ANNUAL FINANCIAL AND SUSTAINABILITY **REPORT 2023**

Foundations for **Growth**

Bahrain Islamic Bank B.S.C.
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Licensed as an Islamic Retail Bank by the Central Bank of Bahrain

His Highness
Shaikh Isa bin Salman
Al Khalifa

Late Amir

His Majesty
King Hamad bin Isa
Al Khalifa

The King of the
Kingdom of Bahrain

His Royal Highness
Prince Salman bin Hamad
Al Khalifa

The Crown Prince,
Deputy Supreme Commander
and Prime Minister

Empowering dreams through innovative and simplified financial solutions.

VERING

AMS

About the Report

The Bahrain Islamic Bank (BisB) Annual Financial and Sustainability Report *(The Report or This Report)* for the year 2023 highlights the Bank's financial performance and sustainability development.

In line with BisB's commitment to transparent Environmental, Social and Governance (ESG) reporting, the Bank conducted a comprehensive review of its ESG progress in 2023 to help the key stakeholders and investors to make informed decisions. To get a complete overview of BisB's performance metrics, we recommend viewing our ESG report along with our consolidated financial statements, risk and capital management disclosure, corporate governance review report, and remuneration disclosure.

2023 REPORTING SCOPE AND ORGANISATIONAL PARAMETERS

2023 was an important year for BisB. We continued to invest in new technologies to enhance our digital products and operational capabilities. Furthermore, our bank-wide approach is focused on delivering improved customer experience while ensuring ESG progress.

Reporting Boundary

The financial and sustainability information provided in this Report corresponds to the fiscal year 2023 (1st January 2023 till 31st December 2023), unless otherwise stated.

The Bank has eight branches, all operating in the Kingdom of Bahrain. Therefore, the Report's boundary is BisB's banking operation in Bahrain.

The consolidated financial statements include the results of the Bank and its wholly owned subsidiaries (together the Group). The Bank holds 100% of the share capital of Abaad Real Estate W.L.L.

National Bank of Bahrain (NBB) owns 78.81 of shares. Hence, NBB is considered as Parent of the Bank for financial reporting purposes.

Reporting Frameworks

The Report has been prepared in accordance with internationally recognised reporting standards and frameworks in order to ensure complete accountability and transparency.
This includes:

- Adhering to the International Integrated Reporting Framework (IIRF), now part of the IFRS Foundation. The framework requires complete disclosure of financial and non-financial performance to provide a holistic overview of a company's long and short-term goals and value creation.
- The consolidated financial statements have been prepared in accordance with Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI) and applicable rules and regulations issued by the Central Bank of Bahrain (CBB).
- Ensuring the sustainability content of the Report is in accordance with the Global Reporting Initiative (GRI).
- Following the 29 ESG metrics outlined by the Bahrain's National Stock Exchange (Bahrain Bourse), wherever possible. These metrics are

“Through this Report, we aim to provide our stakeholders with insights into the financial value created by BisB, and highlight ESG targets achieved through various industry-lead initiatives and business practices.

aligned with the Sustainable Stock Exchanges (SSE) initiative.

- Adhering to the UN Sustainable Development Goals (SDG) that were developed to achieve environmental sustainability by world economies by 2030.
- Aligning BisB’s ESG initiatives with the Bahrain Economic Vision 2030.

Relevant sections of the Report clearly outline the framework and international reporting standards they adhere to. Further details are included in the GRI Appendix at the end of the Report.

Financial Data Accuracy

Fair presentation in all material aspects underpins BisB’s financial reporting. To that end, the consolidated financial statements of BisB were audited by KPMG Fakhro, an internationally recognised audit firm. Additionally, BisB’s board of directors has approved these consolidated financial statements.

Reporting Integrity

The Board of Directors ensures the integrity of this Report and confirms that the disclosed information is fairly presented, in all material aspects, and is in accordance with the International Integrated Reporting Framework, the Financial Accounting Standards issued by AAOIFI as well as the GRI Standards.

External Assurance

As part of our commitment to transparency and accuracy, we have engaged Centre for Sustainability & Excellence, an international provider of sustainability, ESG and CSR advisory and training solutions to conduct a limited assurance on a select number of ESG KPIs. The independent assurance statements and reports for the sustainability-related figures have been included as part of the report.

Disclaimer: Forward-Looking Statements

Forward-looking statements involve uncertainty given the many external factors that could have an impact on the environment in which the Bank is operating. BisB bears no obligation to publicly update or revise any/all forward-looking statements included in the report unless required by applicable laws and regulations.

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Bank Profile

WHO WE ARE

Bahrain's Leader in Digital Islamic Financial Services.

BisB has been serving the community of the Kingdom of Bahrain since its establishment in 1979. BisB operates under an Islamic Retail Banking license authorised by the Central Bank of Bahrain (CBB) and is listed in the Bahrain Bourse. As Bahrain's first Islamic bank, and the GCC's fourth Islamic banking entity, BisB continues to play a leading role in developing the local and global Islamic banking industry as well as the Kingdom's economy.

Our success is built on robust and enduring client relationships, attributable to our customer centric approach complimented by innovative solutioning strategies.

This is supported by our dedication to maintaining robust corporate governance, significant risk management expertise, commitment to safeguarding customer assets, and investment in talent development. A customer-first approach is central to how we do business, and we strive to improve the banking experience at every touch point through improved business practices and technological innovation. By providing superior, safe and trusting financial services across the board that enables economic growth and progress, BisB has cemented its position as a trusted and innovative Shari'a-compliant Bank establishing the next era of global banking.

A Pioneer in Islamic Banking

Islamic principles guide BisB's banking approach and diverse portfolio of integrated financial solutions. To improve our services and stay at the forefront of the banking industry, we continually evolve through the continuous incorporation of innovative strategies and global best practices in line with Shari'a principles. Embracing this agile yet thoughtful approach to banking allows us to stay ahead of changes in local financial markets while maintaining our competitive edge. Our approach enables us to understand and better serve our clients, whilst anticipating their financial needs, and

What is our
purpose?

What is our
promise?

What are our guiding
principles?

avoiding excessive risks.
Our vision is to empower dreams through innovative and simplified financial solutions. This vision shapes the way we manage our business through strong customer relationships, innovation, streamlined operational methodologies, employee engagement and open communication with all stakeholders to add value and build stronger financial ecosystems.

BisB's DNA

BisB is proud to play a pivotal role in the development of the Islamic Banking industry in the Kingdom of Bahrain. Since 1979, we have been continuously innovating and embracing the latest technologies, allowing the Bank to provide our customers with a modernised and reimagined user experience, adding value to Bahrain's economy and infrastructure by facilitating greater business and commercial growth.

Today, the Bank's mission is to be the bank of choice by converting customer needs into fit-to-market solutions and engaging experiences. Our goal is to attain this mission through the delivery of simplified customer experiences characterised by personalised service, where we actively seek to comprehend and address the distinct needs of each customer. Our pledge to our customers is to strive to provide solutions with remarkable speed, ensuring swift and efficient outcomes that surpass expectations.

Guided by our Islamic principles, we continuously strive to enhance our products and service offerings by removing barriers and simplifying banking. These principles guide every aspect of the Bank's operations in a sustainable manner ranging from customer services to our stakeholder interactions. Our steadfast pursuit of excellence, and trust in our values has enabled us to have a positive impact on the communities we look to serve.

Bank Profile
(Continued)

Vision

Empowering dreams through innovative and simplified financial solutions.

Mission

To be the bank of choice by converting customer needs into fit-to-market solutions and engaging experiences.

BisB was founded in 1979 as the first Islamic bank in the Kingdom of Bahrain

Bank Profile
(Continued)

Brand Promise

Fueled by Bahraini devotion, we craft new ways of Simplifying Your Money Matters

Bank Profile
(Continued)

Culture Principles

Embracing responsibility

We place a high emphasis on accountability and reliability across every facet of our business assuming full ownership of our commitments to ensure our customers can place their trust in us with confidence. By being dependable, trustworthy, and adhering to Shari'a principles, we secure a powerful trust foundation with our customers, fostering a sense of value and care.

Creating opportunities

We are committed to empowering our customers for growth and success, and are actively pursuing avenues for improvement, innovation, and advancement while aiming to provide them with opportunities that foster progress. Through customised solutions, guidance, and resources, we strive to create opportunities for growth, learning, and ultimate success.

Bank Profile
(Continued)

Crafting experiences

We recognise the individuality of each customer therefore our goal is to craft personalised experiences and services that align with their distinct needs, preferences, and aspirations. Making our customers feel exceptional necessitates moving beyond a one-size-fits-all approach.

Solving problems

We are dedicated to maintaining accessibility, responsiveness, and proactivity in addressing our customers' challenges. Our goal is to offer timely solutions that surpass their expectations through continuous improvement. We prioritise accessibility and guarantee that customers can reach us whenever assistance is required.

Financial Highlights

(Continued)

Net Profit
(BD Millions)

BD 11.6 m

2023	**11.6**
2022	12.6
2021	6.1
2020	(12.6)
2019	6.2

Other Income
(BD Millions)

BD 10.8 m

2023	**10.8**
2022	7.1
2021	5.7
2020	4.6
2019	7.6

Earning Assets
(BD Millions)

BD 1,233.8 m

2023	**1,233.8**
2022	1,218.3
2021	1,207.4
2020	1,083.6
2019	1,044.6

Earnings per Share
(Fils)

8.8 fils

2023	**8.8**
2022	10.1
2021	5.8
2020	(11.9)
2019	5.9

Total Islamic Financing
(BD Millions)

BD 924.3 m

2023	**924.3**
2022	910.0
2021	866.8
2020	783.6
2019	779.3

Owners' Equity
(BD Millions)

BD 144.6 m

2023	**144.6**
2022	135.8
2021	125.8
2020	96.9
2019	120.9

FINANCIAL HIGHLIGHTS

Financial Highlights
(Continued)

5 Years Financial Summary

	2023	2022	2021	2020	2019
Earnings (BD Million)					
Net profit income	34.5	43.2	42.2	34.4	34.7
Other income	10.8	7.1	5.7	4.6	7.6
Total income	45.3	50.3	47.9	39.0	42.3
Total expenses	27.6	26.3	22.6	23.4	25.1
Operating Profit	18	24.0	25.3	15.6	17.2
Net profit / (loss)	11.1	12.6	6.1	(12.6)	6.2
Financial position (BD million)					
Total assets	1,358.1	1,361.8	1,324.5	1,211.6	1,223.6
Total Islamic financing	924.3	910.0	866.8	783.6	779.3
Investment securities	278.2	259.0	274.6	276.6	246.2
Earning assets	1,233.8	1,218.3	1,207.4	1,083.6	1,044.6
Total deposits	1,188.8	1,189.4	1,168.7	1,091.9	1,081.1
Owner's equity	144.6	135.8	125.8	96.0	120.9
Ratios					
Earnings					
Return on average equity (%)	7.9	9.6	5.5	(11.6)	5.2
Return on average assets (%)	0.8	0.9	0.5	(1.0)	0.5
Earnings per share (fils)	8.8	10.1	5.8	(11.9)	5.9
Cost-to-income ratio (%)	60.8	52.3	47.1	60.0	59.3
Capital					
Owners' equity as % of total assets (%)	10.6	10.0	9.5	7.9	9.9
Total liabilities and URIA to owners' equite (times)	8.4	9.0	9.5	11.6	9.1
Capital adequacy ratio (%)	16.9	19.5	19.1	16.0	14.9

ESG Highlights

Solid Female Employee Rate
35.4%

Nationalisation Rate of
95%

Total Training Hours increased by
3.6%

86%
Total Procurement Spending was on Local Suppliers

648
Hours of Training on Sustainability Awareness Sessions

Introduction of an ESG Due Diligence Risk Assessment Toolkit

ESG Highlights
(Continued)

ISO 45001:2018

Certification Occupation Health and Safety (OH&S)

ISO 27001:2022

Certification Information Security Management System (ISMS)

ISO 14001:2015

Certification of Environment Management System (EMS)

ISO 27701:2019

Certification Privacy Information Management System (PIMS)

ISO 22301:2019

Certification in Business Continuity Management System (BCMS)

Board of Directors Report

Board of Directors Report
(Continued)

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As we enter 2024, the Bank is poised for continued growth, measured by its financial and ESG metrics. **Importantly, the Bank is consistently focused on improving its competitiveness and ensuring it generates sustainable value for all stakeholders.**

Profit income

BD

67.3 million

for the year ended 31 December 2023,

In the name of Allah, the Most Beneficent. Prayers and Peace be upon the last Apostle and Messenger, His Comrades and Relatives.

On behalf of the Board of Directors of Bahrain Islamic Bank (BisB), I am pleased to present the Annual Financial and Sustainability Report and Consolidated Financial Statements for the year 2023.

The focus of the 2023 Annual Financial and Sustainability Report is on laying the ‘foundations for growth’ as we completed the three-year strategy that began in 2020 and look forward to our new vision for 2024 to 2026.

During the past year we welcomed experienced leadership talent into the Bank’s executive team and further integrated our support functions with the National Bank of Bahrain (NBB Group). This ensured that we are in the best possible position to capture synergy benefits from being part of the NBB Group, while also maintaining our distinct identity and customer propositions as BisB.

During the year, our operating environment continued to present economic, geopolitical, and monetary policy challenges. As COVID-19 support measures unwound, and as external events such as the wars in Ukraine and Gaza disrupted trade, the Bank increased its vigilance and engagement with customers facing potential difficulties. This engagement both reinforced BisB’s commitment to our customers as their trusted financial advisor and provided the Bank with valuable credit risk intelligence.

Profit rate benchmarks remained elevated through 2023, increasing the cost of funds and putting downward pressure on margins. Action was taken to absorb these rate increases and to transition the Bank’s exposures, particularly in the corporate business, from fixed to floating rates. The Bank also entered profit rate swaps to hedge a significant proportion of its Sukuk holdings. The swapped returns also helped generate higher portfolio returns and protect portfolio margins.

As we enter 2024, the Bank is poised for continued growth, measured by its financial and by its Environmental, Social, and Governance (ESG) metrics. Importantly, the Bank is consistently focused on improving its competitiveness and ensuring it generates

Board of Directors Report
(Continued)

sustainable value for all stakeholders.

Performance

The Bank's performance through this year has been one of resilience and underlying strength with a steady financial position evidenced by constant total assets, and marginal growth in Islamic financing compared to the previous year, underlining the strong financial resilience of the Bank and its solid balance sheet.

Given the headwinds of rates, inflation and geopolitical uncertainty, BisB has produced resilient results in 2023, driven by targeted growth in retail banking, improved portfolio balancing, and lower provisions for impairments. Despite the significant increase in cost of funds, the Bank managed to report a profit income of BD 67.3 million for the year ended 31 December 2023, an 8% increase compared to last year, and a net profit of BD 11.1 million, a decline of 11% compared to 2022, yet a commendable result given the challenging macro environment.

Looking Ahead

2024 will present its own challenges and opportunities, but we remain optimistic that BisB is able to navigate the path to success. We remain committed to ensuring we maintain a prudent approach to financing while executing the Bank's strategy.

In 2024, BisB will enter a new strategy cycle that we have called 'Riyadah'. This strategy focuses on driving core profitability, improving asset portfolio quality, diversifying revenues, and enhancing productivity, while achieving long-term sustainable differentiation through long-term capability building.

The Riyadah Strategy is built on four pillars:

- Improve our speed, accuracy and productivity in delivering our services to our customers.
- Provide a personalised and simplified customer experience to our customers.
- Offer relevant innovative solutions that address the changing needs and expectations of our customers.
- Ensure that our solutions are safe, sustainable and reliable for our customers and our stakeholders.

In Retail banking we intend to serve more Bahrainis and professional expats, entrepreneurs, families, affluent GCC citizens and retirees through branch sales, digital, Al Thuraya, call centre and self-service across the asset and liability spectrum.

In Corporate banking, we aim to increase our participation in GCC syndications, to enhance our solutions offering for SMEs, and drive balance sheet growth through selective lending to commercials and mid-sized corporates, Government Related Entities and Sovereigns.
In Treasury, we will capitalise on Group opportunities to structure Islamic sales products including FX swaps, structured deposits, and wrappers.

