as a business combination using acquisition accounting in accordance with IFRS 3 <i>Business Combinations</i> ("IFRS 3").</p> <p>The acquisition involved significant management judgement and estimates, particularly in:</p> <ul style="list-style-type: none"> ▪ Identifying and measuring the fair values of assets and liabilities acquired including intangible assets; ▪ Determining the purchase price allocation (PPA) and assessing goodwill recognition. <p>Giving the complexity of the valuation process and material impact on the Group's consolidated financial statements, we considered this is a key audit matter.</p>	<p>Our procedures included but not limited to:</p> <ul style="list-style-type: none"> ▪ Evaluating management process for identifying and valuing acquired assets and liabilities; ▪ Assessing whether the acquisition qualifies as a business under IFRS 3 or an asset acquisition; ▪ Assessing the initial classification of the acquired assets and liabilities; ▪ involving our valuation specialists to review the reasonableness of fair value estimates made by management on the acquired assets and liabilities, particularly for intangible assets such as customer relationships and core deposits by assessing methodologies and testing key assumptions such as growth rates, revenue projections and discount rates etc; ▪ 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 reasonableness of the estimated useful lives of acquired intangible assets; and ▪ 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. <p>Disclosures</p> <p>evaluating the appropriateness and adequacy of disclosures in relation to the business combination by reference to the relevant accounting standards.</p>
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.



Independent auditors' report (continued)
Al Salam Bank B.S.C

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we 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.
- 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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.



Independent auditors' report (continued)
Al Salam Bank B.S.C

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Group as a basis for forming an opinion on the Group financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes of the group audit. We remain solely responsible for our audit opinion.

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, 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
6 February 2025

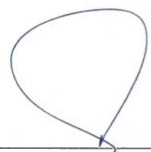
Al Salam Bank B.S.C.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2024

	Note	2024 BD '000	2023 BD '000
ASSETS			
Cash and balances with banks and central banks	4	633,611	537,874
Placements with financial institutions	5	476,450	293,580
Investments in sukuk	6	1,447,803	1,002,839
Financing contracts	7	3,661,670	2,676,460
Non-trading investments	9	97,944	100,060
Takaful and related assets	10	26,353	67,370
Investments in real estate	11	129,295	78,070
Investments in associates	12	255,008	231,484
Other assets	13	129,894	81,228
Goodwill and other intangible assets	14	204,750	78,145
TOTAL ASSETS		7,062,778	5,147,110
LIABILITIES, QUASI-EQUITY AND OWNERS' EQUITY			
LIABILITIES			
Placements from financial institutions and individuals	15	171,016	136,511
Murabaha term financings	16	751,062	510,848
Customers' current accounts		1,279,886	1,066,031
Takaful and related liabilities	10	75,550	114,493
Other liabilities	17	127,822	106,192
TOTAL LIABILITIES		2,405,336	1,934,075
QUASI-EQUITY			
Wakala from financial institutions	18	420,231	379,768
Wakala and mudaraba from customers	18	3,643,830	2,424,617
TOTAL QUASI-EQUITY		4,064,061	2,804,385
OWNERS' EQUITY			
Share capital	19	274,778	261,693
Treasury shares	19	(28,010)	(6,799)
Employees incentive scheme shares		(6,617)	(8,770)
Share premium		209	209
Retained earnings		60,563	44,348
Reserves		59,554	46,722
Equity attributable to the Bank's shareholders		360,477	337,403
Subordinated mudaraba (AT1)	19	159,026	-
Non-controlling interest		73,878	71,247
TOTAL OWNERS' EQUITY		593,381	408,650
TOTAL LIABILITIES, QUASI-EQUITY AND OWNERS' EQUITY		7,062,778	5,147,110


 H.E. Shaikh Khalid bin Mustahil Al Mashani
 Chairman


 Matar Mohamed Al Blooshi
 Deputy Chairman


 Rafik Nayed
 Group Chief Executive Officer

The attached notes 1 to 46 form an integral part of the consolidated financial statements.


Al Salam Bank B.S.C.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2024

	Note	2024 BD '000	2023 BD '000
INCOME			
Income from financing contracts	22	261,810	174,003
Income from investments in sukuk		71,568	48,755
Finance expense on placements from financial institutions and individuals		(11,039)	(8,446)
Finance expense on murabaha term financings		(30,851)	(25,517)
Net finance income		291,488	188,795
Income from non-trading investments, net	23	2,433	7,701
Fees and commission, net	24	27,141	16,383
Share of profit from associates	12	18,169	21,043
Income from takaful operations, net	25	5,357	7,571
Other income	26	7,004	3,803
Total income		351,592	245,296
EXPENSES			
Staff costs	27	44,346	31,765
Other operating expenses	28	55,567	37,768
Total expenses		99,913	69,533
Profit before allowances for impairment, income attribution to quasi-equity and tax		251,679	175,763
Allowance for impairment on financing contracts, investments and other assets	8	(21,173)	(22,989)
Profit before income attribution to quasi-equity and tax		230,506	152,774
Income attributable to quasi-equity		(154,516)	(100,087)
Profit before tax		75,990	52,687
Tax		(6,489)	(4,509)
PROFIT FOR THE YEAR		69,501	48,178
ATTRIBUTABLE TO:			
- Bank's shareholders		59,012	42,226
- Non-controlling interest		10,489	5,952
		69,501	48,178
Basic and diluted earnings per share (fils)	21	20.7	16.3


 H.E. Shaikh Khalid bin Mustahil Al Mashani
 Chairman


 Matar Mohamed Al Blooshi
 Deputy Chairman


 Rafik Nayed
 Group Chief Executive Officer

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Al Salam Bank B.S.C.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2024

	<i>2024</i>	<i>2023</i>
	<i>BD '000</i>	<i>BD '000</i>
Profit for the year	69,501	48,178
Other comprehensive income		
Items that are or may be reclassified subsequently to the income statement		
Fair value changes on investments carried at fair value through OCI	7,905	(2,475)
Share of movement in fair value reserve of an associate	4,276	8,511
Movement in foreign currency translation reserve	1,381	2,379
Share in reserve attributable to quasi-equity	(5,376)	-
Total other comprehensive income for the year	<u>8,186</u>	<u>8,415</u>
Total comprehensive income	<u><u>77,687</u></u>	<u><u>56,593</u></u>
ATTRIBUTABLE TO:		
- Bank's shareholders	67,124	50,398
- Non-controlling interest	10,563	6,195
	<u><u>77,687</u></u>	<u><u>56,593</u></u>

The attached notes 1 to 46 form an integral part of the consolidated financial statements.

Al Salam Bank B.S.C.

CONSOLIDATED STATEMENT OF INCOME AND ATTRIBUTION RELATED TO QUASI-EQUITY

Year ended 31 December 2024

	<i>Note</i>	2024 BD '000	2023 BD '000
Profit before allowances for impairment, income attribution to quasi-equity and tax		251,679	175,763
Adjusted for:			
Income not attributable to quasi-equity		(35,631)	(23,786)
Expenses not attributable to quasi-equity		99,913	69,533
Share of income for Bank's investments, net		(69,180)	(50,250)
Allowance for impairment attributable to quasi-equity		(5,635)	5,429
Total income available for quasi-equity holders		241,146	176,689
Mudarib's share		(5,995)	(5,842)
Wakala incentive		(80,635)	(70,760)
Income attributable to quasi-equity	A	154,516	100,087
Other comprehensive income – attributable to quasi-equity - before recycling to statement of income			
Items that will not be classified to income statement		5,376	-
Other comprehensive income not subject to immediate distribution		(5,376)	-
Other comprehensive income subject to immediate distribution	B	-	-
Total income attributable to quasi-equity	C=A+B	154,516	100,087

The attached notes 1 to 46 form an integral part of the consolidated financial statements.

Al Salam Bank B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS EQUITY

Year ended 31 December 2024

Amounts in BD '000s

	Attributable to shareholders of the bank														
	Reserves										Total reserves	Equity attributable to Bank's shareholders	Subordinated mudaraba (AT1)	Non-controlling interest	Total owners' equity
	Share capital	Treasury shares	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					
Balance at 1 January 2024	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
Impact of adoption of FAS 42 and 43 (note 2.4 (ii) and (iii))	-	-	-	-	(1,332)	-	-	-	-	-	-	(1,332)	-	(1,290)	(2,622)
Restated balance as at 1 January 2024	261,693	(6,799)	(8,770)	209	43,016	25,982	2,120	(2,607)	22,691	(1,464)	46,722	336,071	-	69,957	406,028
Profit for the year	-	-	-	-	59,012	-	-	-	-	-	-	59,012	-	10,489	69,501
Other comprehensive income	-	-	-	-	-	-	-	6,805	-	1,307	8,112	8,112	-	74	8,186
Sale of Investments in real estate	-	-	-	-	-	-	-	-	(8)	-	(8)	(8)	-	-	(8)
Issuance of subordinated mudaraba (AT1)	-	-	-	-	-	-	-	-	-	-	-	-	162,464	-	162,464
Issuance cost subordinated mudaraba (AT1)	-	-	-	-	-	-	-	-	-	-	-	-	(3,438)	-	(3,438)
Profit distribution on subordinated mudaraba (AT1)	-	-	-	-	(4,009)	-	-	-	-	-	-	(4,009)	-	-	(4,009)
Bonus shares issued	13,085	-	-	-	(13,085)	-	-	-	-	-	-	-	-	-	-
Cash dividend for the year 2023	-	-	-	-	(17,947)	-	-	-	-	-	-	(17,947)	-	-	(17,947)
Purchase of treasury shares	-	(21,211)	-	-	-	-	-	-	-	-	-	(21,211)	-	-	(21,211)
Shares vested	-	-	2,153	-	(23)	-	(1,173)	-	-	-	(1,173)	957	-	-	957
Transfer to statutory reserve	-	-	-	-	(5,901)	5,901	-	-	-	-	5,901	-	-	-	-
Appropriation towards charity fund	-	-	-	-	(500)	-	-	-	-	-	-	(500)	-	-	(500)
Movements in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	(6,642)	(6,642)
Balance at 31 December 2024	274,778	(28,010)	(6,617)	209	60,563	31,883	947	4,198	22,683	(157)	59,554	360,477	159,026	73,878	593,381
Balance as 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
Other comprehensive income	-	-	-	-	-	-	-	6,036	(108)	2,244	8,172	8,172	-	243	8,415
Bonus shares issued	12,462	-	-	-	(12,462)	-	-	-	-	-	-	-	-	-	-
Cash dividend for the year 2022	-	-	-	-	(12,359)	-	-	-	-	-	-	(12,359)	-	-	(12,359)
Appropriation towards charity fund	-	-	-	-	(500)	-	-	-	-	-	-	(500)	-	-	(500)
Purchase of treasury shares	-	(5,474)	-	-	-	-	-	-	-	-	-	(5,474)	-	-	(5,474)
Shares vested	-	-	1,926	-	(25)	-	186	-	-	-	186	2,087	-	-	2,087
Transfer to statutory reserve	-	-	-	-	(4,223)	4,223	-	-	-	-	4,223	-	-	-	-
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

The attached notes 1 to 46 form an integral part of the consolidated financial statements.

Al Salam Bank B.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2024

	2024	2023
	BD '000	BD '000
OPERATING ACTIVITIES		
Profit for the year	69,501	48,178
Adjustments:		
Tax	6,489	4,509
Depreciation and amortisation	8,056	4,322
Amortisation of premium on sukuk, net	2,079	114
Loss from non-trading investments	1,234	2,526
Allowance for impairment on financing contracts, investments and other assets	21,173	22,989
Gain on bargain purchase	(2,681)	(15,560)
Share of profits from associates	(18,169)	(21,043)
Operating income before changes in operating assets and liabilities	87,682	46,035
Changes in operating assets and liabilities:		
Mandatory reserve with central banks	(65,703)	(23,410)
Financing contracts	32,509	(299,954)
Takaful and related assets	41,017	(15,680)
Other assets	42,279	(5,537)
Placements from financial institutions and individuals	(81,447)	(51,213)
Customers' current accounts	94,096	121,560
Takaful and related liabilities	(38,943)	22,752
Other liabilities	(9,720)	47,767
Quasi-equity	110,236	163,039
Net cash from operating activities	212,006	5,359
INVESTING ACTIVITIES		
Purchase of sukuk, net	(199,761)	(168,385)
Cash acquired as part of business combination	28,007	297,407
Cash paid for business acquisition	(214,488)	-
(Acquisition) / disposal of securities and real estate	14,700	6,227
Dividends received from associates	15,052	17,477
Purchase of premises and equipment	(2,721)	(2,000)
Net cash (used in) / from investing activities	(359,211)	150,726
FINANCING ACTIVITIES		
Drawdown of murabaha term financings	240,214	189,859
Dividends paid	(17,947)	(12,359)
Issuance of AT1	162,464	-
Profit paid on AT1	(4,009)	-
Issuance cost of AT1 capital paid	(3,438)	-
Purchase of treasury shares	(21,211)	(5,474)
Net cash from financing activities	356,073	172,026
NET INCREASE IN CASH AND CASH EQUIVALENTS	208,868	328,111
Cash and cash equivalents at 1 January	711,643	383,532
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	920,511	711,643
Cash and other balances with central banks*	267,314	295,383
Balances with other banks **	176,741	122,662
Placements with financial institutions with original maturities of less than 90 days*	476,456	293,598
	920,511	711,643
Profit received	341,951	189,710
Dividends received	22,892	19,765
Profit paid	187,091	109,580

* Cash and cash equivalents is gross of the expected credit loss of BD 135 thousand (2023: BD 346 thousand).