Internally, we aim to boost productivity, optimise our balance sheet, increase customer loyalty, grow fee income, and cement our position as the leading voice in Islamic finance. We will share more on this strategy with our shareholders in due course.

Acknowledgements

On behalf of our shareholders, the Board of Directors convey their sincere gratitude and appreciation to His Majesty King Hamad bin Isa Al Khalifa, the King of the Kingdom of Bahrain, and to His Royal Highness Prince Salman bin Hamad Al Khalifa, the Crown Prince and Prime Minister for their wise leadership and continuous support for the Islamic banking sector.

The Directors further express their appreciation to all Government ministries and authorities, in particular the Central Bank of Bahrain and the Ministry of Industry and Commerce, for their guidance and support. In particular, the directors would like to bid farewell to His Excellency Rasheed Al Maraj, who retired as Governor of the Central Bank after 18 years of dedicated service. We are grateful for his visionary leadership and his unwavering support for the development of the Islamic banking sector in Bahrain. Moreover, the directors would like to congratulate His Excellency Khalid Ibrahim Humaidan on his appointment as the new Governor of the Central Bank, wishing him every success for the future.

Finally, we are thankful for the guidance and counsel we have received from the Bank's Shari'a Supervisory Board throughout the year. Finally, we would also like to thank our shareholders, employees, customers and management for their commitment and loyalty to BisB.

As part of the Bank's obligation to maintain utmost transparency with our valued shareholders, we are pleased to attach the table below that shows the remuneration of members of the Board of Directors and the Executive Management for the fiscal year ending 31st December 2023.

Board of Directors Report
(Continued)

First: Board of directors' remuneration details:

Name	Fixed remunerations						Variable						
	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	End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
First: Independent Directors:													
1- Khalid Abdulaziz Al Jassim	26,095	27,000	-	900	53,995	-	-	-	-	-	-	53,995	-
2- Marwan Khaled Tabbara	26,095	24,000	-	1,071	51,166	-	-	-	-	-	-	51,166	-
3- Mohamed Abdulla Nooruddin	26,095	24,000	-	717	50,812	-	-	-	-	-	-	50,812	-
4- Saqer AbdulMohsen Al Sejari	26,095	25,385	-	3,076	54,556	-	-	-	-	-	-	54,556	-
Second: Non-Executive Directors:													
1- Dr. Esam Abdulla Fakhro	39,143	12,000		673	51,816	-	-	-	-	-	-	51,816	-
2- Khalid Yousif Abdul Rahman	26,095	14,000		587	40,682	-	-	-	-	-	-	40,682	-
Third: Executive Directors:													
1- Usman Ahmed	26,095**	16,000	-	717	42,812	-	-	-	-	-	-	42,812	-
2- Gaby Al Hakim	26,095**	14,000	-	-	40,095	-	-	-	-	-	-	40,095	-
3- Rana AbdulAziz Qambar *Elected on 22nd May 2023	16,963**	6,000	-	-	22,963	-	-	-	-	-	-	22,963	-
4- Dana Abdulla Buheji *End of Membership on 10th May 2023	9,134**	4,000	-	-	13,134	-	-	-	-	-	-	13,134	-
5- Isa Hasan Maseeh	26,095**	24,000	-	587	50,682	-	-	-	-	-	-	50,682	-
Total	**274,000**	**190,385**	**-**	**8,328**	**472,713**	**-**	**-**	**-**	**-**	**-**	**-**	**472,713**	**-**

Note: All amounts stated in Bahraini Dinars.
*Subject to AGM and regulatory approval.
**Remuneration is paid to the entity (shareholder) represented by these board members.
Other remunerations:
*** It includes in-kind benefits – specific amount – remuneration for technical, administrative and advisory works (if any).
**** It includes the board member's share of the profits - Granted shares (insert the value) (if any).

Second: Executive management remuneration details:

Executive management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/ in kind remuneration for 2023	Aggregate Amount
Top 6 remunerations for executives, including CEO* and Senior Financial Officer**	1,053,685	389,336	-	1,443,021

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), This includes the outgoing and incoming CEOs.
** The company's highest financial officer (CFO, Finance Director, ...etc.)

Dr. Esam Abdulla Fakhro / Chairman

Board of Directors

Dr. Esam Abdulla Fakhro
Board Chairman - Non-Executive Director
Chairperson - Nomination, Remuneration, Governance & Sustainability Committee (NRGSC)

Dr. Esam Abdullah Fakhro is a holder of a PhD Degree in Mechanical Engineering from London University. He was awarded the Bahrain Medal – FirstClass. He is also a former member of the Supreme Council for Education Development and AMA International University. Dr. Fakhro was a former member of the Economic Development Board.

Previously, he chaired the Aluminium Bahrain Co. (ALBA), in addition to chairing the Bahrain Chamber of Commerce & Industry, and the Federation of GCC Chambers. Dr. Fakhro was a former member of Mumtalakat.

Currently, he chairs Abdullah Yousif Fakhro & Sons Group in the field of transport and electronics, as well as foods and financial services. Dr. Fakhro is also the Chairman of the Board of Directors of Bahrain Islamic Bank, the Bahrain Cinema Company, and Vox Cineco. In addition, he assumes the post of the Deputy Chairman of the Board of Directors of the NBB and the Qatar-Bahrain Cinema Company.

He is also a member of the Board of Directors of Trafco and Bahrain Livestock Company.

Mr. Khalid Yousif Abdul Rahman
Vice Chairman - Non-Executive Director
Vice Chairperson - Executive Committee

Mr. Khalid Yousif Abdul Rahman is Vice Chairman and Chief Executive Officer of Yousif Abdul Rahman Engineer Holding Company W.L.L. He is also Chairman of the Food Supply Company Limited, Vice Chairman of the National Establishment of Technical and Trade Services, Vice Chairman of the National Transport Company, and Vice Chairman of Awal Dairy Company.

He gained his BSc. Mechanical Engineering from Plymouth Polytechnic University, UK, and is a registered member of the Bahrain Society of Engineers as well as the Committee for Organising Engineering Professional Practice (COEPP) Mechanical Engineering Cat. B. Mr. Abdul Rahman has over 46 years of professional experience.

EMBRACING RESPONSIBILITY

Embracing resp

Board of Directors
(Continued)

Mr. Usman Ahmed
Vice Chairman, - Executive Director
Chairperson - Executive Committee,
Member - Nomination, Remuneration, Governance & Sustainability Committee (NRGSC)

Mr. Usman Ahmed is the Group CEO of the National Bank of Bahrain ('NBB') and is also concurrently the Vice Chairman of Bahrain Islamic Bank.

Mr. Ahmed has over 28 years of diverse international banking experience in emerging markets across the EMEA and Asia Pacific regions, of which for the last 15 years he has held various senior leadership roles as Group CEO, Managing Director, Board Member and Executive Chairman covering Corporate & Investment Banking, Capital Markets, Commercial, Consumer and Islamic Banking in Bahrain, Hong Kong, London, Malaysia, Pakistan, Philippines and the UAE.

Prior to joining NBB, Mr. Ahmed was the CEO and an Executive Board Director of Citi Malaysia, and the Executive Chairman of Citigroup Global Markets Malaysia. He has also been the CEO and Managing Director of Citi Bahrain, Kuwait & Qatar, while concurrently being the Global Head of Citi Islamic Banking, based in Bahrain.

As the Chief Operating Officer & Managing Director for Citi's Asia Pacific Corporate Bank in Hong Kong and the Corporate and Investment Banking Head for Citi in Philippines, Mr. Ahmed was extensively involved in leading strategy and client coverage in Asia after the global financial crisis. While at Barclays Bank Plc. Mr. Ahmed was Managing Director and Head of Corporate & Commercial Banking for Emerging Markets, based in Dubai and responsible for 14 countries in the MENA, Sub-Saharan Africa and South Asia regions. As part of his Capital Markets Origination responsibility in the Citi London EMEA team, he has executed some of the largest and most innovative conventional and Islamic financing transactions for the Middle East region.

Mr. Ahmed is also currently serving on the Boards of the GCC Board of Directors Institute, the Bahrain Association of Banks and Injaz Bahrain.of Banks and Injaz Bahrain.

Mr. Mohamed Abdulla Nooruddin
Board Member - Independent Member
Vice Chairperson - Nomination, Remuneration, Governance & Sustainability Committee (NRGSC)
Vice Chairperson - Board Risk & Compliance Committee (BRCC), Chairperson - Board Independent Committee (BIC)

Mr. Mohamed Abdulla Nooruddin is the Chairman of Newbury Investments W.L.L., a private entity firm established in the Kingdom of Bahrain that provides financial and investment advisory services, in addition to being a Board member of Arcapita Capital Company - KSA. He was also a Board member at Al Baraka Bank Egypt and Tadhamon Capital.

He is also an ex-board member of Ibdar Bank. In the past, Mr. Nooruddin has held several executive positions at Arcapita Bank, First Islamic Investment Bank, Bahrain International Bank and Gulf International Bank. He holds a BSc in Business Administration from the University of Bahrain.

Board of Directors
(Continued)

Mr. Khalid Abdulaziz Al Jassim
Board Member - Independent Member
Chairperson - Audit Committee (AC)
Member- Board Risk & Compliance Committee (BRCC), Vice Chairperson - Board Independent Committee (BIC)

Mr. Khalid Abdulaziz Al Jassim is the Chairman and the Managing Director of Afkar Vision WLL, which specialises in investments and financial advisory.

Prior to that and for more than fifteen years, he was an Executive Director at Arcapita Bank. Mr. Al Jassim started his career as marketing director at NACIC for specialty chemicals, a subsidiary of SABIC, KSA.

Mr. Al Jassim has also worked for Arthur Anderson as a senior business consultant. He currently serves as a Board Member at SICO Bank serving as Chairman of the Nomination, Remuneration and Governance Committee. Moreover, he has been nominated to be on the Board of SICO Capital in Saudi Arabia. He holds a BSC in Computer Science & Mathematics from California State University, Long Beach, USA as well as an Executive MBA from Pepperdine University in California, USA.

Mr. Marwan Khaled Tabbara
Board Member - Independent Member
Chairperson - Board Risk & Compliance Committee (BRCC)
Member - Nomination, Remuneration, Governance & Sustainability Committee (NRGSC)
Member - Board Independent Committee (BIC)

Mr. Tabbara is a co-founder and Managing Partner of Stratum, a boutique advisory services firm based in the Kingdom of Bahrain and has over 25 years of experience in strategic, financial, and transaction advisory. Prior to Stratum, Mr. Tabbara worked in the Global Corporate & Investment Banking division of Citigroup in New York, London, and Bahrain, and supported large private and public sector clients on financing transactions within the Middle East and internationally.

He currently also serves as Vice Chairman of the Board of Directors of the American University of Bahrain (AUBH) and as Board Member of the American School of Bahrain (ASB). He has also previously served as the Chairman of the Board of Directors of Bahrain Flour Mills Company BSC (publicly listed and majority owned by Mumtalakat, the sovereign wealth fund of the Kingdom of Bahrain), Vice Chairman of the Board of Directors of Bahrain Bourse BSC (c) (Bahrain's National Stock Exchange) and as Board Member of Bahrain Development Bank BSC (c).

Mr. Tabbara holds a Master of Engineering Management and a Bachelor of Science in Electrical Engineering and Economics from Duke University, USA.

CREATING OPPORTUNITIES

Board of Directors
(Continued)

Mr. Saqer Abdulmohsin Al Sijari
Board Member – Independent Member
Vice Chairperson - Audit Committee (AC)
Member - Board Independent Committee (BIC)

Mr. Saqer Al Sijeri has gained over 30 years of vast experience and expertise across the public and private sector, where he assumed several key administrative roles.

His career began in the private sector in 1992 as an Operations Officer at the Public Warehousing Company and then as Head of the Operations Management Unit in 1998. Mr. Saqer then shifted to the public sector at the Kuwait Awqaf Public Foundation as a Senior Transaction Coordinator in 1999, moving onto Deputy of Administrative Affairs in 2001 and Director of Administrative Affairs in 2003. Following an Amiri decree, he was appointed as the Deputy Secretary-General for Administration & Support services at the Kuwait Awqaf Public Foundation from 2017 to 2022.

An Amiri decree was also issued appointing him as Secretary-General for the Kuwait Awqaf Public Foundation at the level of Undersecretary in 2022. He resigned from his post as Secretary-General of the General Secretariat of the Waqfs at the beginning of 2023

Mr. Saqer holds a Bachelor of Mathematics from the College of Basic Education in Kuwait. In addition, he chairs the Board of Directors at the National Takaful Insurance Company in Kuwait.

Mr. Isa Hasan Maseeh
Board Member - Executive Director
Member - Audit Committee (AC)
Member - Board Risk & Compliance Committee (BRCC)

Mr. Maseeh currently holds the position of Group Chief Risk Officer at NBB. He has over 25 years of commercial and investment banking experience across Islamic and conventional institutions.

Mr. Maseeh was previously the Group Chief Risk Officer of Al Salam Bank Bahrain. Mr. Maseeh is a Board Member of RE Property W.L.L. and holds an MBA (Hons) from DePaul University, USA as well as a Bachelor of Commerce from Concordia University, Canada. He is also a Chartered Financial Analyst (CFA) and a Professional Risk Manager (PRM).

Board of Directors
(Continued)

Mr. Gaby Samir El Hakim
Board Member - Executive Director
Member - Executive Committee

Mr. Gaby El Hakim has more than 22 years of banking experience spanning commercial and investment banking both Islamic & conventional in areas including, corporate finance, project finance, structured finance, capital markets, private equity, regulatory investigation as well as dispute resolutions. He is currently the Group Chief Legal Officer & Corporate Secretary at NBB.

Prior to joining NBB, Mr. El Hakim held several key positions: General Counsel at GFH Financial Group and Deputy Head of Legal at BNP Paribas CIB for MEA and Africa Region. Prior to that, he was in the private practice at regional Law firms. Mr. El Hakim holds an LLM in Banking and Finance from Osgood Hall Law School, York University, Canada and an LLB (Licence en Droit Libanais) from Sagesse University School of Law, Beirut, Lebanon and several postgraduate qualifications.

Mr. El Hakim is a member of the Lawyer’s Committee of ICC Bahrain, Chamber of Industry and Commerce and the ICC Paris Commission on Arbitration and ADR. He is a regular contributor to articles in newspapers and law journals.

Ms. Rana Abdulaziz Qambar
Board Member - Executive Member

Ms. Rana Qambar has over 21 years of experience across the banking and regulatory sector, including roles in supervisory and banking licensing. Since joining the NBB in 2021 as Group Chief Compliance Officer, she has overseen all compliance-related activities, ensuring that NBB Group complies efficiently and effectively with all laws, regulatory requirements, policies, and procedures.

Prior to joining NBB, she held a number of positions at Central Bank of Bahrain such as Head of Retail Banking Supervision, and Director of Licensing.

Ms. Rana holds a Master’s Degree in Accounting and a Bachelor’s in Accounting from University of Bahrain.

CRAFTING EXPERIENCES

Shari’a Supervisory Board Report

For the year ended on 31 December, 2023

In The Name of Allah, most Gracious,
Most Merciful Peace and Blessings Be Upon His Messenger

To the shareholders of Bahrain Islamic Bank B.S.C.
Assalam Alaykum Wa Rahmatu Allah Wa Barakatoh.

The Shari'a Board hereby present the following report on its activities in supervising the Bank’s finances and investments from a Shari'a perspective for the financial year ending on 31st December 2023, in fulfilment to the mandate conferred upon it by BisB’s Articles of Association:

First: Supervision and Revision of the Bank’s Business

In coordination with the Shari’a Coordination and implementation, the Shari’a Supervisory Board has monitored the implementation on the Bank’s Finances and its applicable fees and the relevant policies and procedures, in addition to advising and providing fatwas in regards to the finance agreements up to 31st December 2023 to ensure the Bank’s adherence to the provisions and principles of Islamic Shari’a.

It also reviewed the Shari’a compliance report issued by the Shari’a Coordination and Implementation Department on the Shari’a reviewed and supervision work on the bank’s business in accordance with the identified Shari’a risks, the report showed that the bank has adhered in its operations to the Shari’a controls stated by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), and the Shari’a Supervisory Board decisions and fatwas, and the Shari’a Coordination and Implementation Department has carried out its work according to the plan monitored by it.

The Shari’a Supervisory Board believes that ensuring the conformity of Bank’s activities and investments with the provisions of Islamic Shari’a is the sole responsibility of the Management while the Shari’a Supervisory Board is only responsible for expressing an independent opinion and preparing a report to you.

Second: Shari’a Audit of the Bank’s Business

1) Shari’a Internal Audit

We planned with the Shari’a Internal Audit department to carry out monitoring functions by obtaining all the information and clarifications that were deemed necessary to confirm that the Bank did not violate the principles and provisions of Islamic Shari’a and Fatwas and decisions of the Shari’a Board.

Our supervision constituted of inspection, documenting of policies followed by the Bank on the basis of examining each kind of operation either directly or indirectly by the internal Shari’a Department in conformity with the plan and methodology approved by the Shari’a Board.

The Shari’a Internal Audit department performed its mission of auditing the transactions executed by the Bank and submitted its periodic reports to the Shari’a Supervisory Board, which confirmed the Bank’s adherence in its dealings and investments with the Shari’a Board’s fatwas and decisions.

The 32 reports submitted by Internal Shari’a Audit Department to the Shari’a Supervisory Board included results of auditing the files, contracts, executed deals in fulfillment to the Shari’a Board annual approved audit plan. The Shari’a Board obtained the requested information and explanations from the departments it deemed necessary to confirm that the Bank did not violate the Shari’a principles and Fatwas and decisions of the Shari’a Board.

Shari'a Supervisory Board Report
(Continued)

2) Independent External Shari'a Compliance Audit

The Shari'a Supervisory Board reviewed the audit report provided by the Independent External Shari'a Auditor on the Bank's activities and the progress of work in the Shari'a Departments, which demonstrated that the Bank's operations, transactions and services have been implemented based on appropriate procedures that confirms its compliance with the Islamic Shari'a rules, principles and provisions, and that they have went through the Bank's necessary administrative channels from Senior Management, Internal Audit and Shari'a Supervisory Board.

Third: Shari'a Governance

The Shari'a Supervisory Board reviewed the Bank's Management report on Shari'a Compliance and Governance, which shows the proper functioning of the supervision procedures related to compliance structures and Shari'a governance in the Bank, and the Management's assertion on the effectiveness of the mechanism and operation of supervision procedures.
The Shari'a Supervisory Board affirms that it has fulfilled all the requirements of Shari'a Governance issued by the Central Bank of Bahrain with the Shari'a Coordination and Implementation Department and the Internal Shari'a Audit Department.

Forth: Shari'a Supervisory Board Operations

The Shari'a Board and its Committees held (23) meetings during the year and issued (102) decisions and fatwas, and approved (189) contracts.

Fifth: Financial Statements and Zakat Calculation Methods
The Shari'a Board has reviewed the financial Statements for the year ended on 31st December 2023, the income statement, the distribution of profit and allocation of losses, the attached notes and the Zakat calculation methods.

Based on the above, the Shari'a Supervisory Board decides that:

1. All the Financial Statements inspected by the Shari'a Board conform to what has been approved by the Board, and to the standards issued by the AAOIFI.
2. Contracts, and transactions conducted by the Bank throughout were in accordance with the standard contracts pre-approved by the Shari'a Supervisory Board.
3. The distribution of profit and allocation of losses on investment accounts was in line with the basis and principles approved by the Shari'a Supervisory Board and in accordance to Islamic Shari'a.
4. Any gains resulted from sources or means prohibited by the provisions and principles of Islamic Shari'a, have been directed to the Charity and Donations Fund.
5. Zakat was calculated according to the provisions and principles of Islamic Shari'a, by the net invested assets method. And the shareholders should pay their portion of Zakat on their shares as stated in the financial report.
6. The Bank was committed to the provisions and principles of Shari'a as per Shari'a standards issued by the AAOIFI.

We pray that Allah may grant all of us further success and prosperity.

Wassalam Alaykum Wa Rahmatu Allah Wa Barakatoh.

Shari'a Supervisory Board

Shaikh Dr. Abdul Latif Mahmood Al Mahmood
Chairman of Shari'a Supervisory Board

Former Head of Arabic Language and Islamic Studies Department at the University of Bahrain.
Member of the Supreme Council for Islamic Affairs, Bahrain since 2005.

Chairman of the Shari'a Supervisory Board of Bahrain Central Bank and Member of Oman Central Bank. He has chaired and participated in Shari'a supervisory boards of several Islamic banks and insurance/reinsurance companies.
An expert at the International Islamic Fiqh Academy of the Organization of the Islamic Conference, and a member of several Islamic Fiqh academies.

Preacher at a number of Bahrain's Masjed since 1973.

He gives lessons in Quranic interpretation, jurisprudence, principles of jurisprudence and preaching.

He has participated and spoken at several Islamic jurisprudence, educational, economic, intellectual, social and cultural conferences and seminars.

Shaikh Dr. Nedham Mohamed Saleh Yacoubi
Vice Chairman of Shari'a Supervisory Board

Member of the Shari'a Supervisory Board Central Bank of Bahrain, Gulf Finance House, Khaleeji Bank, Al Salam Bank, ABC Islamic Bank.

Member of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Holds a number of Academic degrees and awards, First Degree Award of Capability for Islamic services within and outside Bahrain 2007, from the King of Bahrain, Euro Money Award for innovation in Islamic banking supervision, Malaysia, Malaysia Award for contribution to Islamic banking-Malaysia.

He participated in a number of jurisprudence, educational, economic, intellectual, social and cultural conferences and seminars.

He has more than 50 research and books, and more than 500 published visual and audio materials.

SOLVING PROBLEMS

Solving Proble

Shari’a Supervisory Board
(Continued)

Shaikh Mohammed Jaffar Al Juffairi
Shari’a Supervisory Board Member

Studied at Al Ahliya University of Najaf and joined the Hawza studies for higher education in Shari’a sciences (Comparative Studies).

Former judge of the High Shari’a Court of Appeal and has seconded as President of the High Shari’a Court, Ministry of Justice, Kingdom of Bahrain.
Former Member of the Zakat Committee, Ministry of Justice.

He has participated in several Islamic committees, courses, seminars and conferences.

Shaikh Adnan Abdulla Al Qattan
Shari’a Supervisory Board Member

Chairman of Shari’a section, Cassation Court, Ministry of Justice and Islamic Affairs and Awqaf, Kingdom of Bahrain.

Vice Chairman of the Royal Charity Organization.
Chairman of the Pilgrimage Mission of the Kingdom of Bahrain.

Preacher at Ahmed Al Fateh Islamic Masjed.
He has participated in several Islamic committees, courses, seminars and conferences.

He worked as a lecturer at the Islamic Studies Department, University of Bahrain and is also a member of the Shari’a Supervisory Board of Al Salam Bank and Ibdar Bank.

Chief Executive Officer Report

Chief Executive Officer Report
(Continued)

We continue to measure our performance according to the value we generate for our customers, investors, shareholders, employees, and the community.

2023 was the year in which BisB completed one strategy cycle and set the foundations for a new phase of growth and expansion with the launch of the 'Riyadah' strategy for 2024-2026.

Although the COVID-19 outbreak began to recede into memory, its after-effects lingered. To compound matters, businesses continued to grapple with geopolitical uncertainties including supply chain disruptions whereby consumers had to cope with rising costs, and everyone had to adjust to financing rates well above those of the pre-pandemic years. Cognisant of the macroeconomic environment, we at BisB chose to respond to emerging challenges and capitalised on our strengths to make the Bank stronger in the service of our customers, shareholders and employees.

BisB has remained a profitable business, providing market-leading products and excellent service to our customers, while also completing transformational digitalisation projects and reorganising its balance sheet. As benchmark profit rates continued to rise, we took action to manage a widening mismatch between fixed rate assets and floating rate liabilities by restructuring our asset portfolio and by concentrating on lower cost sources of funding. As technological advances opened new doors, we automated corporate customer onboarding, upgraded our mobile channels, and bolstered our data protection capabilities to deliver on our brand promise of simplifying money matters. As a responsible financial institution, we absorbed the rate hikes to the extent possible, thereby reducing the burden on our customers.

Building strong relationships with all our stakeholders enables us to anticipate and meet their needs successfully.

We continue to measure our performance according to the value we generate for our customers, investors, shareholders, employees, and the community. Building strong relationships with all our stakeholders enables us to anticipate and meet their needs successfully. At the same time as doing this, we were able to reduce provisions by 42%.

One of the key accomplishments this year was the successful filling of executive gaps by hiring five seasoned and experienced executives, namely the Chief Retail Banking Officer, Chief Risk Officer, Chief Strategy and Sustainability Officer, Chief Internal Audit Officer, and Chief Communication and Marketing Officer. These five bring a wealth of experience and expertise to our leadership team.

The Bank achieved positive outcomes thanks to the collaborative work of our team of executives.

Through effective communication, strategic planning, and a shared vision, we were able to navigate challenges, capitalise on opportunities, and achieve our financial and operational goals. The synergy among the executives has been instrumental in steering the Bank in the right direction and ensuring sustainable growth.

As we prepare for executive hiring, it is crucial to acknowledge and celebrate the advancement of people within BisB to senior and mid-level positions as part of their career progression.

These promotions not only highlight the wealth of talent within our organisation but also emphasise our commitment to cultivating a work environment that champions equal opportunities for all Especially

Chief Executive Officer Report
(Continued)

remarkable is the promotion of around 20 women alongside 53 men from our pool of internally advanced colleagues, showcasing our dedication to gender diversity and empowerment within the workplace.

As I review our performance in 2023, I find much for the team to be proud of. BisB played a role in enabling home ownership and driving financial inclusion by extending social housing programs to individuals in coordination with Eskan Bank and the Qard Al-Hassan profit-free financing solutions. We gained public attention and attracted new customers by tripling the number of winners for our Tejoori savings account offering.

We gained goodwill with Bahrain's SME sector by providing approximately 20% of its corporate portfolio towards small and medium sized organizations. The Bank also sponsored a branding package for start-ups, helping them create company logos and collateral so they can get their businesses growing and contribute to a bright future for Bahrain. We marked the addition of over 1,800 Fatawa and Shari'a decisions issued by our Shari'a Supervisory Board to the first AI platform for Islamic Banking Fatawa, helping to share knowledge and expertise in our industry.

These achievements were among the many projects and innovations that enabled BisB to stand out from the crowd in a competitive market. Among the prestigious awards the Bank won this year, some of the most prominent included being named 'Best Islamic Bank in Bahrain' at the 2023 Euromoney Islamic Finance Awards, being recognised for the 'Best Digital Banking Initiative' at the MENA Banking Excellence Awards, having the 'Best Application for Smart Devices Award' during the eGovernment Excellence Award 2023 and being chosen as the 'Most Innovative Islamic Bank' by International Finance Magazine.

Our Bank could not have won these awards without an energetic, highly skilled workforce supported by strong financial foundations.

The Board of Directors and Senior Management are immensely excited by the future that will unfold under our new Riyadah strategy. We will forge stronger bonds with our customers to better understand and meet their ever-changing needs. Together, we will continue to repay the trust that you, our shareholders, place in us to represent your interests and to drive sustainable growth at BisB over the years to come.

Yaser Abduljalil Alsharifi / CEO

Chief Executive Officer Report
(Continued)

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BisB has remained a profitable business, providing market-leading products and excellent service to our customers.

Executive Management

Mr. Yaser Abduljalil Alsharifi
Chief Executive Officer

Mr. Yaser Alsharifi has over 27 years of experience in the financial services industry. He held several senior executive roles covering multiple key areas in major financial institutions such as the National Bank of Bahrain (NBB), Al Rajhi Holdings and Ernst & Young.

In addition to his current role at Bahrain Islamic Bank, he is also the Chairman of DANAT and held several board seats in leading institutions such as Bahrain Bourse, The BENEFIT Company and Bahrain Real Estate Investment (Edamah).

Mr. Alsharifi is a member of the Young Presidents Organization (YPO) and holds a B.A. in Business Administration from the University of Massachusetts at Amherst, USA.

Mrs. Fatema Moosa AlAlawi
Chief Retail Banking Officer

Mrs. Fatema AlAlawi has over 26 years of extensive practical experience holding senior leadership roles contributing to the Islamic banking sector and digital banking transformation. She has played an essential role in driving strategic initiatives to maximise profitability and elevating retail banking operations to drive sustainable growth.

Mrs. AlAlawi holds an EMBA and a BSc in Business Management from the University of Bahrain. During her Hubert Humphrey Fellowship in the USA, she received PMP Certification from the Boston University, in addition to completing three leadership programs at UCLA, California and the Darden School of Business, University of Virginia and Ivey Business School, Western University, Canada.

Mrs. AlAlawi was awarded by Her Royal Highness Princess Sabeeka bint Ibrahim Al Khalifa, wife of His Majesty the King and President of the Supreme Council for Women, for her leading contribution to the banking and financial sector. She is also the recipient of the Future Leader Excellence Award by the Middle East Awards Institute, Dubai.

Executive Management
(Continued)

Mr. Jawad Abdul Hadi Humaidan
Chief Corporate and Institutional Banking Officer

Mr. Jawad Humaidan is a seasoned banker with over 18 years of extensive experience in Corporate, Wholesale, Commercial, and Retail Banking. Prior to joining BisB in 2018, Mr. Humaidan held senior roles in leading local, regional, and international banks such as National Bank of Bahrain, Mashreq Bank and Standard Chartered Bank. He is an active member in community service societies, and currently serves on the board of Bahrain Economists Society.

Mr. Humaidan is a certified arbitrator specializing in Banking & Finance. He holds Bachelor's Degree in Economics from Carleton University in Canada, and Master of Science degree in Finance with distinction from DePaul University in Chicago, USA. Mr. Humaidan attended several leadership programs with leading institutions such as INSEAD in Singapore and Ivey Business School in Canada.

Mr. Ameer Abdul Ghani Dairi
Chief Financial Officer

Mr. Ameer Dairi has over 23 years of experience in financial management, accounting and a broad commercial banking background in Bahrain. Mr. Dairi serves as a Board Member and Chairman of the Audit Committee of Liquidity Management Centre (LMC), Chairman of the Board of Directors of Abaad Real Estate W.L.L., and Board Member of Benefit. Mr. Dairi is a Certified Public Accountant (CPA) from New Hampshire Board of Accountancy, a Certified Management Accountant (CMA) licensed by the Chartered Institute of Management Accountants, US and holds a BSc in Accounting from the University of Bahrain.

Mr. Dairi has been awarded a Certificate of Excellence in Data Science and Analytics from Berkeley University of California, a Leadership Grooming Program Certificate from Ivey Business School, Canada and a Certificate in Strategic Leadership in the Era of Disruption from University of Oxford, UK.

Executive Management
(Continued)

Mr. Ajay Jha
Chief Risk Officer

Mr. Ajay Jha has over 25 years of experience across the Kingdom of Bahrain, the Kingdom of Saudi Arabia and the Republic of India. Prior to joining BisB, he held various roles including Senior Director and Head of Risk & Compliance at Arab Petroleum Investments Corporation (APICORP) and Head of Risk Management at Al Rajhi Capital, as well as Head of Risk at Amlak International Finance.

He has been into financial services industry all through his career, during which he served diverse and global companies including Citibank, ICICI Bank, GE Capital and TATA Finance.

Mr. Ajay is an MBA-Finance from Devi Ahilya University, India. He has also earned a BSc -Honours in Chemistry from the Ramjas College, Delhi University.

Mrs. Naeema Hasan Taheri
Chief Compliance Officer

Mrs. Naeema Taheri possesses 32 years of expertise in the banking and financial services industry – both Islamic and Conventional. She has extensive experience in Banking Operations, Regulatory Compliance, Anti Financial Crimes, Risk Management, Quality Assurance, Trade Finance, and Training. Prior to joining BisB in April 2022, she held several senior positions at leading banks and financial institutions, starting with Citibank Bahrain as Resident Vice President, Director – Head of Compliance & MLRO at Capinnova Investment Bank, Senior Vice President – Head of Compliance & MLRO at Al Salam Bank, Compliance Officer & MLRO at Gulf Finance House, Group Head of Risk & Compliance at BFC Group Holdings and a lecturer at BIBF.