** Balances with other banks is net of restricted cash of BD 8,194 thousand (2023: BD 4,240 thousand) which is not available for day to day operations.

The attached notes 1 to 46 form an integral part of the consolidated financial statements.

Al Salam Bank B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN OFF-BALANCE-SHEET ASSETS UNDER MANAGEMENT

Year ended 31 December 2024

Amounts in BD '000s

31 December 2024	<i>Balance at 1 January 2024</i>	<i>Movement during the year</i>					<i>Balance at 31 December 2024 Total</i>
		<i>Investment / (withdrawals)</i>	<i>Revaluation</i>	<i>Gross income</i>	<i>Bank's fees as an agent</i>	<i>Administration expenses</i>	
Fixed income portfolio	157,647	305,496	-	9,102	(797)	-	471,448
Equity and funds portfolio	50,396	(16,960)	-	12	(23)	-	33,425
Real estate portfolio	128,195	4,880	156	8,969	(1,354)	-	140,846
Other portfolio	5,963	-	-	-	-	(8)	5,955
	342,201	293,416	156	18,083	(2,174)	(8)	651,674

Amounts in BD '000s

31 December 2023	<i>Balance at 1 January 2023</i>	<i>Movement during the year</i>					<i>Balance at 31 December 2023 Total</i>
		<i>Investment / (withdrawals)</i>	<i>Revaluation</i>	<i>Gross income</i>	<i>Bank's fees as an agent</i>	<i>Administration expenses</i>	
Fixed income portfolio	148,166	1,425	-	8,829	(773)	-	157,647
Equity and funds portfolio	31,353	19,052	-	10	(19)	-	50,396
Real estate development portfolio	121,878	-	6,317	-	-	-	128,195
Other portfolio	7,861	(1,206)	(692)	-	-	-	5,963
	309,258	19,271	5,625	8,839	(792)	-	342,201

The attached notes 1 to 46 form an integral part of the consolidated financial statements.

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 (as amended) 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 as follows:

Name of entity	Country of incorporation	Principal activities	% holding	
			2024	2023
Al Salam Bank- Seychelles limited.	Seychelles	Banking services	70.0%	70.0%
Solidarity Group Holding B.S.C. (c)	Kingdom of Bahrain	Holding Company	55.9%	55.9%
Al Salam Bank Algeria (S.P.A)	Algeria	Banking services	68.0%	68.0%
ASB Finance B.S.C. (c) (formerly Kuwait Finance House (Bahrain) B.S.C. (c))	Kingdom of Bahrain	Banking services	100.0%	-
ASB Capital	United Arab Emirates	Assets management	100.0%	-

The Bank and its principal banking subsidiaries operates through 24 branches and 1 auto finance office (2023: 17 branches) in the Kingdom of Bahrain, 25 branches in Algeria (2023: 24 branches) and 1 branch (2023: 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 under the CBB's Regulated Islamic Banking Services as defined in the licensing framework.

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries together ("the Group") for the year ended 31 December 2024.

These consolidated financial statements have been authorized for issue in accordance with a resolution of the Board of Directors dated 6 February 2025.

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 Organization 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.

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").

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.

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.

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 recognizes 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 recognized in consolidated income statement immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

2 ACCOUNTING POLICIES (continued)

2.2 BASIS OF CONSOLIDATION (continued)

(i) Business combinations (continued)

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

Subsidiaries are those enterprises (including special purpose entities) controlled by the Bank. The Group controls a business if, and only if, it has a) power over the business b) exposure, or rights, to variable returns from its involvement with the business; and c) the ability to use its power over the business to affect the amount of the institution's returns.

Power is presumed when an entity directly, or indirectly through its subsidiaries, holds more than 50% of the voting rights. Where the Group has less than majority voting rights, control may exist through a) agreement with other shareholders or the business itself; b) rights arising from other contractual arrangements; c) the institution's voting rights (de facto power); d) potential voting rights; or e) a combination thereof.

The Group considers only substantive voting rights in its assessment of whether it has power over a business. In order to be substantive, rights need to be exercisable when relevant decisions are required to be made and the holder of such rights must have the practical ability to exercise those rights. When making an assessment of whether the Group controls a business, it considers the voting and other rights emanating from the investment in the business duly funded by the Group itself and its equity of investment accountholders.

The Group in its ordinary course of business may manage an asset or a business for the benefit of stakeholders other than its equity holders through an agency (usually investment agency) or similar arrangement. Control does not include situations whereby the institution has the power, but such power is exercisable in a fiduciary capacity, and not for the variable returns to the institution itself. Performance incentives receivable by an agent are in a fiduciary capacity, and hence not considered to be variable returns for the purpose of control assessment.

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 recognized. If the non-controlling interest has a present ownership interest and is entitled to a proportionate share of net assets upon liquidation, the Group recognizes 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 2024. 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 securitization 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.

(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 recognized 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 recognized 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 recognized in other equity are reclassified to the consolidated income statement.

2 ACCOUNTING POLICIES (continued)**2.2 BASIS OF CONSOLIDATION (continued)****(v) Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealized 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. Unrealized losses are also eliminated in the same way as unrealized 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 recognized 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 derecognized at which time they are recognized in the consolidated income statement. Translation gains on non-monetary assets classified as "fair value through consolidated income statement" are directly recognized 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 recognized in foreign exchange translation reserve are recognized in the consolidated statement of changes in equity.

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 32.2 for further details.

Impairment of goodwill

Impairment exists when carrying value of 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 at fair value through other comprehensive income

The Group determines that investments carried at fair value through other comprehensive income (FVTOCI) 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. 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.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Fair value of unquoted equity

The Group determines fair value of equity investments that are not quoted in active markets by using well-recognized 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.

Valuation of investments in real estate measured at fair value through income statement involve judgment and is normally based on one of the following:

- valuation by independent external valuers of underlying properties / projects;
- recent arm's length market transactions;
- 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 realizable value of development property

Investment properties are carried at their fair values. Development property is stated at lower of cost and net realizable value. Net realizable 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 realizable 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.

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, Salam financing, Istisna'a 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 consist of placement from financial institutions and individuals, customers' current accounts, murabaha term financings and other payables.

Except for sukuks carried at FVTOCI, non-trading investments and tahawwut used for risk management instruments, carried at fair value 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 income statement (FVTIS), transaction costs that are directly attributable to its acquisition or issue. In the case of items of FVTIS, transaction costs are expensed. The fair value of a financial instrument at initial recognition is generally its transaction price.

Amortised 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 recognized 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 other comprehensive income ("FVTOCI") or (c) fair value through income statement ("FVTIS").

b) Trade and settlement date accounting

The Group recognizes financing, investments, deposits and quasi-equity on the date on which they are originated. Purchases and sale of all other financial assets and liabilities are recognized 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 derecognized 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 derecognized when the obligation specified in the contract is legally discharged, cancelled, or expired.

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 recognized.

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.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Impairment assessment (continued)

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 recognized.

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

Financing 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 financing 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 financing contracts

At each reporting date, the Group assesses whether financing contracts are credit impaired.

Evidence that a financing contract 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.

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 contracts

Financing contracts comprise of Sharia'a compliant 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 contracts are recognized on the date they are originated and are carried at their amortised cost less allowance for expected credit losses, if any.

Modification of financing contracts

If the terms of the financing contracts are modified, then the Group evaluates whether the cashflows of the modified contracts 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 contracts is derecognized and a new financing asset is recognized at fair value plus any eligible transaction cost.

If the modification of a financing contracts measured at amortized cost does not result in the derecognition of the financing contracts, then the Group first recalculates the gross carrying amount of the financing contracts using the original effective profit rate of the asset and recognizes 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.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

f) financing contracts (continued)

(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.

(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.

(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.

(iv) Istisna'a

Istisna'a is a sales contract in which the Group acts as 'al-sani' (a seller) with an 'al-mustasni' (a purchaser) and undertakes to manufacture or otherwise acquire a product based on the specification received from the purchaser, for an agreed upon price.

(v) 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.

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

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 recognized 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 recognized 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 derecognized and a new IMB assets is recognized 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 recognizes the resulting adjustment as a modification gain or loss in consolidated income statement.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Placements with financial institutions

Placements with financial institutions comprise 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) Sukuk

These investments are in the nature of debt-type instruments that provide fixed or determinable payments of profits and also includes equity type sukuk. 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.

j) 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 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 ('FVTIS') or 2) at fair value through other comprehensive income ('FVTOCI'), consistent with its investment strategy.

Recognition and de-recognition

Investment securities are recognized 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 derecognized 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 FVTIS 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 FVTIS and FVTOCI are re-measured to fair value. Gains and losses arising from a change in the fair value of instruments carried at FVTIS are recognized 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 FVTOCI are recognized in the consolidated statement of other comprehensive income. When the investments carried at FVTOCI are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognized in the in the consolidated statement of other comprehensive income 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 at 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, but not control or joint control. 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 its liabilities.

2 ACCOUNTING POLICIES (continued)**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)****l) Investments in associates and joint ventures (continued)**

Under the equity method, investments 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 investments in associates are recognized 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 recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on its investments in associates. The Group determines at each reporting date whether there is any objective evidence that the investments 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 recognizes 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 investments in associates are included in the consolidated statement of changes in equity.

m) Investments 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 recognized at fair value 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 recognized 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 recognized in the consolidated income statement. In case there are unrealized losses relating to investments in real estate that have been recognized in the consolidated income statement in a previous financial year, the unrealized gains relating to the current financial year is recognized 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 charged 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***(i) 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 recognized 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 recognized immediately in the consolidated income statement.

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.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Goodwill and other intangible assets (continued)

(ii) 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 capitalized development costs, are not capitalized 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”) and are 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 recognized in the consolidated statement of income in the expense category that is consistent with the function of the intangible assets.

An intangible asset is derecognized 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 recognized 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 recognized 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) Quasi-equity

Quasi-equity 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 (“IAH”). 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.

The basis applied by the Group in arriving at the quasi-equity 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 in the 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 recognized 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 recognized 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.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Employees' end-of-service benefits (continued)

Post employment benefits

Pensions and other social benefits for Bahraini employees are covered by the Social Insurance Organization 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 recognized 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 recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized 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 recognized 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 claw back provisions.

u) Revenue recognition

financing contracts

As the income is quantifiable and contractually determined at the commencement of the contract, income is recognized 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.

Istisna'a

Istisna'a revenue is the total price agreed between the seller and purchaser including the Group's profit margin. The Group recognizes Istisna'a revenue and profit margin based on percentage of completion method by taking in account the difference between total revenue (cash price to purchaser) and Group's estimated cost. The Group recognizes anticipated losses on Istisna'a contract as soon as they are anticipated.

Sukuk

Income on debt-type sukuk is recognized 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 recognized when the Group's right to receive the dividend is established.

Ijara Muntahia Bitamleek

Ijara income is recognized 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 recognized when earned. To the extent the fees are deemed yield enhancement they are recognized 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 recognized 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 recognized when services are rendered.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

v) Fair value of financial assets

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction on the measurement date.

For investments that are actively traded in organized 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 using well-recognized valuation technique such as DCF and 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 recognized as a liability and deducted from equity when it is approved by the Group's shareholders.

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 recognized from the date of its issue. The liability arising from a financial guarantee contract is recognized 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 recognized at cost and deducted from equity. No gain or loss is recognized 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 recognized 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.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

ad) Takaful and retakaful contracts (continued)

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.