Mrs. Taheri is a Fellow Member of the U.K.-based International Compliance Association (FICA) and Member of the U.S.A. based Association of Certified Anti-Money Laundering Specialists (ACAMS). She is also a Fellow Member of the International Academy of Business and Financial Management. Mrs. Taheri holds a Bachelor's Degree in Business Administration from the University of Bahrain as well as an International Diploma in Compliance (with Distinction) from the International Compliance Association (ICA) in UK. She has also obtained various certifications of the likes of Anti-Money Laundering and Compliance from the University of Reading and ICMA Centre and is a qualified Master Compliance Professional (MCP), Certified Compliance Officer (CCO), Certified Anti Money Laundering Specialist (CAMS) and has a professional Certificate in Capital Markets, Regulation and Compliance.

Executive Management
(Continued)

Mr. Mohamed Kadhem Alaali
Chief Strategy & Sustainability Officer

Mr. Mohamed Kadhem Alaali has 18 years of experience in strategy execution, organisation performance and change management, working with banks and enterprises across different sectors.

Mr. Alaali has extensive global experience in achieving strategy goals through strategy development and implementation, with a strong focus on aligning organisation purpose, brand and culture. He holds bachelor's degree in information systems from Murray State University, a master's degree in business administration, business strategy & operations from University of Illinois Urbana-Champaign in the United States, along with various professional certifications including but not limited to certification in project management professional (PMP) and Prosci certified change management.

He is a member of the Finance, Insurance and Tax Committee at Bahrain Chamber of Commerce. In his career, Mr. Mohamed held leadership positions KPMG Fakhro Company, Gulf International Bank and Gallup Organisation.

Ms. Afnan Ahmed Saleh
Chief Human Resources Officer

Ms. Afnan Saleh, with over 20 years of experience, has established a successful career in career counseling, corporate affairs, and HR management. She began at the Career Counseling Office of the University of Bahrain, advancing to head the Professional Liaisons Unit.

Subsequently, she served as Corporate Affairs Manager at INTELNACOM and held leadership roles at Tharawat Investment House, including Director of HR & Corporate Management and Secretary of the Board of Directors.

In 2015, she joined BisB as the HR Manager and advanced to lead the HR and Administration departments, eventually reaching the position of Chief Human Resources Officer. Ms. Afnan Saleh holds a BSc in Business Administration from the University of Bahrain and an MBA in Business Administration from Strathclyde University, UK.

Executive Management
(Continued)

Mr. Mahmood Abdulla Ali Al Rabea
Chief Corporate Communications & Marketing Officer

Mahmood brings over 20 years of experience in managing brands and reputation through developing and executing marketing and communications strategies globally. Prior to joining BisB, Mahmood was a Senior Director of Communications and External Affairs at Mumtalakat, the Kingdom of Bahrain's sovereign wealth fund.

He also held several senior positions, including the Executive Director of Communications at Bahrain Economic Development Board and Partner and Managing Director of Bell Pottinger, a London-based strategic communications agency. Mr. Mahmood holds Bachelor of Arts - Publishing Media, Napier University in United Kingdom.

Mr. Andrew Mario Stefan Corera
Chief Group Applications Officer

Mr. Andrew Mario Stefan Corera's background comprises a blend management experience of software, technology and operations as well as governance of information systems, data & cyber security, and project and programming spanning across the banking industry for over 30 years.

Having worked in multinational banks including ANZ, Grindlays and Standard Chartered (SCB), Mr. Stefan has been exposed to diverse markets including Sri Lanka, Australia, Qatar, Vietnam and Bahrain. In Bahrain, he has served on several steering committees, namely CBB for IBAN, BCTS, ECC, and has represented SCB on the Benefit Board. He holds an MBCS from the British Chartered Institute for IT and is a Chartered Information Technology Practitioner (CITP) and Project Management Certification from PMI.

Executive Management
(Continued)

Mr. Salman Mahmood Sayyar
Chief Internal Audit Officer

Mr. Salman boasts 15 years of experience in internal audit and financial control in the Islamic Financial Sector. He was the Chief Internal Auditor at Al Baraka Islamic Bank-Bahrain and Vice President of Internal Audit at Al Baraka Banking Group. His early professional experience was in the Internal Audit Department at Khaleeji Commercial Bank.

Mr. Salman is a Certified Public Accountant (CPA) from the Colorado State of Accountancy, a Certified Islamic Professional Accountant (CIPA) from the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), and a Chartered Global Management Accountant (CGMA) from the American Institute of Certified Public Accountants in the United States of America. Mr. Sayyar holds a Bachelor's in Accounting from the University of Bahrain.

Mr. Hussain Ebrahim Al Banna
Head of Treasury

Mr. Hussain Al Banna is a treasury leader with more than 20 years of experience in foreign exchange (FX), money market (MM), sukuk portfolio, Asset Liability Management (ALM), and Corporate Treasury sales across conventional and Islamic banks in various capacities.

He entered the industry in 2004 working in the Regional Treasury Operations of BNP Paribas. In 2005, he joined the Executive Management Trainee Program at Bank of Bahrain and Kuwait (BBK) where he spent three years within different desks within treasury before joining BisB in 2008. He holds a BSc in Banking and Finance from the University of Bahrain and has successfully completed the Treasury and Capital Markets Diploma from Bahrain Institute of Banking and Finance (BIBF).

Strategy

In 2023, the Bank began a new strategic direction and put forward its goals for the upcoming three-year period (2024-26). The culmination of this strategic process yielded the 'Riyadah' strategy, which serves to articulate BisB's renewed mission and vision outlined in our Bank's Profile.

Our goal is to attain these aspirations through the delivery of an outstanding customer experience characterised by personalised service, where we actively seek to comprehend and address the distinct needs of each customer segment.

Our commitment is to provide solutions with remarkable speed, ensuring swift and efficient outcomes that surpass customer expectations. What sets BisB apart is our steadfast dedication to delivering innovative Shari'a-compliant solutions that are tailored to the constantly evolving needs of our customers. Through continuous research and development, we remain at the forefront of technological advancements, offering cutting-edge solutions that drive growth and success.

At the core of our Riyadah strategy lies the fundamental value of safety and trust. We prioritise the establishment of a secure and trustworthy environment for our customers, employees, and stakeholders by rigorously adhering to compliance and risk standards, maintaining the highest levels of integrity, and promoting transparency.

Strategy Cycle 2024-26

The Riyadah strategy is founded on four differentiating factors:

01

Improve speed, accuracy and productivity in delivering services to our customers.

04

Ensure that our solutions are safe, sustainable and reliable for our customers and our stakeholders.

02

Provide a personalised and simplified customer experience.

03

Offer relevant innovative solutions that address the changing needs and expectations of our customers.

These differentiators will apply to all business and customer segments.

Building on the Bank's differentiating factors, we are looking to pursue opportunities with our Retail Banking team to serve more Bahrainis and professional expatriates, entrepreneurs, families, affluent GCC citizens and retirees.

Whilst in our Corporate and Institutional Banking, we are aiming to increase our client base and deepen relationships with large corporations, Government-related entities and Sovereigns, and to grow participation in GCC syndications.

To achieve the differentiating factors, the Bank aims to build and leverage its core capabilities such as:

1. **Robust Financial & Governance Frameworks:** We will align our performance management with our strategic objectives and uphold the highest standards of ethics, compliance and risk management.

2. **Talented & Engaged Workforce:** We will develop processes that aim to hire, develop and retain the best talent in the market, and will cultivate a culture of engagement, empowerment and accountability.

3. **Data Analytics & Emerging Technologies:** We will apply data analytics and emerging technologies such as artificial intelligence and cloud computing to improve our customer experience. We will also explore new ways of delivering banking services through digital platforms, ecosystems and partnerships.

4. **Innovation Engine:** We will utilise data to understand our customers' needs, preferences and behaviours. Accordingly, the Bank will foster a culture of innovation and collaboration within the organisation and with external partners.

5. **Digital Scalability:** We will ensure that our digital infrastructure and capabilities are scalable, resilient and secure, and that we can adapt to changing customer demands and market conditions. We will also leverage the digital channels to expand our reach and access to new markets and segments.

Integration with NBB

In 2020, NBB increased their shareholding to 78.81% of BisB. The integration of BisB with NBB was a pivotal moment for the two financial institutions, creating a Group representing a collective market share of 23.5% within Bahrain's retail banking sector fortified by profound expertise in both conventional and Islamic finance.

In accordance with Shari'a requirements and their unique brand identities, BisB and NBB still operate as two distinct entities with separate licences, balance sheets, equity structures, and management teams. Furthermore, throughout 2023 the two banks persisted in exploring collaborative opportunities across specific operational areas such as IT, Risk Management, Procurement & Administration, Compliance, among others, aiming to yield notable cost savings and efficiencies.

By working together, NBB and BisB leveraged their combined strengths to focus on delivering exceptional customer experiences and driving innovation. This concerted effort, closely coordinated with NBB as a major shareholder, fortifies BisB's capital adequacy and promotes funding diversification, resulting in a favourable impact on the Banks financial standing.

Realised Synergies:

- Synergy in capital flows resulting in lowered profit rate risk and lower cost of funds.
- Strengthened capital adequacy ratio.
- Increased group-wide efficiency in governance systems.
- Improved liquidity growth.
- Realizing revenue synergies through participation in syndications
- Cost synergies.

By continuing to build on this strong support from the NBB Group, BisB is well-positioned to deliver long-term value for its customers, employees, and shareholders, reaffirming its position as the leading Islamic bank in the Kingdom. NBB's majority ownership of BisB delivers a positive outcome for investors across both banks with equity created not just within the balance sheet but also in the brands, their history and reputation. Operating as a Group will enable both institutions to open more doors and expand beyond their respective individual capabilities.

Anticipating Risks

As an Islamic financial institution, BisB is susceptible to standard banking risks, including credit risk, liquidity risk, market and operational risk, reputational risk, strategic risk, cybersecurity risk, and Shari'a compliance risk. These risks, and more, are strategically evaluated and mapped in the Bank's risk management framework. Given the current economic climate, in this section of the Report we discuss the specific risks that banks may be vulnerable to in 2024.

Rising Profit Rates

Central banks worldwide have been increasing interest rates to combat inflation and economic stagnation. Increased interest rates pose a challenge to a bank's profitability margins. In July 2023, the Central Bank of Bahrain raised its key policy interest rate on its one-week facility by 25 basis points to 6.25%, tracking action by the US Federal Reserve. This compares to a rate of 5.25% in December 2022 and 4% in September 2022. The CBB also increased the overnight deposit rate from 5.75% to 6%, while maintaining the four-week deposit rate at 6.75% and the lending rate at 7%. Interest rate hikes directly impact a bank's rate of return. Higher interest rates impact benchmark rates, and when they go up, they increase the cost of funding, lower net return income, and consequently impact profitability.

Post-Covid Credit Risk

The COVID-19 pandemic posed several challenges for the global economy as supply chains were massively affected. The CBB took measures to relieve pressure on local businesses and residents, including putting a six-month moratorium on loan and finance repayments and introducing the Economic Support Scheme and the Household Support Scheme to provide financial assistance where needed. Moreover, the CBB issued guidelines for national banks on deferring individual loan payments on a case-by-case basis. However, as economies started to gain momentum post-Covid, governments ended their stimulus programs as well as the pandemic-era financial support to businesses. This has given rise to significant credit risk uncertainty as many businesses are still struggling to recover and adapt to evolving market dynamics. Therefore, banks continue to grapple with this volatile and uncertain lending landscape that exposes them to greater default risk.

Cybersecurity Risk

Financial institutions and their customers must guard against malicious cyber-attacks, such as phishing campaigns, social engineering attacks, and malicious software (malware) infections. These attacks are specifically designed to cause data breaches, financial loss, and reputational damage.

In Bahrain, all financial institutions are required to put in robust cybersecurity measures aligned with the Central Bank Cyber Security regulations and industry best practice. Additionally, with complex technology and innovation such as cloud computing, emerging technologies, and artificial intelligence, comes a greater cyber threat to financial institutions. To mitigate these risks, banks must use state-of-the-art security systems, including firewalls, intrusion detection, prevention systems, and regular security testing and monitoring, designed to achieve 'Security in Depth' with layered security controls across all domains. They must also conduct regular cyber security training for employees to maintain hyper-vigilance against threats and fortify security protocols.

At BisB we use 'Security by Design' and 'Privacy by Design' principles to ensure both security and privacy are embedded into the digital services and products we provide to our customers. Further, we adopt leading international best practices in those fields by certifying our processes and systems against all.

Climate Change Risk

Climate change mitigation and adaptation is changing the global business landscape, which is also impacting the banking sector, exposing banks to significant operational, credit, and transition risks. As a result, banks have initiated performing climate scenario stress testing and analyses to assess their risk exposure.

In Bahrain, the CBB has issued many circulars and guidance requesting banks to assess climate change risk on their financing portfolios. Moreover, countries worldwide are introducing policies and regulations to decarbonise their economies. Banks and businesses are being expected to comply with climate policies and standards, altering the economic environment and changing how they assess credit risk.

Our Approach To ESG

BisB's Approach

BisB is committed to drive sustainable development and transition in the Kingdom. As a leading financial institution in Bahrain, BisB is uniquely positioned to help the government achieve its environmental and social objectives by allocating capital that positions Bahrain as a beacon of sustainability. To realise our potential for positive impact, we strive to finance the transition to a more sustainable economy as well as being a source of powerful ideas and solutions that help build a sustainable future for all.

Our dedication to ESG was recognised this year by ESG Invest, the leading ESG ratings agency for the MENA region. Our ESG Invest score of increased to 55/100 from 44/100 in 2023 following a close examination of our business to assess how we integrate ESG into our financing decisions, serve customers, develop our employees, combat financial crime, and protect our customers' data.

We are focused on understanding ESG issues that are most relevant to our stakeholders so that we can formulate policies and innovate practices that align with our values and vision. We continue to meet our ESG commitments through a 3-year sustainability roadmap, with a drive towards taking care of fundamentals in 2023 to 2024 by addressing key gaps through establishing ESG targets, robust governance structures around sustainability allowing for enhanced reporting to the Board on key issues and initiatives which are outlined in further detail in the Report.

We have also taken steps towards establishing sustainability key performance indicators and targets across the entire organisation highlighting our commitment towards not only adopting sustainable practices, but also creating awareness at all levels of the organisation.

Our ambition following our achievements in 2023 is to scale up our efforts and demonstrate gains by shifting towards performance improvement. We are striving to transform ourselves into being a genuinely purposeful and impact driven organisation by 2026.

Fundamentally,
our Sustainability strategy is built on 6 pillars aligned to our material topics.
These are:

1 Corporate Governance & Ethical Behaviour
- Compliance and Ethical Behaviour (1)
- Data Privacy and Security (2)
- Governance, Transparency, and Accountability (5)

2 Serving our Customers
- Responsible Customer Relationships (3)
- Data Privacy and Security (2)
- Digital Transformation and Innovation (6)

3 Nurturing our Workforce
- Workforce Wellbeing (11)
- Diversity, Inclusion, and Equal Opportunity (9)
- Employee Training and Development (7)

4 Preserving Natural Resources
- Direct Environmental Footprint (14)
- Responsible Sourcing (15)

5 Community Investments
- Community Investment (10)

6 Responsible Banking
- Integration of Environmental and Social Factors in Lending Activities (12)
- Integration of ESG in Investment Activities (13)
- Financial and Economic Performance (4)
- Financial Inclusion (8)

Our Approach To ESG
(Continued)

Our ESG approach is further underpinned by our belief that to achieve long-term sustainability, by taking ESG into consideration at every level of our organisation. We are currently implementing systemic and sustained changes in all aspects of our business operations and redefining our core business values to achieve company-wide transformations in line with our ESG principles.

BisB is dedicated to conducting banking operations in a responsible, impactful, and sustainable manner. We have previously, taken several initiatives to achieve these goals:

- Identifying key stakeholders and engaging with them continuously to identify issues most important to them, as these are taken into consideration when planning our ESG policies and initiatives.
- Ensuring transparency in our efforts to meet ESG targets and providing a comprehensive overview of our efforts to all stakeholders.
- Measuring our ESG performance against international standards and best practice.
- Regularly conducting training across all levels of the company to raise awareness around sustainability.
- Regularly reviewing our ESG policies and updating them in accordance with the latest information and best practice standards. BisB is putting measures in place to reduce its carbon footprint and is taking steps to promote employee diversity with the aim of being a leading equal-opportunity employer.

As an institution we are proud to have underscored our commitment to ESG endeavours. In 2023, building on the above with the objective of accelerating sustainable development at BisB, and to widen our impact, we undertook a series of ESG projects and initiatives each aligned to one or more of our pillars and material topics:

Initiative	Pillar	Material Issue	Description
ESG Toolkit	Responsible banking and Corporate Governance & Ethical Behaviour	Governance, Transparency and Accountability	At BisB, we are on a mission to redefine corporate sustainability. In 2023, we developed an ESG scorecard for corporate clients that enables us to rate their sustainability before making financing decisions. The ESG Due Diligence Toolkit has been developed and implemented by the Bank to assess and classify the ESG risks and performance of BisB clients and projects. The toolkit offers a structured framework to identify and quantify all potential ESG risks related to BisB financed projects in a transparent manner. The analysis will support in the identification of financings that fall under the Equator Principles and will help in conducting the required environmental and social due diligence. The analysis provides a clear understanding of the ESG risks which enables sustainable investment decision making and future mitigation of all potential ESG factors. **The ESG Toolkit framework allows for:** 1. Embedding responsible business conduct into policies and management systems; 2. Identification and assessment of actual and potential adverse impact; 3. Ceasing, preventing or mitigating negative impact; 4. Tracking implementation and results; 5. Communication around identified ESG issues. This Toolkit has been developed by Sustainability Excellence leveraging recommendations from the Equator Principles, EBRD, IFC and the World Bank. BisB has successfully implemented the ESG toolkit within our corporate portfolio on selective corporate clients, which includes the establishment of eligibility criteria. Based on these criteria, we have identified 13 clients who are eligible to undergo ESG assessments using the toolkit. The Bank will assess the profiles of our valued customers and will accordingly take actions to mitigate the identified risks in line with their unique requirements.

Our Approach To ESG
(Continued)

Initiative	Pillar	Material Issue	Description
Sustainable Finance Framework	Servicing Our Customers, Responsible Banking	Community Investment, Integration of ESG in Investment Activities and Integration of Environmental and Social Factors in Lending Activities	In 2023, BisB worked extensively towards establishing the Sustainable Financing Framework (the Framework) outlining the classification and segregation of assets and liabilities that will qualify a sustainable product in line with international standards of sustainable finance. Our ambition is to use the Framework to guide the development of sustainable products supporting our customers in their transition towards a more sustainable business model. **We aim to achieve the following objectives through the establishment of the Framework:** 1. Outline the process of project evaluation and selection 2. Enhance tracking and reporting of our performance towards financing sustainable products 3. Align products to market standards **Subsequently,** the targets will be set once the Framework is established, and the portfolio is assessed based on the Framework.

Initiative	Pillar	Material Issue	Description
ISO 45001:2018 Occupational Health and Safety Certification	Nurturing Our Workforce	Workforce Wellbeing	ISO 45001:2018 Occupational Health and Safety Certification. The ISO 45001 Occupational Health and Safety (OH&S) framework specifies requirements for OH&S management systems, detailing guidance for usage and implementation across organisations. The certification enables BisB to provide safe and healthy workplaces by preventing work-related injury and ill health, as well as by proactively improving its OH&S performance. BisB is proud to continually improve on its OH&S performance standards by fulfilling all legal requirements to achieve its OH&S objectives.

Initiative	Pillar	Material Issue	Description
ISO 14001: 2015 Environment Management Systems (EMS)	Preserving Natural Resources	Direct Environmental Footprint	BisB follows the ISO 14001:2015 in Environment Management Systems (EMS) to set up an environmental management system that helps it enhance its environmental performance. The Bank applies the ISO 14001:2015 in AlSalam Tower to manage its environmental responsibilities in a methodical way with targets and initiatives in line with the ISO certification requirement that supports the environmental pillar of sustainability. The environmental management system's outputs, which are in line with the Bank's established Environmental Policy, include enhancement of environmental performance, fulfilment of compliance obligations, and achievement of environmental objectives.

Our Approach To ESG
(Continued)

Initiative	Pillar	Material Issue	Description
ISO 27001: 2022 Information Security Management System Certification and ISO 27701:2019: Privacy Information Management Systems (PIMS)	Serving our Customers, Corporate Governance and Ethical Behaviour	Data Privacy & Security, Governance, transparency and Accountability	**ISO 27001: 2022 Information Security Management System Certification:** BisB is committed to safeguarding customer information and enforcing data security. In this regard we are dedicated to the highest standards of information protection through our certification against ISO 27001, having become the first bank in Bahrain to meet the terms of the 2022 version of this certification we continue to renew and apply. We operate in the financial ecosystem as a business differentiator that is pledged to managing valuable client information assets, data, and intellectual property. These security measures help us create new opportunities for our customers and help protect BisB from exposure to risk. **SO 27701:2019 Privacy Information Management Systems (PIMS):** The bank achieved a milestone this year as the first Islamic bank to get certified for this standard that aims to protect and secure data privacy and ensure proper measures are in place to handle personal data according to best practice and leading processes. This standard complements the Information Security Management System by extending practices to cover critical areas of privacy management and personal data protection. In fact, we became the first Islamic bank in the Kingdom to obtain the ISO27001:2022 in Information Security Management and ISO27701:2019 in Privacy Management.

Initiative	Pillar	Material Issue	Description
ISO 22301:2019 Business Continuity Management System	Corporate Governance and Ethical Behaviour	Data Privacyand Security	This year, BisB maintained its ISO 22301:2019 accreditation, which it uses to plan for and recover from business interruptions. By adopting procedures and controls through the adoption and certification of ISO 22301, the Bank has concentrated on measures to reduce the time and cost that could be wasted in the case of an operating delay.

Initiative	Pillar	Material Issue	Description
Risk and Opportunity Identification and Assessment	Responsible Banking	Integration of Environmental and Social Factors in Lending Activities	The Bank as part of its Internal Capital Adequacy Assessment Process report prepared in line with the Basel accords and regulatory requirements identifies, assesses and accounts for ESG risk as a pillar 2 risk since 2022.

Initiative	Pillar	Material Issue	Description
Shes Next Visa Program	Community Investment	Community Investment	VISA had exclusively partnered with BisB, introducing the Shes Next global program to Bahrain for the first time. The program is dedicated to supporting women owned businesses through funding by granting USD 50,000, training and an exclusive mentorship program. Every applicant was further offered an opportunity of free membership to the AWS Connected Community where they could engage with on-demand content and trainings and obtain AWS free credits.

Our Approach To ESG
(Continued)

Initiative	Pillar	Material Issue	Description
Future Leader Program	Community Investment	Community Investment	BisB conducted its second annual BisB Future Leaders Summer camp allowing children to learn about an array of sectors. The program is based on a cashless payment solution whereby children are issued with a prepaid account used through Wristband or a prepaid card allowing them to conduct transactions and manage their finances independently. The aim is to enhance financial literacy skills among the youth and catalyse digital transformation by providing advanced innovations to transform experiences.

Initiative	Pillar	Material Issue	Description
Startup Branding	Community Investment and Serving our Customers	Community investment and Responsible Customer Relationships	The Bank offered a new service that enables new corporate account applicants to avail a branding package, which includes both the development of a company logo and graphic design services, without any additional fees, to support them in kicking-off their future businesses off the ground by reducing operational costs.

Initiative	Pillar	Material Issue	Description
Tasheel Aqari	Serving Our Customers	Responsible Customer Relationships	A financing facility granted by Eskan Bank with a maximum amount of BD70,000 allowing our customers to obtain additional access to funding to purchase the property from BisB, following which the property will be jointly registered by both Eskan Bank and BisB. BisB was the first bank to sign with Eskan Bank to grant these facilities starting from 2015.

Initiative	Pillar	Material Issue	Description
Mazaya Financing	Serving Our Customers	Responsible Customer Relationships	A financing facility granted by BisB Bank with a maximum amount of BD 81,000 providing our customers with a monthly subsidy from Eskan Bank. This product was launched in 2014 and BisB was the first bank in Bahrain to execute a Mazaya facility. In 2022, Eskan Bank launched New Mazaya allowing our customers with access to funding for housing.

Initiative	Pillar	Material Issue	Description
Integration of Shari'a into ESG	Corporate Governance & Ethical Behaviour and Serving our Customers	Responsible Customer Relationships	The synergy between ESG principles and Islamic finance is rooted in their shared values of sustainability, ethics, and social responsibility. Islamic finance guided by Shari'a principles, promotes economic activities that are socially responsible, environmentally friendly, and ethically sound. Similarly, ESG focuses on investing in companies that prioritise environmental stewardship, social well-being, and strong corporate governance. BisB recognises the importance of leveraging these synergies and the continued integration of ESG into Islamic finance which will open doors to promote sustainable and responsible financial practices.

Our Approach To ESG
(Continued)

Below the different initiatives taken by the Shari'a function as BisB:

Initiative	Summary
BisB's contribution in Social Financing	• Medical Treatment • Individual request to cover monthly living expenses, furnishing, renovating, debt repayment, and education • Marriage Support
Financial Aid/Support for Charity and Association Requests	• The Charity/Association must be licensed • The Charity/Association must Commit • Priority is given to Charity/Association that holds a bank account with BisB
Financial Aid/Support Procedure	**Individual/Family Applications** • Financial support is paid directly to the Beneficiary • Families sponsored by the committee are paid directly • Vouchers are also distributed to Families/Individuals **Charity/Association Applications** • Paid through Managers Cheques • Paid through direct deposit to their account within BisB or other banks
Source of Funds	• 5% of the Bank's profits annually • Zakat shareholder • Bank's defaulters penalty fees • Bank's Reserved Funds allocated from the Bank's illicit or suspicious activities
Qard Hassan	• The only bank in the Kingdom that provides Qard Hassan • The financed amounts start from BD 500 to BD 8,000
Zakat Committee and Jood Team Annual Initiatives	• Supermarket vouchers • School Stationary vouchers (Back to school) • On Road Break-Fast during the Holy Month of Ramadhan • Providing Gifts, toys, and others to orphans during Eid • Annual visits to elderly, disabled, and pensioners in Foster Care

Our Approach To ESG
(Continued)

Year	No. of Beneficiaries (Individuals)									
	Total Donations & Zakat (Per Year)	Total Beneficiaries (Per Year)	Medical Treatment (Per Year)	Living Expenses (Per Year)	Educational Sponsorships (Per Year)	Family Sponsorships (Per Year)	Others Sponsorships (Per Year)	Total Value of Coupons (Per Year)	No. of Beneficiaries (Charity & Association)	Total No. of Beneficiaries of Qard Al Hassan (Per Year)
2018	671,054	229	57	40	2	60	70	52,550	93	13
2019	934,779	266	57	44	5	63	97	49,360	50	16
2020	619,271	445	47	8	72	80	238	67,944	58	12
2021	409,022	388	35	3	6	81	263	25	38	12
2022	601,080	389	57	3	4	73	252	30,000	-	14
2023	**477,855.52**	**375**	**55**	**10**	**5**	**90**	**215**	**17,000**	**14**	**23**

As part of our Bank's values and ESG principles, digital transformation plays a significant role in our commitments towards our customers.

As such a series of developments have been introduced including the establishment of a 'Paperless Taskforce'. The task-force was mandated to investigate and reduce hard copy paper usage.

Additionally, our IT team has taken a series of steps to further enhance efficiency and increase speed in the dedicated service we provide to our customers, opening accounts via tablets is an example. BisB frontliners were opening accounts via tablets during roadshows and stands.

Immediate account opening for customers outside BisB's premises was a key item in our efficiency and speed.

The taskforce findings, once implemented, will allow for a proposed reduction in paper usage of approximately **80%** in Retail and **60%** in Corporate and Institutional Banking.

Our Approach To ESG
(Continued)

In the Riyadah Strategy, we have set our aspiration to be a tangible and strategic force supporting customers, the Bank and the government towards their sustainable goals and aspirations. We have set ourselves targets to build on our past year's achievements further cementing our impact in sustainability.

These include:

01

Continuing to expand our offering of sustainability-related and responsible banking-related products and services.

02

Establishing targets to disclose and monitor our performance and the impacts of our products and services on the community.

03

Launching programs to support and reward employees who propose or develop high sustainability impact products, services, and initiatives.

04

Engaging with policy makers to influence policy and regulatory outcomes that encourage greater participation from the finance industry in the transition to a low carbon, climate resilient economy.

05

Our commitment to sustainable growth, social responsibility, and good governance is a key feature of all our future growth and planning. BisB's ESG vision is also aligned with NBB, our main shareholder. Together, we believe that strong ESG principles and values will bolster our contribution to Bahrain's economic future in a sustainable and responsible manner.

Listening to Our Stakeholders

One of BisB's core missions is to ensure the sustainable creation of value for its stakeholders.

We achieve this through an extensive list of initiatives across the organisation in addition to integration of ESG principles into our risk assessment, lending, and investment practices. To successfully serve our stakeholders, it is important to identify who they are and how we interact with each at different business touch-points. Our goal is to be knowledgeable about their interests and priorities. In our efforts to engage with our stakeholders and determine ESG topics material to them, we undertook an extensive stakeholder mapping exercise which consisted of three phases: identifying, analysing and mapping.

The process was critical in helping BisB identify its stakeholders, define their priorities, and establish ways to align with their key interests through collaborative efforts. Our mapping exercise also helped us identify the ESG issues most important to our stakeholders and how they impact decision-making.

BisB has recognised the importance of fostering a sustainability within the Kingdom necessitating joint efforts from both private and public sectors. As a leading financial institution that is conscious of its ESG responsibilities to drive sustainable development in the country. As such, at BisB we are striving towards harmonising our strategy, decision-making processes, lending practices, investments and aligning BisB's sustainability pillars with the Kingdom's national objectives and the United Nations' sustainability development goals. Doing so clearly demonstrates BisB's commitment and efforts towards achieving a sustainable environment and country.

Alignment of BisB Sustainability Pillars with National Objectives and the UN Sustainable Development Goals

BisB	National Objectives	UN SDGs
Community Investment	Social Inequality and Poverty	1, 10
	Gender Equality	5
	Housing & Services	6, 7, 11
	Health and Nutrition	2, 3
	Knowledge & Culture	4

BisB	National Objectives	UN SDGs
Responsible Banking	Inclusive Economy	8, 9
Nurturing Our Workforce	Employment & Decent Working Conditions	8
	Growth Sustainability	9, 12
	External Dimension	17

BisB	National Objectives	UN SDGs
Preserving Natural Resources	Main Services	6, 7
	Sustainable Cities	11
	Environment & Natural Resources	14, 13
	Sustainability & Climate Change	2, 3

BisB	National Objectives	UN SDGs
Serving Our Customers	Eternal & Regional Stability	16
Corporate Governance & Ethical Behaviour	Internal Security	16
	Inclusive Institutions & Participation & Judicial Independence	16

Listening to Our Stakeholders
(Continued)

Customers

Value Creation
Our core business activity is providing financial services to our customers. At BisB, we constantly strive to improve our customer service experience by accommodating and prioritising customer needs through streamlined processes and technologies that make transactions simple and secure.

Needs and Expectations
Our customers trust us to provide cordial and prompt customer service, competitive rates and fees, innovative products and services, and accessible staff, branches, digital access and ATMs.

Methods of Engagement
Social Media: Twitter, Facebook, Instagram, YouTube (Suwalif Al Islami), and LinkedIn. Personal Communication: Email, phone, Mobile app, customer service units, Bank branches, and contact centres.

Employees

Value Creation
We foster a creative and supportive work environment and strive to build employee confidence to facilitate greater productivity. BisB also supports career growth and talent development through various policies and initiatives. We value diversity in our talent pool and are an equal opportunity employer.