The benefits to which the Group is entitled under its retakaful contracts held are recognized 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 recognized 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 recognized as an expense when due.

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.

The benefits to which the Group is entitled under its retakaful contracts held are recognized 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 recognized 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 recognized 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 recognized 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 recognized 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 recognized 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 recognized 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 recognized when the related gross claims settled are recognized according to the terms of the relevant contracts.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

ad) Takaful and retakaful contracts (continued)

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.

Takaful and insurance receivables

Takaful and insurance receivables are recognized 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.

ae) AT1 Mudaraba

The AT1 Mudaraba which meet the criteria for equity under FAS 1 (no contractual obligation to deliver cash or other financial assets) is classified as component of Owners equity. The AT1 Mudaraba is initially recognized at its subscribed amount, net of any directly attributable transaction cost. And the corresponding distribution are accounted as a debit to the retained earnings.

af) New standards, amendments, and interpretations issued and effective for annual periods beginning on or after 1 January 2024.

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

AAOIFI had issued the revised FAS 1 General Presentation and Disclosures in the Financial Statements in 2021. This standard describes and improves the overall presentation and disclosure requirements prescribed in line with the global best practices and supersedes the earlier FAS 1. 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. Significant changes relevant to the Group are a) Definition of Quasi equity is introduced; and b) Concept of comprehensive income has been introduced.

During the period, the Group has adopted FAS 1 revised. As a result of this adoption following changes were made to the primary statements of the Group:

Primary statements introduced

Statement of total comprehensive income

Statement of income and attribution related to quasi-equity

Statement of changes in off-balance-sheet assets under management

As a result of the adoption of FAS 1 revised certain prior year figures have been represented and regrouped to be consistent with the current year presentation. Such grouping did not affect previously reported net profit, total assets, total liabilities and total equity of the Group. Further, the Group has elected to present statement of income and a statement of other comprehensive income as two separate statements.

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

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

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

a) the standard is aligned with the AAOIFI Conceptual Framework for Financial Reporting (Revised 2020) and FAS 1 General Presentation and Disclosures in the Financial Statements;

b) the presentation and disclosure in the standard have been amended to be aligned with the Sharia principles and rules relating to Takaful, whereby the Takaful operator is distinct from the participants' funds (including participants' Takaful fund (PTF) and participants' investment fund (PIF));

c) the PTF and PIF are considered to be off-balance sheet assets under management, therefore, separate from the Takaful Operator;

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

af) New standards, amendments, and interpretations issued and effective for annual periods beginning on or after 1 January 2024. (continued)

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

d) statements for the managed PTF and managed PIF have been introduced, including separate statements for financial position and financial activities of the managed PTF;

e) disclosures of Zakah, Charity and Qard funds have been relocated to the notes to the financial statements in line with FAS 1; and

f) new definitions of Takaful, Takaful institution, Takaful operator, PIF and PTF have been introduced.

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

The Group has early adopted this standard for the takaful portfolio of its takaful subsidiary. Adoption of this standard did not have a material impact on the consolidated financial information of the Group.

(iii) FAS 43 Accounting for Takaful Recognition and Measurement

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

a) the standard is aligned with the AAOIFI Conceptual Framework for Financial Reporting (Revised 2020) and FAS 1 General Presentation and Disclosures in the Financial Statements;

b) the principal accounting treatments in respect of Takaful arrangements have been aligned with the globally generally accepted accounting principles and newer regulatory requirements (where applicable);

c) new accounting treatments have been introduced in respect of matters which were not addressed or superseded standards or were not in line with the global best practices, particularly with regard to the accounting for provisions (or liability, as appropriate) for Takaful arrangements and accounting treatment and presentation for the investment component;

d) accounting treatments mapped in the standard are mapped to the Sharia principles and rules relating to Takaful, including the rights and obligations of respective stakeholders of Takaful arrangements;

e) new definitions for the accounting terms in respect of the newly introduced accounting treatments, as well as, improved definitions for earlier used terms, have been incorporated; and

f) accounting treatments respect to ancillary transactions have been introduced, particularly the transactions and balances between various stakeholders of Takaful institutions, e.g. Accounting for Wakala fees and Qard Hassan.

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

1) A full retrospective approach – whereby the effects of transition shall be incorporated from the beginning of the earliest period presented in the financial statements; however, the disclosure of the effect of such adoption in each line item and to the basic and diluted earnings per share shall not be mandatory; or

2) A modified retrospective approach – whereby effects of transition shall be taken to retained earnings, as well as accumulated surplus or deficit in the respective Takaful funds at the beginning of the current financial period; or

3) A fair value option – whereby the Takaful residual margin or loss component of the provision for the remaining entitlement period, at the transition date (beginning of the current period) shall be determined as the difference between fair value of Takaful arrangements at that date and the fair value of the fulfilment cashflows measured at that date, and the corresponding effects shall be adjusted in the retained earnings of Takaful institution, as well as accumulated surplus or deficit in the respective Takaful funds.

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

The Group has early adopted this standard for the takaful portfolio of its takaful subsidiary. Adoption of this standard has resulted in presentation of takaful assets and liabilities on a net basis instead of gross basis.

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

i) 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.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

i) FAS 45: Quasi-Equity (Including Investment Accounts) (continued)

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.

ii) 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 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.

iii) 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.

iv) FAS 48: Promotional Gifts and Prizes

This standard prescribes accounting and financial reporting requirements applicable to promotional gifts and prizes awarded by the Islamic financial institutions. The standard categorizes them into a) Promotional Gifts, where entitlement to gifts is declared instantly; b) Promotional Prizes, that are announced in advance to be awarded at a future date and c) Loyalty Programs, where the obligation is accumulated over the period.

This standard is 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.

3 CLASSIFICATION OF ASSETS AND LIABILITIES

	2024			
	<i>At fair value through income statement</i>	<i>At fair value through OCI</i>	<i>At amortised cost/ others</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
ASSETS				
Cash and balances with banks and central banks	-	-	633,611	633,611
Placements with financial institutions	-	-	476,450	476,450
Investments in sukuk	-	800,387	647,416	1,447,803
financing contracts	-	-	3,661,670	3,661,670
Non-trading investments	79,354	18,590	-	97,944
Takaful and related assets	-	-	26,353	26,353
Investments in real estate	-	129,295	-	129,295
Investments in associates	-	-	255,008	255,008
Other assets	321	163	129,410	129,894
Goodwill and other intangible assets	-	-	204,750	204,750
	79,675	948,435	6,034,668	7,062,778
LIABILITIES				
Placements from financial institutions and individuals	-	-	171,016	171,016
Murabaha term financings	-	-	1,279,886	1,279,886
Customers' current accounts	-	-	751,062	751,062
Takaful and related liabilities	-	-	75,550	75,550
Other liabilities	847	-	126,975	127,822
	847	-	2,404,489	2,405,336
	2023			
	<i>At fair value through income statement</i>	<i>At fair value through OCI</i>	<i>At amortised cost/ others</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
ASSETS				
Cash and balances with banks and central banks	-	-	537,874	537,874
Placements with financial institutions	-	-	293,580	293,580
Investments in sukuk	-	364,518	638,321	1,002,839
financing contracts	-	-	2,676,460	2,676,460
Non-trading investments	86,205	13,855	-	100,060
Takaful and related assets	-	-	67,370	67,370
Investments in real estate	-	78,070	-	78,070
Investments 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				
Placements from financial institutions and individuals	-	-	136,511	136,511
Murabaha term financings	-	-	510,848	510,848
Customers' current accounts	-	-	1,066,031	1,066,031
Takaful and related liabilities	-	-	114,493	114,493
Other liabilities	337	-	105,855	106,192
	337	-	1,933,738	1,934,075

4 CASH AND BALANCES WITH BANKS AND CENTRAL BANKS

	2024	2023
	<i>BD '000</i>	<i>BD '000</i>
Mandatory reserve with Central Banks*	181,620	115,917
Cash and other balances with Central Banks	267,185	295,383
Balances with commercial banks	184,935	126,902
Allowance for credit losses	(129)	(328)
	633,611	537,874

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

5 PLACEMENTS WITH FINANCIAL INSTITUTIONS

These represent short-term interbank placements with financial institutions

	2024	2023
	<i>BD '000</i>	<i>BD '000</i>
Wakala	34,624	63,546
Mudaraba	5,590	2,860
Commodity murabaha	436,242	227,192
Allowance for credit losses	(6)	(18)
	476,450	293,580

6 INVESTMENTS IN SUKUK

	2024			2023
	<i>Sovereign Sukuk</i>	<i>Corporate Sukuk</i>	<i>Total</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Carried at FVTOCI				
At 1 January	340,834	23,684	364,518	226,617
Purchases	371,732	19,601	391,333	279,773
Acquired through business combination	124,365	-	124,365	-
Sale / redemption	(78,134)	(17,960)	(96,094)	(140,933)
Fair value movement	6,901	1,004	7,905	(2,475)
Allowance for credit losses	(31)	(75)	(106)	(105)
Profit accrual / Dividend	8,412	54	8,466	1,641
At 31 December	774,079	26,308	800,387	364,518

Sukuk with carrying value of BD 13,916 thousand (2023: BD 14,905 thousand) are equity sukuk.

This includes sukuk with carrying value of BD 293,525 thousand (2023: BD 228,250 thousand) which are pledged against murabaha term financing (note 16).

	2024			2023
	<i>Sovereign Sukuk</i>	<i>Corporate Sukuk</i>	<i>Total</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Carried at Amortised cost				
At 1 January	604,683	33,638	638,321	610,764
Purchases	163,902	14,214	178,116	276,536
Acquired through business combination	99,134	3,770	102,904	7,518
Redemption	(242,082)	(31,512)	(273,594)	(257,957)
Allowance for credit losses	(47)	1	(46)	(194)
Amortisation	1,130	194	1,324	(78)
Profit accrual / Dividend	579	(188)	391	1,732
At 31 December	627,299	20,117	647,416	638,321
	1,401,378	46,425	1,447,803	1,002,839

This includes sukuk of BD 360,813 thousand (2023: BD 354,258 thousand) which are pledged against murabaha term financing (note 16).

Breakup of Sukuk by type of issuer

	2024	2023
	<i>BD '000</i>	<i>BD '000</i>
Sovereign sukuk	1,401,378	945,518
Corporate sukuk	46,425	57,321
	1,447,803	1,002,839

The rating of corporate sukuk are as follows:

	2024	2023
	<i>BD '000</i>	<i>BD '000</i>
Investment grade (AAA - BBB+)	24,842	22,615
High Yielding (Below BBB-)	10,923	8,868
Un-rated sukuk	10,782	25,886
Allowance for credit losses	(122)	(48)
	46,425	57,321

7 FINANCING CONTRACTS

	2024				
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	POCI	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
Leased-based:					
Ijarah	1,333,453	105,440	45,999	23,900	1,508,792
Trade-based:					
Murabaha	1,079,838	41,763	19,435	13,118	1,154,154
Salam	265,419	5,590	25,809	499	297,317
Istisnaa	73,534	1,587	4,722	154	79,997
Participatory-based:					
Mudaraba	581,757	21,613	31,394	55	634,819
Musharaka	30,020	22	2,353	-	32,395
Credit cards	26,251	239	1,421	-	27,911
Total gross financing contracts	3,390,272	176,254	131,133	37,726	3,735,385
Allowance for credit losses	(22,590)	(14,947)	(30,574)	-	(68,111)
Foreign currency translation	(5,202)	(86)	(307)	(9)	(5,604)
	3,362,480	161,221	100,252	37,717	3,661,670
	2023				
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	POCI	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
Leased-based:					
Ijarah	822,589	23,152	33,670	5,027	884,438
Trade-based:					
Murabaha	704,924	21,244	26,545	5,533	758,246
Salam	321,848	8,807	4,752	1,396	336,803
Istisnaa	39,734	3,000	4,769	498	48,001
Participatory-based:					
Mudaraba	592,379	33,848	20,279	44	646,550
Musharaka	30,234	415	152	-	30,801
Credit cards	13,709	353	1,288	-	15,350
Total gross financing contracts	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

Murabaha financing is reported net of deferred profits of BD 133,184 thousand (2023: BD 102,116 thousand).

Movement on allowance for credit losses

	2024				
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	Purchased credit-impaired POCI	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
Balance at 1 January	16,334	8,332	23,922	435	49,023
Movement between stages, net	590	2,351	(2,941)	-	-
Movement in allowance for credit loss	5,666	4,264	15,734	(5,319)	20,345
Exchange adjustments and other transfers on settlement	-	-	-	4,884	4,884
Exposures written off during the year *	-	-	(6,141)	-	(6,141)
Balance at 31 December	22,590	14,947	30,574	-	68,111
	2023				
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	Purchased credit-impaired POCI	Total
	BD '000	BD '000	BD '000	BD '000	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 in allowance for credit loss	2,511	(1,531)	19,499	(2,317)	18,162
Exposures 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

* Represent exposures charged off during the year for which recovery efforts will continue.

The non-performing financing ratio at 31 December 2024 exclusive and inclusive of non-performing POCI is 3.5% and 4.5% respectively (31 December 2023: 3.4% and 3.8%).

Stage 3 provision coverage including collateral amounts to 105.2% (2023: 102.1%). The POCI assets are currently carried at 33.4% (2023: 25.8%) compared to the original contractual amounts. On a cumulative basis, the impaired assets (Stage 3 and POCI) have a provision coverage of 43.4% (2023: 42.1%) compared to their original contractual amounts.

7 FINANCING CONTRACTS (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.

	2024	2023
	BD '000	BD '000
Ijarah Muntahia Bitamleek	1,751,610	1,039,118
Depreciation	(243,653)	(154,680)
Ijarah Muntahia Bitamleek net of depreciation	1,507,957	884,438
Allowance for credit losses	(15,866)	(8,314)
At 31 December	1,492,091	876,124

The future minimum lease receivable (excluding future profits) in aggregate are as follows:

	2024	2023
	BD '000	BD '000
Due within one year	249,689	120,655
Due in one to five years	152,223	237,391
Due after five years	1,090,179	518,078
	1,492,091	876,124

8 ALLOWANCE FOR IMPAIRMENT ON FINANCING CONTRACTS, INVESTMENTS AND OTHER ASSETS

The balance of allowance for credit losses in the below table includes all financing, finance lease assets and off-balance sheet exposures.

	2024				
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	POCI	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
Balance at 1 January	19,222	8,487	26,450	435	54,594
- transfer to Stage 1: 12 month ECL	1,434	(757)	(677)	-	-
- transfer to Stage 2: Lifetime ECL not credit-impaired	(569)	5,947	(5,378)	-	-
- transfer to Stage 3: Lifetime ECL credit-impaired	(284)	(2,831)	3,115	-	-
Net remeasurement of loss allowance	6,330	4,242	15,960	(5,319)	21,213
Allowance for credit losses	6,911	6,601	13,020	(5,319)	21,213
Exchange adjustments and other transfers	-	-	-	4,884	4,884
Exposures written off during the year*	-	-	(6,141)	-	(6,141)
Balance at 31 December	26,133	15,088	33,329	-	74,550

* Represent exposures charged off during the year for which recovery efforts will continue.

	2024				
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	POCI	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
Cash and balances with banks and central banks	129	-	-	-	129
Placements with financial institutions	6	-	-	-	6
Investments in sukuk	660	-	-	-	660
Financing contracts	22,590	14,947	30,574	-	68,111
Financing other assets	17	1	-	-	18
Other receivables	8	-	2,079	-	2,087
Financing commitments and financial guarantee contracts	2,723	140	676	-	3,539
	26,133	15,088	33,329	-	74,550

Net impairment charge on financing contracts, investments and other assets

	2024	2023
	BD '000	BD '000
Cash and balances with banks and central banks	(198)	196
Placements with financial institutions	(12)	7
Investments in sukuk	152	299
Financing contracts (note 7)	20,345	18,162
Other Assets	(946)	949
Financing commitments and financial guarantee contracts	1,872	218
Investments	(40)	3,158
	21,173	22,989

The day one Allowance for credit losses impact on acquisition during the year is BD 2.5 million (2023: BD 7.6 million).

8 ALLOWANCE FOR IMPAIRMENT ON FINANCING CONTRACTS, INVESTMENTS AND OTHER ASSETS (continued)

	2023				
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	POCI	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
Balance at 1 January	18,257	12,327	27,150	-	57,734
- transfer to Stage 1: 12 month ECL	1,122	(777)	(345)	-	-
- transfer to Stage 2: Lifetime ECL not credit-impaired	(3,528)	3,872	(344)	-	-
- transfer 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
Exposures written off during the year*	-	-	(25,673)	-	(25,673)
Exchange adjustments and other transfers on settlement	27	-	(77)	2,752	2,702
Balance at 31 December	<u>19,222</u>	<u>8,487</u>	<u>26,450</u>	<u>435</u>	<u>54,594</u>

* Represent exposures charged off during the period for which recovery efforts will continue.

	2023				
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	POCI	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
Cash and balances with banks and central banks	328	-	-	-	328
Placements with financial institutions	18	-	-	-	18
Investments in sukuk	508	-	-	-	508
Financing contracts	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
	<u>19,222</u>	<u>8,487</u>	<u>26,450</u>	<u>435</u>	<u>54,594</u>

9 NON-TRADING INVESTMENTS

	2024	2023
	BD '000	BD '000
At fair value through income statement:		
Equity securities	78,716	79,192
Funds	638	7,013
At fair value through other comprehensive income	18,590	13,855
	<u>97,944</u>	<u>100,060</u>

The Group holds 40% stake (2023: 40%) in Manara Developments Company B.S.C.(c) ("Manara") & Bareeq Al Retaj Real Estate Services WLL ("Bareeq") each, incorporated in the Kingdom of 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, pending legal formalities.

10 TAKAFUL ASSETS AND LIABILITIES

	2024	2023
	BD '000	BD '000
Takaful assets	17,140	67,370
Investments of participants in units	9,213	-
Takaful assets	<u>26,353</u>	<u>67,370</u>
Takaful liabilities	66,273	114,493
Other liabilities	9,277	-
Takaful liabilities	<u>75,550</u>	<u>114,493</u>

11 INVESTMENTS IN REAL ESTATE

	2024	2023
	BD '000	BD '000
Land	103,263	76,195
Buildings	26,032	1,875
	<u>129,295</u>	<u>78,070</u>

Includes real assets acquired as part of acquisition of subsidiary (note 45).

12 INVESTMENTS IN ASSOCIATES

The Group has a 20.9% (2023: 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")), 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 quasi-equity 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.

During 2024, Solidarity Bahrain B.S.C., insurance subsidiary of the Group acquired 28.9% stake in Alliance Insurance P.J.S.C., an insurance company listed on the Dubai Financial Market resulting in the Groups share of Bargain purchase BD 2,681 thousand (note 23).

	<u>2024</u>	<u>2023</u>
	<i>BD '000</i>	<i>BD '000</i>
Balance at 1 January	231,484	254,006
Acquisitions during the year	16,131	-
Derecognition of associate due to step up acquisition	-	(33,767)
Share of profits	18,169	21,043
Share of other changes in equity	4,276	8,511
Dividends received from associates	(15,052)	(17,477)
Foreign exchange differences	-	(832)
Balance at 31 December	255,008	231,484

The summary of financial information of the Group's material investments in associates, which is adjusted for changes in accounting policies and fair value adjustments on acquisition.

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

	<u>2024</u>	<u>2023</u>
	<i>BD '000</i>	<i>BD '000</i>
Group's holding	26.20%	26.20%
Total assets	4,215,423	4,005,203
Total liabilities	3,567,500	3,384,400
Net assets (100%)	647,923	620,803
Group's share of recognised net assets	169,691	162,588
Acquisition accounting related adjustments	65,202	65,202
Carrying amount of interest in associate	234,893	227,790
Revenue	166,700	163,500
Profit (100%)	71,700	84,800
Other change in equity (comprehensive income)	16,823	32,497
Total comprehensive income (100%)	111,823	111,197
Group's share of profits	17,859	19,246
Groups share of other changes in equity	4,276	8,511

The market value of BBK stood at BD 229.3 million as at 31 December 2024 (2023: BD 228.4 million). This fair value was determined using market value per share and was not adjusted for any holding of account related adjustments.

For other associates based on the summarized financial statements, the revenue, profit and Group's share of profit were BD 2,797 thousand (2023: BD 8,548 thousand), BD 1,304 thousand (2023: BD 1,683 thousand) and BD 310 thousand (2023: BD 1,797 thousand), respectively.

13 OTHER ASSETS

	<u>2024</u>	<u>2023</u>
	<i>BD '000</i>	<i>BD '000</i>
Assets under conversion (a)		
Loans and advances to customers	10	46
Non-trading investments - fair value through equity (b)	163	163
	173	209
Other receivables and advances	75,933	37,261
Prepayments	14,852	13,753
Premises and equipment including right of use assets	38,936	30,005
	129,894	81,228

(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. including assets which are carried at nil carrying value (2023: nil). Income derived from these assets are transferred to charity (on collection basis) and as such are not recognised as revenue in the consolidated income statement. During the year, income from this portfolio amounting to BD 217 thousand (2023: BD 230 thousand) has been transferred to charity, which has been included under "Accounts payable"

(b) The above investment of fair value through equity are classified as Level 3 in the fair value hierarchy. Decline in fair value through equity investments during the year was nil (2023: BD 29 thousand).

14 GOODWILL AND OTHER INTANGIBLE ASSETS

During the year, the group acquired ASB Finance B.S.C. (c) (formerly Kuwait Finance House (Bahrain) B.S.C. (c)) an Islamic retail subsidiary of Kuwait Finance House Kuwait that resulted in a goodwill of BD 115,038 thousand. (refer note 45).

The Bank assesses, on annual basis, whether there is an indication, based on internal and external source of information, that the intangible assets may be impaired in accordance with IAS 36 ('impairment of non-financial assets'). As of 31 December 2024, there was no indication of impairment of the CGU associated with the goodwill.

The recoverable amount of goodwill has been determined on fair value less cost to sell, calculated using market approaches which considers trading multiples such as price-to-book and price-to-earnings for comparable banks in the region, adjusted for control premium and illiquidity adjustments. The assessed recoverable amount based on the market approaches was significantly above the carrying value of the CGU which includes the goodwill.

A sensitivity analysis for reasonable change in inputs does not indicate any risk of impairment. A steady growth rate of 2% and discount rate of 12.2% is applied to the estimated cash flows.

	2024				2023	
	Goodwill	License	Core deposits	Customer Relationship	Total	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Balance at 1 January	37,252	12,000	13,854	15,039	78,145	51,998
Acquired during the year	115,038	-	15,000	-	130,038	28,199
Adjustment to acquired goodwill	(371)	-	-	-	(371)	-
Amortised during the year	-	-	(1,386)	(1,676)	(3,062)	(2,052)
Balance as at 31 December	151,919	12,000	27,468	13,363	204,750	78,145

15 PLACEMENTS FROM FINANCIAL INSTITUTIONS AND INDIVIDUALS

These represent short-term placements from banks, financial institutions and individuals in the form of Murabaha contracts.

	2024	2023
Placement from financial institutions	142,481	136,511
Placements from individuals	28,535	-
	171,016	136,511

16 MURABAHA TERM FINANCINGS

These represent short-term and long-term financings obtained from various financial institutions and are collateralised by corporate and sovereign sukuk with total carrying value BD 655,732 thousand (2023: BD 582,508 thousand). (note 6)

17 OTHER LIABILITIES

	2024	2023
	BD '000	BD '000
Accounts payable	83,128	77,701
Accrued expenses	25,626	14,383
Manager cheques	5,534	6,370
LC margin deposit	6,604	2,875
Project payables	60	225
End of service benefits and other employee related accruals	3,331	2,971
Allowance for credit losses relating to financing commitments and financial guarantee contracts	3,539	1,667
	127,822	106,192

18 QUASI-EQUITY

	2024	2023
	<i>BD '000</i>	<i>BD '000</i>
Wakala from financial institutions	420,231	379,768
Wakala, Mudaraba from customers	3,643,830	2,424,617
	4,064,061	2,804,385

Including in Quasi-equity is an amount of BD 5,376 thousand (2023: Nil) representing the Quasi-equity holders share of movement in fair value reserve.

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

The Group does not allocate stage 3 assets to quasi-equity pool. All the impairment allowances relating to non performing assets are allocated to owners' equity. Recoveries from non-performing financial assets are also not allocated to quasi-equity. Only the profits earned on pool of assets funded from quasi-equity are allocated between the owners' equity and quasi-equity. As per the policy of the Group, minimum of 15% of return on assets earned is distributed to quasi-equity and up to 85% is retained by the Group as mudarib share. The Group did not charge any administration expenses to quasi-equity. The average profit rate earned on assets attributed to quasi-equity based on the above ratio for the year ended 31 December 2024 was 6.4% (2023: 6.0%) and the average profit rate distributed to quasi-equity for the year ended 31 December 2024 was 4.0% (2023: 3.5%).