Needs and Expectations
Our employees trust us to provide career progression and skills development opportunities, competitive salaries and benefits, recognition of work, an inclusive, diverse, and equal opportunity work environment, ease of communication, and access to upper management.

Methods of Engagement
All staff are given regular career development and performance appraisals. This is an open and honest environment to enable dialogue and mutual understanding, and to ensure all staff have the opportunity to thrive in the workplace.
Human resource and talent development departments. Training sessions and workshops. Our in-house innovation lab, e-learning library, and “My Career” platform. Each employee received over 50 hours of training in 2023, with the Bank delivering a total of 18,169 hours of training and development in total, the largest amount ever delivered.

Open communication channels and official whistleblowing policy.

Shareholders & Investors

Value Creation
We are committed to serving the interests of our shareholders and investors and ensuring that BisB is always on a sustainable prosperity path. BisB’s expertise in the sector and prudent approach to banking enables its financial growth at manageable and tolerable risk levels.
The new strategy launched in 2023 aims to deliver shareholder value through growing return on equity.

Needs and Expectations
Our shareholders trust us to deliver strong and stable financial returns and increase our company’s value. They also expect transparent and open discourse.

Methods of Engagement
Complete accountability and transparent communication through BisB’s Annual Financial and Sustainability Report, annual general meetings, as well as quarterly financial statements.

Government & Regulators

Value Creation
BisB ensures compliance with the rules of the CBB, the Bahrain Stock Exchange, and the Ministry of Industry and Commerce. We follow government regulations and directives and are fully aligned with the government’s vision and strategic objectives.

Needs and Expectations
Our government expects us to provide trustworthy banking that positively impacts the country’s economy and environment. Our Regulator expects us to operate within the rules and regulations of the industry, and to be a responsible member of the Bahraini financial services industry.

Methods of Engagement
Active participation in regulatory and government initiatives, programs, and projects

Listening to Our Stakeholders
(Continued)

Communities

Value Creation
We take our commitment to corporate social responsibility (CSR) very seriously. BisB has invested in giving back to the communities we operate in and has contributed to several social campaigns and charity projects.

Needs and Expectations
Our communities trust us to sponsor philanthropic programs in the country, to participate in development programs, and to support technological and economic innovation.

Methods of Engagement
Community outreach and service through Jood, the Bank's official CSR program. Supporting education and innovation through scholarship and corporate funding programs and Zakat programs for community wellness.

Suppliers

Value Creation
At BisB, we continuously drive sustainability in products and solutions, combining economic success, social responsibility and environmental protection in our business operations and thereby enable our customers to meet current and future needs of society. Ensuring the principles of sustainable development in our supply chain is important to us. We want to partner with our suppliers to further develop their sustainability performance in our supply chain.

Needs and Expectations
We expect our suppliers to fully comply with applicable laws and to adhere to internationally recognised suppliers to use their best efforts to implement these standards with their suppliers and subcontractors.

Methods of Engagement
All supplier agreements are governed by contractual terms with equal protection for all parties. Proper procedures are followed to ensure the confidentiality of all concerned parties. As such, 97.79% of the suppliers comply with the Bank's code of conduct.

Materiality Mapping

Once we identified our stakeholders, and understood their needs and expectations, we undertook a materiality mapping exercise. Materiality mapping is an essential tool for BisB, helping us assess the ESG issues that directly impact the organisation and that are most aligned with its mission statement and values. The process includes stakeholder engagement to identify the issues that impact the organisation's reputation, operations, and financial performance and that are most important to its stakeholders.

Based on the double materiality approach of the Global Reporting Initiative Standards, we also assess the Bank's impact on society and the environment and identify actions the Bank should take to ensure sustainable value creation. The assessment is then used to map out ESG issues and their relative importance.

BisB's materiality analysis produced 15 issues/topics that were significant to the Bank and its shareholders. These topics are further classified into three categories, depending on their level of importance.

Very Material

1. **Compliance and Ethical Behaviour:** Development of robust mechanisms to ensure compliance with banking regulations and customer demands.

2. **Data Privacy and Security:** Stringent security protocols and systems to ensure data security, especially from potential breaches in digital systems.

3. **Responsible Customer Relationships:** Earning customer trust by addressing their needs and requirements, finding convenient solutions to their problems, facilitating customer feedback, and delivering a prompt response.

4. **Financial and Economic Performance:** Ensuring sustainable earnings for our shareholders to enable continuity of service and ensure brand loyalty, as well as investing in new opportunities to mitigate financial risk and contribute to the nation's economic growth.

Listening to Our Stakeholders
(Continued)

5. **Governance, Transparency, and Accountability:** Ensuring that business functions and processes follow national and international codes and ethics of banking rules and provide complete transparency to our stakeholders.

Somewhat Material

6. **Digital Transformation and Innovation:** Digitalisation and ease of use through state-of-the-art technologies are the core standards of service at BisB. Technological innovation is critical in helping us provide solutions and efficient customer service. It helps us increase efficiency and reduce costs.

7. **Employee Training and Development:** Investing in employee development through training workshops and programs helps retain top talent due to higher employee satisfaction. It also increases work efficiency and innovation.

8. **Financial Inclusion:** Social reform is an important component of our ESG framework. It provides financial services to all communities without discrimination.

9. **Diversity, Inclusion, and Equal Opportunity:** We promote and ensure inclusivity and diversity in our workforce. We provide equal opportunities to all employees based on merit, which leads to higher employee satisfaction and productivity.

10. **Community Investment:** We have sponsored as well as implemented several welfare and development programs to benefit local communities.

11. **Workforce Well-being:** We look out for the well-being of our employees, ensuring that they feel valued, and their needs are met.

Least Material

12. **Integration of Environmental and Social Factors in Lending Activities:** We consider the environmental and social impact of our banking systems and products, especially our lending activities.

13. **Integration of ESG in Investment Activities:** We also consider the potential ESG impact of all investment opportunities.

14. **Environmental Impact:** Reducing our carbon footprint is important to our stakeholders and to us. It is why we aim for sustainable development in line with national and international efforts to tackle climate change.

15. **Responsible Sourcing:** We strive to work in ways where our supply chains are aligned with our own code of ethics. This means ensuring that our suppliers comply with sustainable products, ethical materials sourcing, and internationally accepted labour practices.

03 ← Value Creation

5

Financial Capital

We provide innovative financial products and services to our customers to help fulfill their daily transactional needs protect assets and increase their financial wealth.

1

Delive
Value Th
Capit

Human Capital

Our people are at the heart of our Bank. We've been able to lead and dominate the local and regional banking industry because of our unwavering commitment to our employees..

2

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Delivering Val
Through

Social & Relationship Capital

Since its establishment BisB has been committed to its corporate social responsibility. Over the years we have implemented and supported various initiatives to strengthen our local communities in line with our Islamic principles and commitment to giving back.

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4

Natural Capital

Managing our environmental footprint is a core pillar of our ESG strategy. It is a precursor to operating as a sustainable organization that works in harmony with our natural ecosystem.

3

ctual Capital

chnology to simplify
or customers through
king, mobile services
ervice kiosks with ease
ding. It has ensured
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DELIVERING VALUE
THROUGH CAPITALS

Value Creation Model

Input ←

1. Financial Capital

- **Total Financing**
  BD 924 million
- **Investments in Sukuk**
  BD 258 million
- **Impairment Allowance and Other Provisions**
  BD 6 million

2. Human Capital

- **356 dedicated and skilled employees**
- **Diverse and inclusive workforce with 35% female representation**
- **33% middle management are female**
- **21% female senior management**
- **A total of 18,714 hours of training was provided to 356 employees**

3. Intellectual Capital

BisB recognises that technology and digitalization is increasingly demanded by customers, stakeholders and employees. We invest in technology to simplify and speed services for customers through digital, online, mobile services and self-service kiosks.

4. Natural Capital

Managing our environmental footprint is a core pillar of our ESG strategy. It is a precursor to operating as a sustainable organisation that works in harmony with our natural ecosystem. BisB undertakes to disclose and report on its environmental footprint and to work towards a positive climate outcome from its operations.

5. Social & Relationship Capital

Since its establishment BisB has been committed to its corporate social responsibility. Over the years we have implemented and supported various initiatives to strengthen our local communities in line with our Islamic principles and commitment to giving back.

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Empowering dreams
simplified fin

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We aim to be the bank
customer needs into fit
engaging

Brand
Fueled by Bahraini dev
of simplifying yo

Value Creation

VALUE CREATION MODEL

Value Creation Model
(Continued)

s Model

sion:
through innovative and
ancial solutions

ssion:
of choice by converting
-to-market solutions and
experiences

Promise:
otion, we craft new ways
ur money matters

Differentiators (How)

- Speed & Accuracy
- Safe, Sustainable and Trusting
- Personalized and Simplified Service
- Innovative Solutioning

Model

Outcome

1. Financial Capital

- **Income from financing BD 52 million**
- **Income from investment in Sukuk BD 15 million**
- **Other income BD 4 million**

2. Human Capital

- **Paid to employees in staff costs: BD 12 million**
- **Bahrainisation rate at: 95%**
- **Staff turnover rate: 7%**

3. Intellectual Capital

91.3% of new customers in 2023 were onboarded through the bank's digital platforms in full compliance with the government's personal data privacy law and robust data privacy policy and controls.

4. Natural Capital

Outputs and Outcomes:
- **Appointed a Chief of Strategy and Sustainability and a Head of Governance and Sustainability.**
- **Sustainability Committee established.**
- **Implemented an Environmental Management System (EMS) in line with the international standard for an EMS, ISO14001:2015.**

Green House Gas (GHG) Emissions (expressed in metric tons of CO2 or equivalent):
- **Scope 1 (fuel) = 6.06 (MT CO2 e)**
- **Scope 2 (electricity)= 1908.91 (MT CO2 e)**
- **Scope 3 (Water, Wastewater, Waste, Paper consumption) = 33.8 (MT CO2 e)**

5. Social & Relationship Capital

Outputs and Outcomes:
- **Over 230,000 client base.**
- **100% of staff underwent sustainability training.**
- **Innovative products and services provided to facilitate home ownership, savings and financial literacy.**
- **Community outreach and service through Jood, the Bank's official CSR program. Supporting education and innovation through scholarship and corporate funding programs and Zakat programs for community wellness.**

04 ← Financial Capital

Financial Capital

Putting Customers First

At BisB, we endeavor to serve a wide range of customers, varying from individuals, SMEs to large multinational corporations and global financial institutions.

Financial Capital

FINANCIAL STRENGTH

Our Financial Core

At BisB, we constantly revitalise our business activities to enhance our customer offering. By building our core capabilities, innovating our propositions, and by applying the latest technology to increase efficiency, speed and customer relevance, we diversify our income sources and lower costs.

Elevated inflation rates around the world resulted in governments and central banks raising their policy rates, which was also reflected in the GCC, with the ensuing pressure on cost of funding impacting the entire financial sector in 2023. Economies' outlook remained uncertain as a global recession emerged. As a result, both banks and corporates had to reorient themselves to strengthen their financial positions and shield themselves against potential losses.

Therefore, we focused on solidifying the existing revenue streams and diversifying our portfolios to safeguard them against macro-economic risks without compromising our ability to serve our customers. Some of the measures undertaken by BisB included:

1. Diversifying our sources of funds to protect our income streams. In particular, the tripling of prises on offer to our Tejoori account drove a healthy influx of deposits.
2. Transitioning our balance sheet from fixed profit rates to floating to reduce our exposure to profit rate risk.
3. Entering profit rate swaps to hedge the Bank's position against the increase in profit rates.
4. Capitalising on synergies with the parent NBB, to attain a lower cost of funding.

In parallel, we conducted a thorough analysis of the impact of rising borrowing costs on our clientele. Our approach aimed to mitigate the effects on corporate clients by reducing the margins applied over the benchmark rates. Similarly, for our Retail clients, we made the strategic decision to absorb any rate increases for existing clients, thereby alleviating part of their financial costs.

Diversifying our sources of funds to protect our income streams. In particular, the tripling of prises on offer to our Tejoori account drove a healthy influx of deposits.

Our Business Segments

At BisB, we serve a wide range of customers, from individuals and SMEs to large multinational corporations and global financial institutions. In order to cater for the diverse needs of our different client segments, our core business is split into three categories:

Retail Banking

BisB is one of Bahrain's leading institutions for Islamic financing and banking. Our Retail banking operations focus on providing Bahraini nationals and residents with a complete range of Shari'a compliant financing and transactional services. Our retail customers have convenient and easy access to all our products and services through our vast branch network, online banking platform, mobile application, Automated Teller Machines (ATM), Interactive Teller Machines (ITM), and bulk Cash Deposit Machines (CDM).
We offer traditional retail products, such as current and savings accounts, debit and credit card services, and consumer financing solutions.

During 2023, we continued to execute on our strategy to digitise services, attract new customers, drive high yield assets, and optimise our credit card offering. Through initiatives including the introduction of a call account, launching Tasheel Aqari (in association with Ministry of Housing), launching the commutation financing (in association with SIO), offering BisB live and Whatsapp communications for the first time, and automating customer KYC via mobile, we achieved growth across our key metrics.

Financial Capital
(Continued)

Another notable area of focus during 2023 was to develop partnerships with real estate developers to support the growth of BisB's home financing business as we re-engineered and centralised our applications process. We signed agreements with Naseej to provide Bahraini citizens with premium financing and service propositions to enable them to buy properties within Naseej's projects. This was followed by similar agreements with Era Real Estate covering their Khudur Homes project in Diyar Al-Muharraq, and with Delmon Gate covering their Bushra housing project in Al- Saya. For our flagship Tejoori account, we enabled digital onboarding through mobile, introduced the option to make two digital transfers a month, and promoted the account during employer roadshows and a city centre stand. We now also offer paperless onboarding for GCC nationals and for minors as part of our strategy to expand BisB's universe of potential customers.

Consequently, retail Ijarah financing increased by 5.3% to BD 252 million and customer deposits grew by 2% to BD 604 million. Moreover, our financing market share was maintained at 11% despite major headwinds.

In our cards business we redesigned the card activation process and enhanced card benefits, resulting in a significant increase of 22.3% in total Bank's credit cards receivables as of 2023 compared to 2022, as total credit card spending rose approximately 12% year-on-year. Total domestic spending on all types of cards increased at approximately 13%, with international spending also increasing by approximately 5%.

Corporate Banking

BisB is committed to providing customers with an exceptional corporate banking experience where digital transformation plays a central role. We strive to be the preferred choice for customers using our state-of-the-art digital banking services, offering seamless digital account opening and high frequency services such as transfers, foreign exchange transactions, and payroll. Our Digital Platform has pioneered numerous innovative features. Its introduction has improved end-user experience by making banking transactions efficient and cost effective.

The Bank's end-to-end digital services allows all types of companies to open corporate accounts in a matter of minutes. This resulted in a digital onboarding rate of 80% of all new to Bank customers during 2023. This simplifies the process of joining BisB and allows our clients to focus their time and energy on their business.

The development of our Digital Onboarding platform has been an iterative process of improvement. In 2020 we launched it for sole proprietor businesses, and subsequently in 2022, we expanded it to all types of companies. This year, we added an API link to the Ministry of Industry and Commerce, thereby enabling us to support customers opening new commercial accounts with seamless online depositing of their initial capital and issuance of the capital certificate.

Internally, the API link also assists the Bank with conducting know your customer (KYC) research to meet our regulatory obligations. We continue to achieve significant milestones with total digital banking transactions increasing by 40% in 2023 with the total financial value increasing by 28%.

Another area of notable success in 2023 was the Bank's efforts through surveys and face-to-face meetings with stakeholders to study and understand client opportunities and risks. This research identified a number of 'quick win' opportunities to simplify the customers' money matters, such as informing customers about the Bank's new digital alternatives to slower paper-based services, as well as providing valuable intelligence for further analysis during 2024.

In light of the economic backdrop of high inflation, tight monetary policy, supply chain disruptions, and the after-effects of Covid-19, the Corporate and Institutional Banking team worked hard through 2023 to rebalance the portfolio to smooth out mismatches between fixed rate assets and short-term floating liabilities, therefore managing down our corporate liabilities while selectively growing our assets.