Distribution of assets by ownership

	2024			2023		
	Self-financed	Quasi equity	Total	Self-financed	Quasi equity	Total
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Cash and balances with banks and central banks	515,426	118,185	633,611	537,874	-	537,874
Placements with financial institutions	8,094	468,356	476,450	54,953	238,627	293,580
Investments in sukuk	1,447,803	-	1,447,803	1,002,839	-	1,002,839
Financing contracts	444,553	3,217,117	3,661,670	338,492	2,337,968	2,676,460
Non-trading investments	89,676	8,268	97,944	100,060	-	100,060
Takaful and related assets	26,353	-	26,353	67,370	-	67,370
Investments in real estate*	112,053	17,242	129,295	78,070	-	78,070
Investments in associates	20,115	234,893	255,008	3,694	227,790	231,484
Other assets	129,894	-	129,894	81,228	-	81,228
Goodwill and other intangible assets	204,750	-	204,750	78,145	-	78,145
Total Assets	2,998,717	4,064,061	7,062,778	2,342,725	2,804,385	5,147,110

*real estate investments allocated to quasi-equity are yielding.

18 QUASI-EQUITY (continued)**Distribution of income by ownership**

	2024			2023		
	Self-financed	Quasi equity	Total	Self-financed	Quasi equity	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
INCOME						
Income from financing contracts	34,010	227,800	261,810	21,989	152,014	174,003
Income from Investments in sukuk	71,568	-	71,568	48,755	-	48,755
Finance expense on placements from financial institutions and individuals	(11,039)	-	(11,039)	(8,446)	-	(8,446)
Finance expense on murabaha term financing	(30,851)	-	(30,851)	(25,517)	-	(25,517)
Net finance income	63,688	227,800	291,488	36,781	152,014	188,795
Income from non-trading investments, net	1,311	1,122	2,433	7,701	-	7,701
Fees and commission, net	27,141	-	27,141	16,383	-	16,383
Share of profit from associates	310	17,859	18,169	1,797	19,246	21,043
Income from Takaful operations, net	5,357	-	5,357	7,571	-	7,571
Other income	7,004	-	7,004	3,803	-	3,803
Total income	104,811	246,781	351,592	74,036	171,260	245,296
EXPENSES						
Staff costs	44,346	-	44,346	31,765	-	31,765
Other operating expenses	55,567	-	55,567	37,768	-	37,768
Total expenses	99,913	-	99,913	69,533	-	69,533
Profit before impairment allowances, tax and income attribution to quasi-equity	4,898	246,781	251,679	4,503	171,260	175,763
Allowance for impairment on financing contracts, investments and other assets	(15,538)	(5,635)	(21,173)	(28,418)	5,429	(22,989)
Group's share as a mudarib and wakil	86,630	(86,630)	-	76,602	(76,602)	-
Allocated profits	75,990	154,516	230,506	52,687	100,087	152,774

	2024	2023
	BD 000	BD 000
Quasi Equity - by type and maturity		
Saving accounts (including call accounts)	1,048,020	666,651
Six to nine months investment accounts	492,321	472,294
One to three years investment accounts	965,622	1,149,844
Three to five years investment accounts	828,513	243,527
	4,058,685	2,804,385
Quasi-equity holders share of movement in fair value reserve	5,376	-
	4,064,061	2,804,385

In case of investment accounts on contractual basis, these can be withdrawn subject to deduction of profit upon management discretion.

19 SHARE CAPITAL

	2024	2023
	<u>BD '000</u>	<u>BD '000</u>
Authorised:		
5,000,000,000 ordinary shares (2023: 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 2,747,776,658 (2023: 2,616,930,150)	274,778	261,693

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 2024 is as follows:

Investor Name	Nationality	No. of Shares	% of the outstanding shares
Bank Muscat (S.A.O.G.)	Omani	404,921,657	14.7%
Muscat Overseas Company L.L.C.	Bahraini	201,276,024	7.3%
Sayacorp B.S.C Closed	Bahraini	172,475,211	6.3%

A distribution schedule of equity shares, setting out the number of holders and the percentages as of 31 December 2024 is presented below:

Categories	No. of Shares	No. of the shareholders	% of the outstanding shares
Less than 1%	982,740,054	22,978	35.8
1% up to less than 5%	986,363,712	13	35.9
5% up to less than 10%	373,751,235	2	13.6
10% up to less than 20%	404,921,657	1	14.7
Total	2,747,776,658	22,994	100.0

19.1 Appropriation

The Board of Directors is proposing a cash dividend of 6 fils per share or 6% (2023: 7%) of the par value of BD 0.100 per share excluding treasury shares and 8% of the paid up capital to be paid by issue of bonus shares (1 share for every 12.5 shares held). This amounts to BD 37,533 thousand for the year ended 31 December 2024 (2023: BD 31,032 thousand).

19.2. Treasury shares

Total number of treasury shares outstanding as of 31 December 2024 was 155,932,001 shares (2023: 53,005,000 shares).

19.3. 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 2024, 84,523,957 (2023: 105,552,007 shares) share awards remain unvested.

19.4. Subordinated mudaraba (AT1)

During the year, the Bank has issued bilateral subordinated mudaraba classified as additional Tier 1 mudaraba (AT 1) of BD 162,464 thousand. The subscription was fully paid in cash.

Summary of key terms and conditions of this issue are as follows:

- Profits on this contract are distributed monthly starting from date of subscription at an expected rate of 6% p.a. Profit payments under the contract are discretionary and non-cumulative and non-payment will not be considered as an event of default.
- The contract does not have a stated maturity and is perpetual in nature and the Bank has an option to settle the AT1 Mudaraba at its discretion after 5 years from the date of its initial subscription.
- The AT1 mudaraba has a write-down feature in the event of non-viability as per the terms of the contract.

Accordingly, AT1 mudaraba meets the criteria for classification as equity as per FAS 1 and is recognized under the owners' equity in the consolidated statement of financial position and the profits paid under the contract are accounted for as appropriation of profits. During the year, BD 4,009 thousand was paid as profit on AT1 Mudaraba.

20 STATUTORY RESERVE

As required by Bahrain Commercial Companies Law 21/2001 (as amended) and the Bank's articles of association, 10% of the net profit for the year is transferred to the statutory reserve. The Group may resolve to discontinue such annual transfers when the reserve reaches 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.

21 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.

	<u>2024</u>	<u>2023</u>
Net profit attributable to Shareholders of the Bank (BD '000)	59,012	42,226
Less: Profit on AT1 capital	(4,009)	-
Weighted average number of shares (thousand)	2,654,252	2,585,652
Basic and diluted earnings per share (fils)	<u>20.7</u>	<u>16.3</u>

22 INCOME FROM FINANCING CONTRACTS

	<u>2024</u>	<u>2023</u>
	<u>BD '000</u>	<u>BD '000</u>
Leased-based:		
Ijarah, net*	88,420	51,053
Trade-based:		
Murabaha	77,897	50,543
Salam	21,129	16,003
Istisna	3,780	2,013
Participatory-based:		
Mudaraba	42,933	39,949
Musharaka	2,214	2,266
Placements with financial institutions	<u>25,437</u>	<u>12,176</u>
	<u>261,810</u>	<u>174,003</u>

* Ijarah income is net of depreciation of BD 110,306 thousand (2023: BD 28,837 thousand).

23 INCOME FROM NON-TRADING INVESTMENTS, NET

	<u>2024</u>	<u>2023</u>
	<u>BD '000</u>	<u>BD '000</u>
Fair value loss on investments	(766)	(2,410)
Loss on sale of investments, net	-	(6,718)
Dividend income	1,008	1,221
Income from investment in real estate	(490)	48
Gain on bargain purchase	2,681	15,560
	<u>2,433</u>	<u>7,701</u>

24 FEES AND COMMISSION, NET

	<u>2024</u>	<u>2023</u>
	<u>BD '000</u>	<u>BD '000</u>
Transaction related fees and income	20,481	10,801
Arrangement fees	2,052	1,844
LC and LG commission	1,485	1,238
Card income and others	3,123	2,500
	<u>27,141</u>	<u>16,383</u>

25 INCOME FROM TAKAFUL OPERATIONS, NET

	<u>2024</u>	<u>2023</u>
	<u>BD '000</u>	<u>BD '000</u>
Takaful revenue	94,502	45,419
Takaful service expenses	(48,426)	(22,101)
Net from retakaful contracts	(29,751)	(11,830)
Net finance expense from takaful contracts	(1,283)	(852)
Net finance expense from retakaful contracts	319	240
Takaful corporate expenses	(10,004)	(3,305)
	<u>5,357</u>	<u>7,571</u>

26 OTHER INCOME

	<u>2024</u>	<u>2023</u>
	<u>BD '000</u>	<u>BD '000</u>
Foreign exchange gains	4,007	2,476
Recoveries	1,262	19
Others	1,735	1,308
	<u>7,004</u>	<u>3,803</u>

27 STAFF COSTS

	<u>2024</u>	<u>2023</u>
	<u>BD '000</u>	<u>BD '000</u>
Salaries and short term benefits	38,013	27,322
Employees' social insurance expenses	3,779	2,850
Other staff expenses	2,554	1,593
	<u>44,346</u>	<u>31,765</u>

In 2022, a long term incentive plan (LTIP) was introduced where 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.

28 OTHER OPERATING EXPENSES

	<u>2024</u>	<u>2023</u>
	<u>BD '000</u>	<u>BD '000</u>
Business related expenses	16,902	9,644
Information technology expenses	8,910	4,968
Professional expenses	3,713	2,698
Board of directors related expenses	2,946	1,717
Premises cost	4,494	3,417
Depreciation and amortization	8,056	4,322
Other expenses	10,546	11,002
	<u>55,567</u>	<u>37,768</u>

29 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 2024 and 31 December 2023 were as follows:

	<u>2024</u>				
	<u>Associates and joint ventures</u>	<u>Major shareholders</u>	<u>Directors and related entities</u>	<u>Senior management</u>	<u>Total</u>
	<u>BD '000</u>	<u>BD '000</u>	<u>BD '000</u>	<u>BD '000</u>	<u>BD '000</u>
Assets:					
Cash and balances with banks and central bank	-	244	-	-	244
Financing contracts	24,958	-	2,557	2,036	29,551
Non-trading investments	68,854	-	-	-	68,854
Takaful and related assets	-	-	620	11	631
Investments in associates	255,008	-	-	-	255,008
Liabilities and Quasi-equity:					
Customers' current accounts	1,234	358	3,944	1,795	7,331
Other liabilities	16	-	106	85	207
Quasi-equity	12,271	3,407	7,718	7,655	31,051
Contingent liabilities and commitments	8	-	502	191	701

29 RELATED PARTY TRANSACTIONS (continued)

	2023				
	<i>Associates and joint ventures</i>	<i>Major shareholders</i>	<i>Directors and related entities</i>	<i>Senior management</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Assets:					
Cash and balances with banks and central bank	-	95	-	-	95
Financing contracts	23,237	-	1,637	1,340	26,214
Non-trading investments	68,863	-	-	-	68,863
Takaful and related assets	-	-	562	-	562
Investments in associates	231,484	-	-	-	231,484
Liabilities and Quasi-equity:					
Customers' current accounts	1,846	210	4,136	467	6,659
Other liabilities	91	-	953	16	1,060
Quasi-equity	4,376	-	6,926	2,651	13,953
Contingent liabilities and commitments					
	8	-	651	-	659

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

	2024				
	<i>Associates and joint ventures</i>	<i>Major shareholders</i>	<i>Directors and related entities</i>	<i>Senior management</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Income:					
Income from financing contracts	1,656	1	162	69	1,888
Share of profit from associates, net	18,169	-	-	-	18,169
Dividend Income	119	-	-	-	119
Income from takaful operations	-	-	1,053	4	1,057
Expenses:					
Other operating expenses	-	-	2,701	2,525	5,226
Expense from takaful operations	382	-	196	-	578
Expense attributable to quasi-equity	470	142	432	165	1,209
Allowance for impairment	17	-	-	-	17

	2023				
	<i>Associates and joint ventures</i>	<i>Major shareholders</i>	<i>Directors and related entities</i>	<i>Senior management</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Income:					
Income from financing contracts	1,401	66	123	55	1,645
Share of profit from associates, net	21,043	-	-	-	21,043
Dividend Income	157	-	-	-	157
Income from takaful operations	18	-	1,238	-	1,256
Expenses:					
Other operating expenses	-	-	3,899	-	3,899
Expense from takaful operations	451	-	-	-	451
Expense attributable to quasi-equity	154	299	362	88	903
Allowance for impairment	3,070	-	-	-	3,070

Key management personnel compensation

Board of Directors' remuneration for the year 2024 amounted to BD 1,110 thousand (2023: BD 965 thousand) and sitting fees for the year 2024 amounted to BD 587 thousand (2023: BD 519 thousand).