In relation to our asset base, we selectively expanded our corporate asset base by 2% from BD 297 million to BD 303 million by offering a wide variety of flexible and cost-effective financing solutions. Some of the

Financial Capital
(Continued)

financing products offered include project finance, trade finance, working capital and capital expenditure financing. We have also built upon our relationship with Tamkeen to continue to offer working capital and capital expenditure facilities with their support. The team also worked to get even closer to our corporate customers, many of which needed to reappraise their debt repayment plans as government-sponsored Covid-19 support programs wound down. The Relationship Management teams further formalised client relations by replacing annual reviews with frequent meetings to monitor clients' financial health, and the team provided debt restructuring support where needed to protect the interests of both the client and the Bank.

With regards to liabilities, promoting Escrow accounts which are an essential part of real estate development requirements, as well as call accounts were among the initiatives that the Corporate team undertook to lower the Bank's overall cost of funding by attracting liabilities that are cheaper than fixed rate deposits.

With respect to our SME sector, as a Bahraini Shari'a compliant bank, we have a responsibility to support the economy and cater to local businesses and have dedicated tailor-made programs and specialised solutions to support the SME sector. In addition to our financing solutions, our depository products range from simple operating accounts to complex Shari'a-compliant structured investment solutions.

During 2023, we rolled out criteria-driven products to simplify the approval process. Furthermore, the Central Bank of Bahrain mandated banks to increase the share of their local funding allocated to SMEs from at least 5% in December 2023 to 20% in December 2025. BisB is in-line with meeting the mandate by 2025 as SME exposure currently stands at approximately 20% of total Corporate assets as of 31 December 2023.

At BisB's Financial Institution Unit, we cater for our clients' need for safe, fast and reliable financial transactions through our partnerships with a network of local and global banks. We also offer a range a of Shari'a-compliant products and services that cater for banks' and other financial institutions' short- and long-term needs, while streamlining correspondent banking activities with the BisB main business lines: Corporate, Trade Finance, Treasury, Retail and Private Banking.

Looking ahead into 2024, the Corporate and Institutional Banking team plans to continue restructuring its balance sheet and developing new solutions to attract and retain corporate customers. These solutions include automating financing solutions through our online banking platform, introducing preferential rates for international transfers, and simplifying SWIFT confirmation issuance.

The year was notable for our successful execution of the first Bahraini Dinar (BD 29 million) repurchase agreement (repo) with the Group, a landmark transaction that enhanced our liquidity management capabilities and provided a new avenue for optimizing our funding strategies.

Financial Capital
(Continued)

Investment Banking

2023 was characterised by the continuation of significant fluctuations in benchmark rates, presenting both challenges and opportunities to our bank spreads. Amidst these conditions, we remained committed to optimising liquidity, managing risk, and generating returns, all while adhering to supporting our Bank's strategic objectives.

The Treasury department has been instrumental in steering through the complexities brought about by the volatile rate environment. Our team managed the bank's funding positions, ensuring a balanced asset-liability composition.

The year was notable for our successful execution of the first Bahraini Dinar (BD 29 million) repurchase agreement (repo) with the Group, a landmark transaction that enhanced our liquidity management capabilities and provided a new avenue for optimizing our funding strategies.
Adapting to the benchmark rate movements, our operations were geared towards maintaining liquidity efficiency and achieving favourable investment returns, despite the pressures on bank spreads. Our foreign exchange operations were tailored to address the needs of customers and mitigate currency risks, leveraging opportunities presented by the market dynamics, particularly in USD and BD cash flows.

Treasury also achieved a significant milestone by establishing a new capital markets sales desk which will be pivotal for launching customised Islamic treasury products that will cater to client needs. The capital markets landscape was no less challenging, with rate fluctuations influencing our strategic direction. Despite these hurdles, we successfully grew our sukuk portfolio as of 2023 by 8% compared to 2022, a testament to our proactive investment strategy and our ability to capitalise on opportunities within the Islamic finance sector. This expansion not only diversifies our investment holdings but also contributes positively to our financial performance, demonstrating our resilience in navigating rate-induced market volatilities.

Reflecting on the year, we recognize the challenges posed by the movements in benchmark rates but also celebrate our significant achievements, such as our inaugural BD repo transaction and the expansion of our sukuk portfolio. These accomplishments underline our strategic foresight and operational resilience.

We look forward to building on these successes and contributing to the Bank's prosperity in the years to come.

As we move ahead, we are fully committed to advancing our strategic initiatives in managing liquidity, investments, and risks, particularly in light of ongoing rate volatility. We remain vigilant in monitoring global economic and regulatory developments, ready to adjust our strategies to support the Bank's growth ambitions, maintain our strong financial standing, and deliver value to our shareholders and customers.

ECONOMIC IMPACT

Creating Value for The Local Economy

BisB plays an important role in the Bahraini economy. By ensuring sustainable growth at optimal risk, we help to positively contribute to Bahrain's economy. Our Shari'a-compliant financial products and services empower individuals, businesses, and the government through capital and financing support that enables them to create economic value while remaining globally competitive.

However, it is not only our core banking services that drive economic growth in Bahrain. Our Bank's impact on the economy also stems from its employment practices, supply chain activities, and relationship with local and foreign investors and businesses.
For example, we are one of the country's biggest employers, supporting many households. In 2023, we paid BD 12 million to our staff.

All disclosures pertaining to our contribution to the local economy are in line with standards set by the Global Reporting Initiative (GRI). Moreover, our goal is to achieve sustainable earnings growth for our shareholders. In addition, BisB is a publicly listed entity with a majority stake ownership by the NBB Group, which is a publicly listed bank with individual, corporate, and government stakeholders. Therefore, maximising our shareholder value powers economic growth through the distribution of wealth across the economy.

Financial Capital
(Continued)

As one of the leading banks in Bahrain, BisB plays an important role in generating wealth that strengthens the country's economy and uplifts local communities. BisB is also fulfilling its commitment to support local communities by investing in local businesses and donating to philanthropic organisations. We have designed and implemented various Corporate Social Responsibility (CSR) initiatives across the country. The Social and Relationship Capital section in this Report contains more information on our CSR programs. Furthermore, the Bank's contribution to the country also includes the tax that is paid to the government.

Measuring our Impact

We use GRI standards and guidelines to calculate the value created for all stakeholders. We generate stakeholder value specifically through our various revenue streams. Our Economic Value Distributed is then spread among suppliers, vendors, employees, the government, and other stakeholders in the form of expenses and VAT. Other Economic Value Distributed includes dividends to shareholders or retained earnings for re-investment in the Bank. We have computed BisB's economic value generated and distributed. It covers the following elements:

- Total Income represent the direct economic value generated.
- Retained Earnings, Zakat, Donations, Total Expenses including payments to the government, staff costs, and Impairment allowances and other provisions represent the Bank's economic value distributed.

Economic Value Generated

BD
45.33 mm

Economic Value Distributed

Staff Costs
BD
12.38 mm

Other Expenses
BD
15.18 mm

Impairment allowance and other provisions
BD
6.64 mm

Retained earnings and other reserves
BD
10.59 mm

Zakat and Donations Appropriated
BD
0.54 mm

Financial Capital
(Continued)

05 ⟵ **Human Capital**

Human Capital

Empowering Bahraini Nationals

We firmly believe that investing in human capital is vital to creating sustainable value for the Bank, the local economy, and the communities in which we operate.

Human Capital

WORKFORCE WELL-BEING

A People-First Strategy

At BisB, our employees are our most valuable asset, and we are proud to have received silver accreditation from Investors in People, a UK-based organization that assesses and improves workforce engagement. This achievement followed our ISO 45001:2018 certification in Occupational Health and Safety Management, making us the first Islamic bank in the Kingdom to receive this recognition.

Our commitment to our employees has allowed us to lead in the local banking industry, and our investment in their growth and development has helped them become globally competitive banking professionals. Our HR team plays a crucial role in advancing our vision and goals by creating a supportive work environment that fosters collaboration and high performance.

In 2021, our HR team developed a comprehensive three-year model based on global best practices and emerging HR trends, outlining diverse initiatives across key aspects of our people-first strategy.

In 2023, HR refreshed its strategy to begin the "Employer of Choice" journey, with the goal of becoming the top choice for employment in the local and regional banking and finance industry.

We believe that investing in human capital is essential for creating sustainable value, and we are committed to providing our employees with opportunities for skill development, knowledge enhancement, and expertise building at every stage of their careers.

Attracting New Talents

BisB primary strategy for attracting new talent is through its exceptional employee well-being programs, which include flexible work arrangements, employee development opportunities, career progression, and monetary and non-monetary benefits.

These programs are a unique selling point for BisB as an employer and are prominently featured in all media promotions and on the BisB website. To attract the best talent, BisB focuses on building a strong employer brand by consistently delivering on its promises to employees, promoting its values within the industry, and showcasing its learning-conducive culture through its media channels.

In 2023, BisB continued its focus on on-campus recruitment by partnering with local educational institutions for internship programs and graduate hiring, investing in the professional development of young people and training a future workforce to benefit the community and the economy. BisB's talent acquisition strategies prioritize diversity and inclusion, actively seeking out capable candidates from underrepresented groups.

Competitive Employee Benefits

BisB leads the market in providing exceptional employee benefits packages. In addition to offering competitive monthly salaries, BisB also provides life insurance coverage for all employees. Other benefits include health insurance, flexible work arrangements, competitive bonuses and incentives, personal time off, and more.

These benefits are regularly reviewed and updated to ensure that BisB remains competitive and meets market expectations.

Protecting our Workforce

BisB promotes the well-being of its employees by providing a secure and efficient work setting. We safeguard our staff through four different methods:

• Health & Safety Program: BisB has established a thorough health and safety program that offers extensive training, careful inspections, and defines emergency procedures. The program's effectiveness is shown in our accomplishment of a 0% injury rate among the organizations and our sub-contractors in 2023.

• Information Security Program: We continued to educate our employees about information and cyber security principles. Our program tries to create a behavioural approach to make information security principles part of the workforce culture, to help them have safe and secure habits at work, home and on the go.

• Employee Empowerment: At BisB, we aim to be adaptable, giving our employees the freedom to choose work practices that suit their health and safety needs. We make sure that all employees feel appreciated and helped in their career path and receive support to reduce stress and prevent burnout.

Human Capital
(Continued)

2023 Breakdown by Gender	Number of Employees	Total
Male	230	65%
Female	126	35%
Total	**356**	**100%**

Year	Total Female Bahraini Nationals	Total Male Bahraini Nationals
2020	37%	63%
2021	36%	64%
2022	36%	64%
2023	**37%**	**63%**

Number of Bahraini Nationals			
Year	Entry-Level & Admin	Mid-Level	Senior-to-Executive Level
2020	60%	30%	10%
2021	59%	31%	9%
2022	60%	31%	9%
2023	**59%**	**30%**	**11%**

Total Employees by job category and by gender						
	Entry-Level		Mid-Level		Senior Executive Level	
Year	Male	Female	Male	Female	Male	Female
2020	63%	37%	65%	35%	81%	19%
2021	63%	38%	67%	33%	80%	20%
2022	62%	38%	68%	32%	79%	21%
2023	**61%**	**39%**	**67%**	**33%**	**79%**	**21%**

Total Employees by job category and by age group									
	Entry-Level			Mid-Level			Senior		
Year	Below 30 y.o.	30-50 y.o.	Over 50 y.o.	Below 30 y.o.	30-50 y.o.	Over 50 y.o.	Below 30 y.o.	30-50 y.o.	Over 50 y.o.
2020	29%	69%	2%	3%	95%	2%	0%	88%	12%
2021	22%	76%	2%	5%	92%	3%	0%	89%	11%
2022	12%	85%	2%	3%	94%	3%	0%	88%	12%
2023	**19%**	**78%**	**3%**	**3%**	**94%**	**4%**	**0%**	**90%**	**10%**

• Anti-Discrimination and Harassment Policies: Our stringent policies aim to shield all our employees from any unfair or abusive treatment at work. We also work hard to create a culture where employees can report any of these incidents without fear or discomfort.

This comprehensive approach for workforce protection has helped BisB cultivate a secure and positive environment. We are dedicated to revising our policies and initiatives to make sure they are working well in safeguarding our people.

Human Capital
(Continued)

WORKFORCE WELL-BEING (CONTINUED)

Total Number of employees by employment contract, by gender				
	Permanent Contract		Temporary Contract	
Year	Female	Male	Female	Male
2018	127	237	0	0
2019	128	233	0	0
2020	122	228	0	0
2021	113	216	0	2
2022	108	212	3	1
2023	115	214	11	16

Total Number of employees by employment type, by gender				
	Full-Time		Part-Time	
Year	Female	Male	Female	Male
2018	127	237	0	0
2019	128	233	0	0
2020	122	228	0	0
2021	113	216	0	0
2022	111	212	0	0
2023	126	230	0	0

Total Number of employees by employment category & age				
Year	Trainees & Sponsored Students	Non Management Employees	Middle Management Employees	Senior Management Employees
2018		212	141	11
2019	30	205	145	11
2020	14	201	138	11
2021	11	189	134	8
2022	55	185	130	9
2023	83	203	139	14

Employee Satisfaction, Engagement, & Retention

BisB dedicates time, energy, and resources to employee satisfaction and productivity. This year, our focus on employee well-being yielded the following benefits:

• Increased Employee Loyalty: When our employees feel valued, they develop a strong loyalty to the Bank. We believe dedicated employees who align with our values are better placed to attract loyal customers.

• Reduced Turnover: High employee satisfaction has reduced voluntary employee attrition at BisB. In 2023, our turnover rate decreased by 16.5% at 7% turnover compared to 8.6% in 2022. Lower turnover translates into reduced recruitment, new-hire training costs, and a stable and experienced workforce.

• Improved Productivity: Satisfied employees are more engaged and motivated to contribute positively toward the Bank's mission and objectives. They are more productive, perform better, and ultimately drive higher efficiency, customer satisfaction, and revenue growth.

• Improved Organisational Culture: We have found that satisfied and engaged BisB employees better align with the Bank's values and culture. They actively foster a healthy workplace environment by improving the morale between colleagues.

Human Capital
(Continued)

• Cementing Employer Brand: Satisfied employees often engage in positive reputation-building by word of mouth and improve BisB's reputation as the 'Employer of Choice' within the industry.

• Improved Customer Service: Satisfied frontline employees provide better customer service, which results in improved customer satisfaction. At BisB, we achieved a Net Promoter Score of 61 in December 2023 for Branch customers compared to 45 in June 2023 and we realized an increase in customer loyalty year on year.

At BisB, we understand that keeping our employees happy and engaged is essential for generating value. To achieve this, we have implemented various practices and policies that focus on providing both extrinsic and intrinsic motivation. Our comprehensive training and development programs, effective communication, employee engagement, healthy work-life balance, and greater autonomy and flexibility provide intrinsic motivation. Extrinsic motivation is offered through competitive remuneration packages, performance-based rewards, and recognition. Our leadership team actively mentors employees and sets an example through model behaviour to ensure employee satisfaction.

Health & Safety

BisB is dedicated to ensuring the health, safety, and well-being of its employees, customers, visitors, contractors, and tenants. The Bank strives to provide a safe and secure working environment by incorporating health and safety practices into daily operations and aligning them with the Bank's Code of Conduct.

Number of Employees			
	Safety and security training	Understanding PCI DSS	Safety procedures training
2021	265	194	258
2022	324	324	324
2023	356	356	356

BisB's health and safety policy is implemented in accordance with local laws and regulations, as well as international best practices and guidelines issued by the World Health Organization (WHO). The policy sets appropriate standards for controlling health and safety risks within the workplace and includes a framework for risk assessments and risk mitigation to prevent accidents and protect BisB's staff and assets.

All staff members are responsible for assisting the Bank in implementing and maintaining these practices and for reporting any unsafe practices they observe. BisB is committed to continuously improving its health and safety performance and increasing staff awareness through periodic training.

At BisB, the health and safety (H&S) of our employees is a top priority. We launched and supported various health campaigns in 2023 that received positive feedback from our staff. These campaigns aimed to raise awareness of different health issues and encourage regular medical screenings. Some of the campaigns we participated in included:

• Think Pink: A campaign to support breast cancer awareness and prevention among women.