Sharia Supervisory Boards' remuneration for the year 2024 amounted to BD 55 thousand (2023: BD 55 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 2024 includes salaries and other benefits of BD 7,838 thousand (2023: BD 5,732 thousand).

30 CONTINGENT LIABILITIES AND COMMITMENTS

	<u>2024</u>	<u>2023</u>
	<u>BD '000</u>	<u>BD '000</u>
Contingent liabilities on behalf of customers		
Guarantees	155,363	137,932
Letters of credit	212,977	170,259
Acceptances	1,558	1,648
	<u>369,898</u>	<u>309,839</u>
Unutilised commitments		
Unutilised financing commitments	384,562	313,076
Unutilised non-funded commitments	46,089	37,261
	<u>430,651</u>	<u>350,337</u>

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.

31 WA'AD BASED FX TRANSACTIONS FOR RISK MANAGEMENT

The Group enter 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;

	<u>2024</u>		<u>2023</u>	
	Notional Amount	Fair Value	Notional Amount	Fair Value
	<u>BD '000</u>	<u>BD '000</u>	<u>BD '000</u>	<u>BD '000</u>
FX Wa'ad instruments				
Assets position	49,024	321	42,630	563
Liabilities position	82,281	847	52,515	337

32 FINANCIAL RISK MANAGEMENT**32.1 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.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for setting the overall risk management framework and appetite encompassing the risk strategies and policies.

32 FINANCIAL RISK MANAGEMENT (continued)

32.1 Introduction (continued)

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.

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.

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.

Risk Management Unit

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 and Resolution 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, Market Risk and Compliance Committee OMAC

The Operational, Market Risk and Compliance Committee (OMAC) is responsible for the design, implementation and supervision of the compliance risk framework (excluding credit risk) of the Bank. It reviews risk management policies (excluding Credit Risk policies). It ensures Bank's compliance with applicable regulations with the assistance of relevant stakeholders. It ensures that the Business Continuity Framework is robust and maintained. It reviews the ICAAP, Stress Testing, Resolution and Recovery Plan and Step-in Risk prior to submission to the Board.

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.

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.

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, Market Risk and Compliance Committee OMAC), 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.

32 FINANCIAL RISK MANAGEMENT (continued)**32.1 Introduction (continued)*****Risk measurement and reporting systems (continued)***

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.

32.2 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.

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 gross of provision, before the effect of mitigation through the use of master netting and collateral agreements.

	<i>Gross maximum exposure 2024 BD '000</i>	<i>Gross maximum exposure 2023 BD '000</i>
ASSETS		
Balances with other banks	184,935	126,902
Placements with financial institutions	476,456	293,598
Investment in sukuk	1,447,955	1,003,138
Financing contracts	3,729,781	2,725,483
Financing contracts under other assets	19,273	2,376
Total	5,858,400	4,151,497
Contingent liabilities and commitments	800,549	660,176
Total credit risk exposure	6,658,949	4,811,673

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, 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.

32 FINANCIAL RISK MANAGEMENT (continued)

32.2 Credit risk (continued)

Type of credit risk (continued)

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.

Considering the pre-prevailing market situation, the Group has taken preemptive measures to mitigate credit risk by adopting more cautious approach for credit approvals thereby tightening the criteria for extending credit to impacted sectors.

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.

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 genuinely 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, inflation, domestic credit 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:

32 FINANCIAL RISK MANAGEMENT (continued)

32.2 Credit risk (continued)

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.

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 unlikelihood 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 conditions 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.

32 FINANCIAL RISK MANAGEMENT (continued)**32.2 Credit risk (continued)*****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 period, 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.

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 Oil (Brent) price; General government total expenditure; Domestic credit growth (%); Total investment; Volume of imports of goods and services and General government gross debt as percentage of GDP
Probability weighted outcomes	Probability weights - Base 65, Worst 25, Best 10
Loss Given Default (LGD)	Unsecured LGD is 65% and it is consistent with those used in 2023.

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.

32 FINANCIAL RISK MANAGEMENT (continued)**32.2 Credit risk (continued)**

a) The credit quality of balances with banks and placements with financial institutions subject to credit risk is as follows:

	2024			
	<i>Stage 1: 12-month ECL</i>	<i>Stage 2: Lifetime ECL not credit-impaired</i>	<i>Stage 3: Lifetime ECL credit-impaired</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Good (R1-R4)	578,618	-	-	578,618
Satisfactory (R5-R7)	82,773	-	-	82,773
Allowance for credit losses	(135)	-	-	(135)
	661,256	-	-	661,256

	2023			
	<i>Stage 1: 12-month ECL</i>	<i>Stage 2: Lifetime ECL not credit-impaired</i>	<i>Stage 3: Lifetime ECL credit-impaired</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Good (R1-R4)	327,751	-	-	327,751
Satisfactory (R5-R7)	92,749	-	-	92,749
Allowance for credit losses	(346)	-	-	(346)
	420,154	-	-	420,154

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) Investment in sukuk

	2024			
	<i>Stage 1: 12-month ECL</i>	<i>Stage 2: Lifetime ECL not credit-impaired</i>	<i>Stage 3: Lifetime ECL credit-impaired</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Good (R1-R4)	1,442,128	-	-	1,442,128
Satisfactory (R5-R7)	6,335	-	-	6,335
Allowance for credit losses	(660)	-	-	(660)
	1,447,803	-	-	1,447,803

	2023			
	<i>Stage 1: 12-month ECL</i>	<i>Stage 2: Lifetime ECL not credit-impaired</i>	<i>Stage 3: Lifetime ECL credit-impaired</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Good (R1-R4)	993,286	-	-	993,286
Satisfactory (R5-R7)	10,061	-	-	10,061
Allowance for credit losses	(508)	-	-	(508)
	1,002,839	-	-	1,002,839

32 FINANCIAL RISK MANAGEMENT (continued)**32.2 Credit risk (continued)****ii) Financing contracts**

	2024				
	<i>Stage 1: 12-month ECL</i>	<i>Stage 2: Lifetime ECL not credit-impaired</i>	<i>Stage 3: Lifetime ECL credit-impaired</i>	<i>POCI</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>		<i>BD '000</i>
Good (R1-R4)	2,734,529	34,781	1,375	53	2,770,738
Satisfactory (R5-R7)	650,541	141,387	50,843	22,231	865,002
Default (D8-D10)	-	-	78,608	15,433	94,041
Allowance for credit losses and impairment	(22,590)	(14,947)	(30,574)		(68,111)
	3,362,480	161,221	100,252	37,717	3,661,670

	2023				
	<i>Stage 1: 12-month ECL</i>	<i>Stage 2: Lifetime ECL not credit-impaired</i>	<i>Stage 3: Lifetime ECL credit-impaired</i>	<i>POCI</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>		<i>BD '000</i>
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

As 31 December 2024, profit in suspense amounted to BD 19,709 thousand (2023: BD 8,725 thousand).

iii) Financing other assets

	2024			
	<i>Stage 1: 12-month ECL</i>	<i>Stage 2: Lifetime ECL not credit-impaired</i>	<i>Stage 3: Lifetime ECL credit-impaired</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Good (R1-R4)	331	-	-	331
Satisfactory (R5-R7)	18,928	14	-	18,942
Default (D8-D10)	-	-	-	-
Allowance for credit losses	(17)	(1)	-	(18)
	19,242	13	-	19,255

	2023			
	<i>Stage 1: 12-month ECL</i>	<i>Stage 2: Lifetime ECL not credit-impaired</i>	<i>Stage 3: Lifetime ECL credit-impaired</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
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

32 FINANCIAL RISK MANAGEMENT (continued)**32.2 Credit risk (continued)****iv) Financing commitments and financial guarantee contracts**

	2024			
	<i>Stage 1: 12-month ECL</i>	<i>Stage 2: Lifetime ECL not credit-impaired</i>	<i>Stage 3: Lifetime ECL credit-impaired</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Good (R1-R4)	764,088	59	1	764,148
Satisfactory (R5-R7)	18,849	11,800	1,540	32,189
Default (D8-D10)	-	-	4,212	4,212
Allowance for credit losses	(2,723)	(140)	(676)	(3,539)
	780,214	11,719	5,077	797,010
	2023			
	<i>Stage 1: 12-month ECL</i>	<i>Stage 2: Lifetime ECL not credit-impaired</i>	<i>Stage 3: Lifetime ECL credit-impaired</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
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

The aging analysis of financing contracts:

	2024			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3 / POCI</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Current	3,285,362	109,354	29,426	3,424,142
< 30 days	99,708	23,892	10,723	134,323
30 to 90 Days	-	42,922	34,171	77,093
> 90 days	-	-	94,223	94,223
	3,385,070	176,168	168,543	3,729,781
	2023			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3 / POCI</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Current	2,436,664	65,656	28,155	2,530,475
< 30 days	93,746	8,164	2,611	104,521
30 to 90 Days	-	17,163	12,070	29,233
> 90 days	-	-	61,254	61,254
	2,530,410	90,983	104,090	2,725,483

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 28 except capital commitments.

During the year BD 86,456 thousand (2023: BD 37,772 thousand) of financing facilities were restructured. Most of the restructured facilities are performing and are secured.

32 FINANCIAL RISK MANAGEMENT (continued)**32.2 Credit risk (continued)****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.

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.

<i>Type of credit exposure</i>	<i>collateral held</i>	<i>2024</i>	<i>2023</i>
		<i>BD '000</i>	<i>BD '000</i>
Financing contracts to corporates	Cash, Property, or listed Shares and Sukuk	2,620,860	2,009,902
Financing contracts to retail customers	Cash, Property, or listed Shares and Sukuk	1,941,496	1,383,696

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.

	<i>2024</i>	<i>2023</i>
	<i>BD '000</i>	<i>BD '000</i>
Less than 50%	1,411,372	864,185
51-70%	107,649	134,188
71-90%	156,291	182,617
91-100%	177,343	201,788
More than 100%	1,877,126	1,342,705
	3,729,781	2,725,483

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 Kingdom of Bahrain such as the gross domestic product (GDP) growth, inflation, domestic credit growth and oil prices.

32 FINANCIAL RISK MANAGEMENT (continued)

32.3 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 2024, legal suits amounting to BD 6,552 thousand (2023: BD 1,555 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. as the Group has also filed counter cases against these parties.

32.4 Operational risk management

During the year, the Group has acquired ASB Finance B.S.C. (c) (formerly Kuwait Finance House (Bahrain) B.S.C. (c), refer (note 1 and note 45), The Group has formed a committee to oversee this migration and integration that was completed prior to year end.

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 2024, the Group did not have any significant issues relating to operational risks.

32.5 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 an 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.

33 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.

33 CONCENTRATIONS (continued)

The distribution of assets, liabilities and quasi-equity by geographic region and industry sector was as follows:

	2024			2023		
	<i>Assets</i>	<i>Liabilities and quasi-equity</i>	<i>Contingent liabilities and Commitments</i>	<i>Assets</i>	<i>Liabilities and quasi-equity</i>	<i>Contingent liabilities and Commitments</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Geographic region						
GCC	5,841,013	4,957,448	278,730	4,078,269	3,220,903	271,629
Middle East and North Africa	1,062,514	1,233,654	311,973	930,425	1,161,581	216,105
Europe	30,646	162,213	79,947	35,327	215,535	60,504
Asia	13,548	60,140	-	5,159	68,462	-
America	98,950	194	129,899	79,948	16,567	111,938
Others	16,107	55,748	-	17,982	55,412	-
	7,062,778	6,469,397	800,549	5,147,110	4,738,460	660,176

	2024			2023		
	<i>Assets</i>	<i>Liabilities and quasi-equity</i>	<i>Contingent liabilities and Commitments</i>	<i>Assets</i>	<i>Liabilities and quasi-equity</i>	<i>Contingent liabilities and Commitments</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Industry sector						
Government and public sector	2,078,086	240,595	45,794	1,311,760	278,931	47,338
Banks and financial institutions	778,280	1,655,255	15,851	1,277,887	786,189	40,608
Real estate	301,316	214,166	146,646	273,681	90,793	78,441
Trading and manufacturing	771,663	553,056	494,851	663,974	422,595	397,490
Aviation	1,083	-	-	383	-	-
Individuals	2,270,305	3,170,714	59,026	1,249,470	2,471,106	43,182
Others	862,045	635,611	38,381	369,955	688,846	53,117
	7,062,778	6,469,397	800,549	5,147,110	4,738,460	660,176

34 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.

34 MARKET RISK (continued)**34.1 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 Credit and 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:

	2024			
	<i>10% increase</i>		<i>10% decrease</i>	
	<i>Effect on</i>	<i>Effect on</i>	<i>Effect on</i>	<i>Effect on</i>
	<i>net profit</i>	<i>equity</i>	<i>net profit</i>	<i>equity</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Quoted investment	293	1,158	(293)	(1,158)
	2023			
	<i>10% increase</i>		<i>10% decrease</i>	
	<i>Effect on</i>	<i>Effect on</i>	<i>Effect on</i>	<i>Effect on</i>
	<i>net profit</i>	<i>equity</i>	<i>net profit</i>	<i>equity</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Quoted investment	991	1,113	(991)	(1,113)

34.2 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:

	2024			
	<i>Change in</i>	<i>Effect on net</i>	<i>Change in rate</i>	<i>Effect on net</i>
	<i>rate</i>	<i>profit</i>	<i>%</i>	<i>profit</i>
	<i>%</i>	<i>BD '000</i>	<i>%</i>	<i>BD '000</i>
Bahraini dinars	0.10	13,894	(0.10)	(13,894)
	2023			
	<i>Change in rate</i>	<i>Effect on net</i>	<i>Change in rate</i>	<i>Effect on net</i>
	<i>%</i>	<i>profit</i>	<i>%</i>	<i>profit</i>
	<i>%</i>	<i>BD '000</i>	<i>%</i>	<i>BD '000</i>
Bahraini dinars	0.10	14,714	(0.10)	(14,714)

34 MARKET RISK (continued)**34.3 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 regularly 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 2024 and 2023.

The Group's net exposure for denominated in foreign currencies as at 31 December for its financial instruments are as follows:

	<i>Long (short)</i> 2024 BD '000	<i>Long (short)</i> 2023 BD '000
Sterling Pounds	92	(58)
Japanese Yen	96	3
Euro	726	895
Kuwaiti Dinar	243	11
Others	231	144

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:

	<i>Change in currency rate</i> %	<i>Effect on profit</i> 2024 BD '000	<i>Effect on equity</i> 2024 BD '000	<i>Change in currency rate</i> %	<i>Effect on profit</i> 2023 BD '000	<i>Effect on equity</i> 2023 BD '000
Sterling Pounds	10	9.2	-	10	(5.8)	-
Japanese Yen	10	9.6	-	10	0.3	-
Euro	10	72.6	-	10	89.5	-
Kuwaiti Dinar	10	24.3	-	10	1.1	-
Others	10	23.1	-	10	14.4	-
Total		138.8	-		99.5	-

35 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 2024 is 289.5% and the simple average of the daily consolidated LCRs of the last three months is 363.5%. The NSFR as at 31 December 2024 is 124.4%.

The maturity profile of sukuk, placements with or from financial institutions, financing contracts and murabaha term financings 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.

35 LIQUIDITY RISK (continued)

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 any disruption. Further information on the regulatory liquidity and capital ratios are disclosed in (note 43) to the consolidated financial statements.

	2024				
	<i>Up to</i>	<i>3 months</i>	<i>1 to 5</i>	<i>Over 5</i>	<i>Total</i>
	<i>3 months</i>	<i>to 1 year</i>	<i>years</i>	<i>years</i>	
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
ASSETS					
Cash and balances with banks and central bank	633,611	-	-	-	633,611
Placements with financial institutions	459,484	16,966	-	-	476,450
Investments in sukuk	142,514	186,004	513,408	605,877	1,447,803
Financing contracts	844,719	730,360	565,234	1,521,357	3,661,670
Non-trading investments	-	-	-	97,944	97,944
Takaful and related assets	-	-	26,353	-	26,353
Investments in real estate	-	-	-	129,295	129,295
Investments in associates	-	-	-	255,008	255,008
Other assets	27,869	652	33,271	68,102	129,894
Goodwill and other intangible assets	-	-	-	204,750	204,750
	2,108,197	933,982	1,138,266	2,882,333	7,062,778
LIABILITIES AND QUASI-EQUITY					
Placements from financial institutions & individuals	105,082	59,901	6,033	-	171,016
Customers' current accounts	1,279,886	-	-	-	1,279,886
Murabaha term financings	404,817	143,275	20,452	182,518	751,062
Takaful and related liabilities	-	75,550	-	-	75,550
Other liabilities	37,728	28,155	22,415	39,524	127,822
Quasi-Equity	2,630,242	708,875	127,601	597,343	4,064,061
	4,457,755	1,015,756	176,501	819,385	6,469,397
2023					
	<i>Up to</i>	<i>3 months</i>	<i>1 to 5</i>	<i>Over 5</i>	<i>Total</i>
	<i>3 months</i>	<i>to 1 year</i>	<i>years</i>	<i>years</i>	
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
ASSETS					
Cash and balances with banks and central bank	537,874	-	-	-	537,874
Placements with financial institutions	279,961	13,403	-	216	293,580
Investments in sukuk	118,376	130,455	409,346	344,662	1,002,839
Financing contracts	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
Investments in real estate	-	-	-	78,070	78,070
Investments 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

As at 31 December 2024

35 LIQUIDITY RISK (continued)

	2023				
	<i>Up to 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
LIABILITIES AND QUASI-EQUITY					
Placements from financial institutions	71,258	65,253	-	-	136,511
Customers' current accounts	1,066,031	-	-	-	1,066,031
Murabaha term financings	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
Quasi-equity	1,611,766	874,860	292,732	25,027	2,804,385
	3,166,998	1,200,965	314,590	55,907	4,738,460

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2024 and 2023 based on contractual undiscounted payment obligation:

	2024					
	<i>On demand</i>	<i>Up to 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
LIABILITIES AND QUASI-EQUITY						
Placements from financial institutions	-	105,653	60,377	6,303	-	172,333
Customers' current accounts	1,279,886	-	-	-	-	1,279,886
Murabaha term financings	-	407,629	148,845	21,646	183,795	761,915
Quasi-Equity	1,251,094	1,711,649	742,182	147,152	597,433	4,449,510
Other financial liabilities	28,460	-	-	-	-	28,460
	2,559,440	2,224,931	951,404	175,101	781,228	6,692,104

	2024					
	<i>On demand</i>	<i>Up to 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
COMMITMENTS AND CONTINGENT LIABILITIES						
Contingent liabilities and commitments	-	298,855	366,822	113,423	21,449	800,549
	-	298,855	366,822	113,423	21,449	800,549

35 LIQUIDITY RISK (continued)

	2023					<i>Total</i> <i>BD '000</i>
	<i>On</i>	<i>Up to</i>	<i>3 months</i>	<i>1 to 5</i>	<i>Over 5</i>	
	<i>demand</i>	<i>3 months</i>	<i>to 1 year</i>	<i>years</i>	<i>years</i>	
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
LIABILITIES AND QUASI-EQUITY						
Placements from financial institutions	-	71,772	66,822	-	-	138,594
Customers' current accounts	1,066,031	-	-	-	-	1,066,031
Murabaha term financings	-	379,962	105,536	21,854	5,382	512,734
Quasi-Equity	518,016	1,099,257	902,087	306,314	50,324	2,875,998
Other financial liabilities	18,925	-	-	-	-	18,925
	<u>1,602,972</u>	<u>1,550,991</u>	<u>1,074,445</u>	<u>328,168</u>	<u>55,706</u>	<u>4,612,282</u>

	2023					<i>Total</i> <i>BD '000</i>
	<i>On</i>	<i>Up to</i>	<i>3 months</i>	<i>1 to 5</i>	<i>Over 5</i>	
	<i>demand</i>	<i>3 months</i>	<i>to 1 year</i>	<i>years</i>	<i>years</i>	
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
COMMITMENTS AND CONTINGENT LIABILITIES						
Contingent liabilities and commitments	-	142,951	167,990	322,782	26,453	660,176
	<u>-</u>	<u>142,951</u>	<u>167,990</u>	<u>322,782</u>	<u>26,453</u>	<u>660,176</u>

36 SEGMENT INFORMATION**Primary segment information**

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

Banking

Principally managing Shari'a compliant profit sharing investment accounts, and offering Shari'a compliant financing contracts and other Shari'a-compliant products. This segment comprises corporate banking, retail banking, private banking and wealth management in Kingdom of 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 investment in certain associates and joint ventures.

Takaful

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

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

Segment information is disclosed as follows:

	<i>2024</i>					
	<i>Banking</i>	<i>Treasury</i>	<i>Investments</i>	<i>Takaful</i>	<i>Unallocated</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Income						
Income from financing contracts	230,857	29,375	-	1,578	-	261,810
Income from Investments in sukuk	-	69,508	-	2,060	-	71,568
Finance expense on placements from financial institutions and individuals	(2,672)	(8,367)	-	-	-	(11,039)
Finance expense on murabaha term financing	-	(30,851)	-	-	-	(30,851)
Net finance income	228,185	59,665	-	3,638	-	291,488
Income from non-trading investments, net	(282)	-	(961)	3,676	-	2,433
Fees and commission, net	21,202	5,939	-	-	-	27,141
Share of profit from associates	17,858	-	273	38	-	18,169
Income from Takaful operations, net	-	-	-	5,357	-	5,357
Other income	4,251	2,118	69	566	-	7,004
Total income	271,214	67,722	(619)	13,275	-	351,592
Expenses						
Staff costs	35,078	8,164	1,104	-	-	44,346
Other operating expenses	39,377	9,047	1,670	5,473	-	55,567
Total Expenses	74,455	17,211	2,774	5,473	-	99,913
Profit before allowances for impairment, income attribution to quasi-equity and tax	196,759	50,511	(3,393)	7,802	-	251,679
Allowance for impairment on financing contracts, investments and other assets	(21,244)	31	(17)	57	-	(21,173)
Profit before income attribution to quasi-equity and tax	175,515	50,542	(3,410)	7,859	-	230,506
Income attributable to quasi-equity	(123,245)	(31,271)	-	-	-	(154,516)
Profit before tax	52,270	19,271	(3,410)	7,859	-	75,990
Tax	(6,489)	-	-	-	-	(6,489)
Profit for the year	45,781	19,271	(3,410)	7,859	-	69,501
Segment assets	4,381,587	2,234,185	227,240	128,745	91,021	7,062,778
Segment liabilities, and quasi-equity	4,838,936	1,464,323	679	78,932	86,527	6,469,397

36 SEGMENT INFORMATION (continued)

Goodwill and other intangibles include BD 193,841 thousand (2023: BD 66,970 thousand) allocated from acquisitions during the year and prior years within the banking segment and BD 10,909 thousand (2023: 11,175 thousand) attributable to the Takaful segment.

	2023					Total BD '000
	Banking	Treasury	Investments	Takaful	Unallocated	
	BD '000	BD '000	BD '000	BD '000	BD '000	
Income						
Income from financing contracts	161,474	11,103	-	1,426	-	174,003
Income from Investments in sukuk	-	47,550	-	1,205	-	48,755
Finance expense on placements from financial institutions and individuals	(179)	(8,267)	-	-	-	(8,446)
Finance expense on murabaha term financing	-	(25,517)	-	-	-	(25,517)
Net finance income	161,295	24,869	-	2,631	-	188,795
Income from non-trading investments, net	15,394	(7,923)	(978)	1,208	-	7,701
Fees and commission, net	13,320	3,063	-	-	-	16,383
Share of profit from associates	19,246	-	1,763	34	-	21,043
Income from Takaful operations, net	-	-	-	7,571	-	7,571
Other income	2,269	1,162	(163)	535	-	3,803
Total income	211,524	21,171	622	11,979	-	245,296
Expenses						
Staff costs	25,221	5,615	929	-	-	31,765
Other operating expenses	26,365	4,730	1,203	5,470	-	37,768
Total Expenses	51,586	10,345	2,132	5,470	-	69,533
Profit before allowances for impairment, income attribution to quasi-equity and tax	159,938	10,826	(1,510)	6,509	-	175,763
Allowance for impairment on financing contracts, investments and other assets	(19,914)	(194)	(2,793)	(88)	-	(22,989)
Profit before income attribution to quasi-equity and tax	140,024	10,632	(4,303)	6,421	-	152,774
Income attributable to quasi-equity	(75,245)	(24,842)	-	-	-	(100,087)
Profit before tax	64,779	(14,210)	(4,303)	6,421	-	52,687
Tax	(4,509)	-	-	-	-	(4,509)
Profit for the year	60,270	(14,210)	(4,303)	6,421	-	48,178
Segment assets	3,274,290	1,485,734	181,630	158,944	46,512	5,147,110
Segment liabilities, and quasi-equity	3,387,058	1,184,538	1,315	107,580	57,969	4,738,460

The distribution of assets, liabilities and quasi-equity by geographic segment was as follows:

	2024			2023		
	Assets	Liabilities and Quasi-equity	Contingent liabilities and Commitments	Assets	Liabilities and Quasi-equity	Contingent liabilities and Commitments
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
GCC	5,841,013	4,957,448	278,730	4,043,110	3,220,903	271,629
International	1,221,765	1,511,949	521,819	1,104,000	1,517,557	388,547
Total	7,062,778	6,469,397	800,549	5,147,110	4,738,460	660,176

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.

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 totaling BD 337 thousand (2023: BD 343 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 disbursement.

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.

Sources and application of Charity fund

	2024	2023
	<i>BD '000</i>	<i>BD '000</i>
Opening balance	500	411
Sources of Charity fund		
Non-Shariah compliant income / late payment charges	300	227
Contributions by the Bank for charity	500	700
Total Sources of Charity	1,300	1,338
Uses of charity funds		
Payment to charitable societies	121	461
payments to needy families	27	16
Others	510	361
Total uses of funds during the year	658	838
Closing balance	642	500

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 2024 has been determined by the Shari'a supervisory board as 3.5 fils (2023: 1.2 fils) per share. Under FAS 39, Zakah payable for the year ended 2024 was calculated at 2.577% of the Zakah base of BD 368,580 thousand (2023: BD 118,596 thousand) which was determined on the Net assets method.

As at 31 December 2024

41 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique.

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.

(i) Financial instruments measured at fair value

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

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
31 December 2024				
Sovereign sukuk at FVTOCI	679,521	94,559	-	774,080
Corporate sukuk at FVTOCI	25,001	1,306	-	26,307
Equity securities at FVTIS	2,927	638	75,789	79,354
Equity securities at FVTOCI	11,577	-	7,013	18,590
Investments in real estate	-	-	129,295	129,295
	719,026	96,503	212,097	1,027,626
FX Wa'ad assets position	-	321	-	321
FX Wa'ad liabilities position	-	847	-	847
	-	(526)	-	(526)
31 December 2023				
Sovereign sukuk at fair value through OCI	270,865	69,970	-	340,835
Corporate sukuk at fair value through OCI	23,337	346	-	23,683
Equity securities at fair value through income statement	9,914	319	75,972	86,205
Equity securities at fair value through OCI	11,133	-	2,722	13,855
Investments in real estate	-	-	78,070	78,070
	315,249	70,635	156,764	542,648
FX Wa'ad assets position	-	563	-	563
FX Wa'ad liabilities position	-	337	-	337
	-	226	-	226

(ii) Financial instruments measured at amortised cost

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
31 December 2024				
Sovereign sukuk	553,718	73,581	-	627,299
Corporate sukuk	15,865	-	4,252	20,117
	569,583	73,581	4,252	647,416
Fair value	410,145	276,767	4,252	691,164
31 December 2023				
Sovereign sukuk	540,408	64,275	-	604,683
Corporate sukuk	33,638	-	-	33,638
	574,046	64,275	-	638,321
Fair value	686,102	64,292	-	750,394

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

	2024	2023
	<i>BD '000</i>	<i>BD '000</i>
At 1 January	78,694	85,718
Acquired as part of business combination	3,055	-
Transfers	-	(1,462)
Fair value changes	1,053	(2,410)
Impairment	-	(3,152)
	82,802	78,694

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

Valuation technique used	Key unobservable inputs	Fair value at 31 December 2024	Reasonable possible shift +/- (in average input)	Increase / (decrease) in valuation
		<i>BD'000</i>		
Asset Valuation	Underlying real estate	104,352	+/- 5%	5,217 / (5,217)

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

	2024	2023
	<i>BD '000</i>	<i>BD '000</i>
At 1 January	-	14,313
Reclassified within FVTOCI	-	(14,313)
	-	-

41 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**(iii) Other Financial instruments not measured at fair value**

The estimated fair value of yielding 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 2024 and 31 December 2023 due to their short term nature.

42 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 quasi-equity 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 to the scheme as mandated by the CBB is paid by the Bank under this scheme.

43 REGULATORY RATIOS**(i) Capital Adequacy Ratio**

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.

	<i>As at</i>	
	<i>2024</i>	<i>2023</i>
BD'000		
CET 1 Capital before regulatory adjustments	352,201	337,263
Less: regulatory adjustments	48,628	49,667
CET 1 Capital after regulatory adjustments	303,573	287,596
AT 1 Capital	163,719	3,574
T 2 Capital adjustments	63,425	52,160
Regulatory Capital	530,717	343,330
Risk weighted exposure:		
Credit Risk Weighted Assets	1,962,782	1,548,447
Market Risk Weighted Assets	1,357	1,300
Operational Risk Weighted Assets	174,544	137,610
Total Regulatory Risk Weighted Assets	2,138,683	1,687,357
Total Adjusted Risk Weighted Exposures	2,138,683	1,687,357
Capital Adequacy Ratio	24.8%	20.4%
Common Equity Tier 1 Capital Ratio	14.2%	17.0%
Tier 1 Capital Adequacy Ratio	21.8%	17.3%
Tier 2 Capital Ratio	3.0%	3.1%
Minimum required by CBB	14.0%	12.5%

As of 31 December 2024, aggregate of modification loss of BD 8,256 thousand (2023: BD 16,512 thousand) has been added back to Tier 1 capital.

(ii) 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 2024 and 31 December 2023, is as follows:

	<i>Total weighted value BD'000</i>	
	<i>2024</i>	<i>2023</i>
Stock of HQLA	1,121,664	640,852
Net cashflows	316,329	351,585
LCR %	363.5%	185.0%
Minimum required by CBB	100.0%	100.0%

43 REGULATORY RATIOS (continued)**(iii) Net Stable funding Ratio**

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

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

The NSFR (as a percentage) as at 31 December 2024 is calculated as follows:

Item	BD'000				
	Unweighted Values (before applying relevant factors)				Total weighted value
	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	508,378	-	-	63,425	571,803
Retail deposits and deposits from small business customers:					
Stable deposits	-	571,095	33,455	11,305	585,628
Less stable deposits	-	2,058,395	540,615	219,778	2,558,887
Wholesale funding:					
Other wholesale funding	-	2,421,460	253,136	105,069	756,018
Other liabilities:					
All other liabilities not included in the above categories	-	172,320	-	-	-
Total ASF	508,378	5,223,270	827,206	399,577	4,472,336
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	54,201
Performing financing and sukuk/ securities:					
Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	648,620	210	3,783	101,181
Performing financing to non-financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	1,341,203	444,796	1,249,265	1,934,973
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio guidelines	-	-	-	99,508	64,680
Performing residential mortgages, of which:	-	-	-	497,045	323,079
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	497,045	323,079
Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	19,557	867	-	10,212
Other assets:					
All other assets not included in the above categories	1,108,102	26,366	3,970	101,667	1,131,103
OBS items	-	799,874	-	-	39,994
Total RSF	1,108,102	2,835,620	449,843	1,851,760	3,594,743
NSFR (%)	-	-	-	-	124.4%

Al Salam Bank B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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43 REGULATORY RATIOS (continued)

(iii) Net Stable funding Ratio (continued)

The NSFR (as a percentage) as at 31 December 2023 is calculated as follows:

Item	<i>BD'000</i>	<i>Unweighted Values (before applying relevant factors)</i>				<i>Total weighted value</i>
		<i>No specified maturity</i>	<i>Less than 6 months</i>	<i>More than 6 months and less than one year</i>	<i>Over one year</i>	
<u>Available Stable Funding (ASF):</u>						
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	
<u>Required Stable Funding (RSF):</u>						
Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	38,622	
Performing financing and sukuk/ securities:						
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% under the CBB 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%	

44 GLOBAL MINIMUM TAX

The OECD Global Anti-Base Erosion Pillar Two Model Rules ('GloBE rules') apply to multinational enterprise (MNE) groups with total annual consolidated revenue exceeding EUR 750 million in at least two of the four preceding fiscal years.

In line with the requirements of GloBE rules, the Kingdom of Bahrain has issued and enacted Decree Law No. (11) of 2024 ('Bahrain DMTT law') on 1 September 2024 introducing a domestic minimum top-up tax ('DMTT') of up to 15% on the taxable income of the Bahrain resident entities of the Group for fiscal years commencing on or after 1 January 2025.

Al Salam Bank, the Ultimate Parent Entity of the Group is domiciled and operates in the Kingdom of Bahrain and has assessed that it is in scope of the Bahrain DMTT law effective 1 January 2025.

However, since the newly enacted regulations are only effective from fiscal years commencing on or after 1 January 2025, there is no current tax impact for the year ended 31 December 2024.

The Group has applied a temporary mandatory relief from deferred tax accounting for the impact of the top-up tax and accounts for it as a current tax when it is incurred.

The Group is currently preparing for compliance with the Bahrain DMTT law and GloBE rules by upgrading reporting systems, evaluating transfer pricing adjustments and aligning with domestic and international DMTT regulations. As at the reporting date, the Group is assessing the quantitative impact of the Bahrain DMTT law and GloBE rules and applicability of any exclusions.

45 ACQUISITION OF SUBSIDIARY**i) Acquisition of Kuwait Finance House (Bahrain) BSC closed**

On 1 April 2024, the Bank acquired 100% shareholding in ASB Finance B.S.C. (c) formerly Kuwait Finance House (Bahrain) B.S.C. (c), a Retail Islamic Bank incorporated in the Kingdom of Bahrain, which was fully owned subsidiary of Kuwait Finance House K.S.C.P. ('KFH Group') an Islamic retail bank listed on Kuwait stock exchange, after obtaining the requisite regulatory approvals. The Group has consolidated the results and financial position of KFH Bahrain from 1 April 2024.

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

a) Total consideration

Total cash consideration paid is BD 214,488 thousand.

b) Fair value of identifiable assets acquired and liabilities assumed**ASSETS ACQUIRED**

	<i>BD '000</i>
Cash and balances with banks and central banks	77,967
Placements with financial institutions	48,583
Financing contracts	977,930
Investments in non-trading assets	12,887
Investments in sukuk	227,269
Investments in real estate	47,090
Identified Intangible assets	15,000
Other assets	15,190
Total assets acquired (A)	1,421,916

LIABILITIES ASSUMED

	<i>BD '000</i>
Customers' current accounts	119,759
Placements from financial institutions and individuals	23,019
Other liabilities	31,348
Total liabilities	174,126
Quasi-equity	1,148,340
Total liabilities and Quasi-equity (B)	1,322,466

Total fair value of identifiable net assets acquired (C = A-B)	99,450
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c) Goodwill

	<i>BD '000</i>
Consideration paid	214,488
Fair value of identifiable net assets acquired	(99,450)
Goodwill	115,038

45 ACQUISITION OF SUBSIDIARY (continued)

i) Acquisition of Kuwait Finance House (Bahrain) BSC closed (continued)

In the nine months ended 31 December 2024, ASB Finance B.S.C. (c) (formerly Kuwait Finance House (Bahrain) B.S.C. (c) contributed revenue of BD 64,733 thousand and profit of BD 4,527 thousand net of provisional acquisition adjustments to the Group's results. If the acquisition had occurred on 1 January 2024, management estimates that consolidated revenue would have been BD 373,398 thousand. It is impracticable to determine the profit or loss of the combined entity for the current reporting period assuming the acquisition had occurred on 1 January 2024, due to the impact of acquisition accounting adjustments.

ii) Acquisition of Bahrain National Insurance Company BSC Closed ("BNI") and Bahrain National Life Assurance Company BSC

Subsequent to the year end, Solidarity Bahrain, a subsidiary of the Group that engages in Takaful business, listed on Bahrain Bourse has entered into a sale and purchase agreement with Bahrain National Holding Company BSC, a Company incorporated in the kingdom of Bahrain and listed on Bahrain Bourse for the purchase of 100% of the issued share capital of its two subsidiaries, BNI and BNL for a total consideration of BD 75 mn. The transaction is in progress and is subject to certain conditions precedent and regulatory and shareholder approvals.

46 COMPARATIVE FIGURES

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