• Movember: A campaign to support prostate cancer awareness and prevention among men.

• Bahrain Sports Day: Included fun and engaging activities for our employees. Our male staff competed in a football tournament, while our female staff joined fitness classes and won prizes. These events fostered teamwork and a healthy lifestyle among our staff.

In addition to these initiatives, BisB has a formal safety management system that follows risk management guidelines and protocols. We ensure that our work environment is safe and secure for everyone.

BisB's safety program is compliant with all Bahrain Health & Safety regulations and includes regular inspections, safety training, induction material and procedures, incident reporting and investigation protocols, and emergency guidelines. Safety and security training is an important aspect of the program, with detailed training and monthly hands-on training for maintenance staff to ensure compliance with all health & safety standards.

BisB also has first-aid employees and trained fire marshals on call. We conduct yearly fire drills in collaboration with the Civil Defence Authority to assess employee readiness in an emergency. The Bank has established a plan to achieve its health and safety objectives, which is managed in

Human Capital
(Continued)

WORKFORCE WELL-BEING (CONTINUED)

conjunction with background improvement activities and regularly tracked and reported to top management.

Information Security

Information security is crucial for every organization, including BisB, to protect against cyber-attacks and security threats. At BisB, we understand the importance of safeguarding our customer's data and other sensitive financial and personal information. We take measures to protect the Bank from cyber-attacks, theft, unauthorized access, and other types of digital breaches.

As a leading financial institution in Bahrain, we are committed to building and maintaining customer trust and mitigating any potential loss of reputation or financial loss to our customers. To this end, we adhere to strict regulations such as Bahrain's Personal Data Protection Law (PDPL), the General Data Protection Regulation (GDPR), and the Payment Card Industry Data Security Standard (PCI DSS) to implement robust information security measures. These measures help us ensure the security of our information, maintain stability, and uphold our credibility within the banking industry.

DIVERSITY, INCLUSION AND EQUAL OPPORTUNITY

BisB is committed to equality and fairness in its talent acquisition policy. The selection process is unbiased and does not discriminate based on gender, age, disability, marital status, or any other factors outside the scope of the Bank's business and operational needs or regulatory requirements.

The Bank fully supports the employment of qualified persons with disabilities and does not discriminate against their employment for any job they can competently perform. Diversity and inclusion are pillars of BisB's Human Resources and Talent Management Policy, embracing differences in gender, age, religion, disabilities, personality, ethnicity, skill set, experience, knowledge base, and background.

BisB is an equal opportunity employer, committed to building a diverse workforce and an inclusive workplace culture. Our HR policy prohibits discrimination based on age, gender, ethnicity, marital status, religion, or any other factors. BisB does not tolerate any breach of our anti-discrimination policies and expects all line managers to ensure that no discrimination occurs in any aspect of our operations, including recruitment, remuneration, and promotions.

In line with Bahrain's 2030 vision to reduce unemployment, BisB prioritizes employment opportunities for suitable Bahraini candidates to meet the Bank's business and operational needs. While we are proud to employ 95% Bahraini nationals, we constantly strive to build a diverse and representative workforce. We go beyond gender diversity to ensure an inclusive workplace where all employees feel valued, supported, and have a strong sense of belonging to the organization.

We are committed to increasing female representation, which currently stands at 35.4% of our workforce in comparison to 34% in 2022 – one of the highest levels of female representation in the Kingdom's banking sector.

Female Empowerment at BisB

At BisB, we believe that female empowerment is crucial because we recognize the positive impact that an empowered female workforce can have on the Bank. Our goal is to unlock the potential of our female employees by creating a supportive environment and providing them with the tools and resources they need to excel.

In 2023, for example, we offered over 2,200 training courses to our female employees. Our HR policies focus on empowering female employees and include initiatives such as training and development programs, flexible work arrangements, and mentorship opportunities. Some HR policies focused on empowering female employees include:

- Increasing parental leave from 1 to 3 working days. This policy extends to male employees.
- Providing paid maternal leave of up to 90 days for a regular birth and 120 days for premature birth.
- Unpaid motherhood leave of up to 6 months to care for children under the age of 7.

Human Capital
(Continued)

- A total of three unpaid leave periods are available throughout an employee's service. However, the leaves are not considered part of the service, so no social insurance contribution is paid.
- Miscarriage leave, as part of paid sick leave, of up to 15 days.
- Nursing periods of 2 hours per day for 1 year and 1 hour a day for the second year after birth.
- Vaccination leave of 1 working day for female employees on the day of any vaccination till their child reaches 2 years of age.
- Option for 'Light Duty' for a female employee undergoing fertility treatment. This includes reduced working hours (6 per workday) for up to 45 calendar days.
- Paid leave of 3 working days for the birth of up to 3 grandchildren.

These measures have positioned BisB as an attractive place of work for female employees. They have allowed us to improve female representation within the Bank. Women at BisB are empowered to take on key managerial and C-Suite roles, as was recognised externally this year by the Cambridge Institute of Islamic Finance in the UK. Five of our women leaders were named by the Institute as being among the most influential women in Islamic finance.

There are currently a total of 126 female employees at the Bank compared to 111 in 2022, accounting for 35.4% of our total workforce.

The female employees represent 33% of the Bank's middle management and 21% of the senior management teams. These numbers reflect our commitment to female representation, which aligns with the Kingdom of Bahrain's strategy to empower women.

Youth Empowerment at BisB

Youth empowerment is an important aspect of BisB's HR strategy. Our vision for youth empowerment comprises several key elements:

- **Education & Training:** The Bank has several education and training programs for youth that are designed to develop their skills and improve their professional knowledge. These programs take the shape of internships, apprenticeships, and training workshops.
- **Financial Literacy:** BisB plays an important role in improving financial literacy in the youth. We have several financial education programs that teach young people how to manage their money, invest, save, and plan.
- **Career Development:** We partnered with several local educational institutions to offer career guidance and support to students navigating the job market and exploring different career paths. Our support includes job internship and career guidance.
- **Creative Innovation:** Following the success of its first edition, BisB, the leading provider of Islamic digital banking services in the Kingdom of Bahrain in partnership with INJAZ Bahrain, launched the second edition of its Future Leaders Camp in collaboration with the Ministry of Information, Benefit, Gulf Air and Seef Mall, from 15th to 28th of August 2023.
- **Students and Graduates Internship program:** We concluded the University training program for 83 university students and graduates. The program provided trainees with extensive knowledge on the tasks and responsibilities of various banking and administrative positions in the Bank, paving the way for their future success in the labour market. All participants enrolled in the program were given the opportunity to boost their skills and enrich their general knowledge on working operations in the Islamic banking sector. At the end of the program, trainees received certificates of completion indicating that they completed the training requirements.
- **Career Fairs:**
  In 2023, we have attended 5 Universities for career fair including:

  1. Bahrain Polytechnic University
  2. Bahrain Institute for Banking & Finance (BIBF)
  3. Gulf University
  4. Arab Open University
  5. SANS Institute

Human Capital
(Continued)

DIVERSITY, INCLUSION AND EQUAL OPPORTUNITY (CONTINUED)

Number of Bahraini Nationals

Year	Female		Male	
2018	125	35%	223	62%
2019	124	35%	212	60%
2020	119	34%	207	59%
2021	110	33%	198	60%
2022	108	33%	196	60%
2023	125	35%	213	60%

Number of Bahraini Nationals

Year	Entry Level	Entry Level %	Mid Level	Mid Level %	Senior-to-Executive Level	Senior-to-Executive Level %
2018	207	59%	102	29%	39	11%
2019	199	59%	100	30%	37	11%
2020	195	60%	97	30%	34	10%
2021	183	59%	96	31%	29	9%
2022	182	60%	94	31%	28	9%
2023	200	59%	101	30%	37	11%

Total New Hires by Gender*

Year	Male	%	Female	%	Total
2020	6	2.63%	2	1.64%	8
2021	11	5.05%	1	0.88%	12
2022	11	5.16%	10	9.01%	21
2023	36	15.65%	22	17.46%	58

*The percentage calculation is as per the new GRI Standards

Total New Hires by Age Group*

	Below 30 y.o.		Between 30-50 y.o.		Over 50 y.o.		Total
Year	#	%	#	%	#	%	
2020	4	5.26%	4	1.52%	0	0.00%	8
2021	5	9.26%	6	2.25%	1	10.00%	12
2022	11	26.19%	9	3.32%	1	9.09%	21
2023	26	49.06%	31	10.58%	1	10.00%	58

*The percentage calculation is as per the new GRI Standards

Total Employees that left by Gender*

Year	Male	%	Female	%	Total
2020	11	4.82%	8	6.56%	19
2021	21	9.63%	10	8.85%	31
2022	15	7.04%	13	11.71%	28
2023	17	7.39%	7	5.56%	24

*The percentage calculation is as per the new GRI Standards

Human Capital
(Continued)

Total Employees that left by Age Group*							
	Below 30 y.o.		Between 30-50 y.o.		Over 50 y.o.		Total
Year	#	%	#	%	#	%	
2020	2	2.63%	17	6.46%	0	0.00%	19
2021	3	5.56%	26	9.74%	2	20.00%	31
2022	2	4.76%	24	8.86%	2	18.18%	28
2023	4	7.55%	18	6.14%	2	20.00%	24
*The percentage calculation is as per the new GRI Standards							

Year	Total New Hire Rate	Total Turnover Rate
2020	2.3%	5.4%
2021	3.6%	9.4%
2022	6.5%	8.6%
2023	16.3%	6.7%

Ratio of Basic Salary and Remuneration of Women to Men (Gri 405-2)			
Gender Pay Ratio			
Median Compensation (BD)			
Year	Female	Male	Gender Pay Ratio
2018	1,340	1,603	16%
2019	1,368	1,670	18%
2020	1,386	1,663	17%
2021	1,365	1,516	10%
2022	1,418	1,581	10%
2023	1,488	1,802	17%

EMPLOYEE TRAINING AND DEVELOPMENT

Developing Our Workforce

In 2023 we set out to build on being the 'Employer of Choice' to become an 'Incubator of Talent'. Employee training and development is central to our people-first approach to business. It plays a vital role in helping our employees grow personally, develop professionally, and advance in their careers and lives. In addition, as an Islamic Bank it is especially important for our employees to be well-versed in the technical and practical know-how required to successfully offer complex products in a Shari'a-compliant manner. Therefore, skilled and well-trained employees are the ultimate key to creating sustainable value for our Bank, economy, and communities.

We want to ensure that all our employees are equipped to serve our customers in the best way possible, manage risk efficiently, and maintain our compliance with constantly evolving market regulations. To that end, we foster a culture of continuous learning within the organisation.

In 2023 as part of BisB's strategy to foster a high-performing culture, "Frontline Mastery Program" have been developed for the retail banking frontliners, which 86 employees attended.

This program aimed to provide all frontliners with a better understanding of the bank's products and services, as well as the processing practices within each division. By enhancing the frontliners' product knowledge, we aim to contribute to the overall achievement of the Bank's strategy.

Covering all these aspects and more is an expansive training program comprising courses and learning opportunities for employees at all levels.

Human Capital

(Continued)

EMPLOYEE TRAINING AND DEVELOPMENT (CONTINUED)

We delivered this training through our specialised programs, e-learning and partnerships with education organisations. Our learning and development e-learning module now offers a full range of courses from Intuition and LinkedIn. In 2023, we delivered 18,700 hours of training to 356 employees who completed the program. We are also committed to sponsoring and funding professional certifications for our employees.

We set a target for a 5% rise in professional certifications each year and made a strong start with a 14% increase during 2023.

Total number of employees that took parental leave		
Year	Female	Male
2020	7	6
2021	8	6
2022	8	8
2023	**6**	**3**

Total number of employees that returned to work after parental leave ended		
Year	Female	Male
2020	7	6
2021	8	6
2022	8	8
2023	**6**	**3**

Our close partnership with NBB is enabling us to foster a collaborative culture and to benefit from learning exchange opportunities that helps our employees better understand both conventional and Islamic banking methods. During 2023 we seconded 45 members of BisB staff to NBB and welcomed four secondees from NBB into the Bank.

Apart from technical and operational training, we are also focused on creating strong leaders. We recently launched several leadership programs designed to upskill our top performers and develop their leadership skills.

Rise

RISE is a one-year managerial development program designed to train BisB's best and high- potentials for future leadership roles. Developed in partnership with international training consultants, the initiative is an essential part of our succession planning strategy and our efforts to nurture the next generation of BisB leaders. The program focuses on developing both the soft and hard skills of our Bahraini employees who demonstrate the potential to become future leaders. Candidates are selected following a highly rigorous process involving assessments, personality and aptitude tests, and interviews conducted by executive management. Selected candidates then take on modules focusing on developing various skills.

Virtual Training

One of the positive outcomes of the Covid-19 crisis was the acceleration of our digital transformation. We quickly adapted to the new reality of remote work and learning and embraced virtual training programs as a way to keep our employees engaged and up to date. These sessions are now standard practice at BisB, especially while onboarding recruits. To stay competitive in the financial industry, we must stay flexible, agile, and updated on evolving technologies, practices, and regulations. Our focus on upskilling employees through rigorous training is a necessity. By investing in our workforce, we can better navigate market challenges and adapt to disruptions in a cost-efficient and timely manner.

Sustainability Awareness at BisB

Sustainability awareness is essential to BisB's ESG strategy. In recent years, we have been hosting regular sustainability awareness sessions that aim to educate all our employees on the importance of ESG,

Human Capital
(Continued)

to inform them about the Bank's ESG impact, and to align them with our group-level ESG vision and mission.

In 2023, we made sustainability awareness training mandatory for all employees, with 37 employees attending supplementary training sessions relevant to their roles. For this training we produced a bespoke course in conjunction with a specialist third party and complemented that with topical updates and coaching opportunities.

We believe our focus on increasing sustainability awareness goes a long way in helping us advance toward our sustainability objectives and building an engaged and responsible workforce. We are also committed to improving and adjusting our approach to training and development based on the needs of our employees. We conduct regular Bank-wide surveys throughout the year to assess training effectiveness, identify areas of improvement, and understand employee shortfalls. The feedback is used to adjust and improve the following year's training. Taking this iterative and inclusive approach to training and development has allowed us to increase employee engagement and satisfaction.

In 2023 we made sustainability awareness training mandatory for all employees, with

37

employees attending supplementary training sessions relevant to their roles. For this training we produced a bespoke course in conjunction with a specialist third party and complemented that with topical updates and coaching opportunities.

Year	Total training delivered in alignment with Islamic principles (Hours)	Number of employees who completed sustainability-related awareness/ training programs (Number)	Number of Shari'a related awareness campaigns
2020	2,068	67	1
2021	1,181	153	1
2022	2,346	324	5
2023	**2,196**	**365**	**15**

Average Training Hours by Gender			
Year	Female	Male	Total
2020	39	40	79
2021	52	54	106
2022	59	54	113
2023	**52**	**51**	**103**

Total Training Hours by Job Category				
Year	Entry-Level	Mid-Level	Senior Executive Level	Total
2020	6,484	4,913	2,461	**13,858**
2021	10,190	5,530	1,852	**17,572**
2022	9,532	6,664	1,866	**18,062**
2023	**10,901**	**5,982**	**1,286**	**18,169**

06 ← Intellectual Capital

Intellectual Capital

Innovation Through Expertise

At BisB, we use technology to simplify services for customers, through online banking, mobile services, and self-service kiosks with ease of onboarding. It has ensured our market dominance.

Intellectual Capital

DIGITAL TRANSFORMATION AND INNOVATION

Powering Innovation through Digital Technology

BisB embarked on a digital transformation journey six years ago, with the vision of providing exceptional customer experience and value through innovative and simplified banking solutions. In 2023, we achieved significant milestones in our digitalisation efforts, both in our external and internal operations. We leveraged the latest technologies to enhance our banking systems and services, offering our customers convenient and secure access to our offerings through online banking, mobile services, and self-service kiosks. These initiatives enabled us to overcome the challenges posed by the COVID-19 pandemic and ensure service continuity for our customers. As a result, we witnessed an exponential growth in customer acquisitions in the past few years, thanks to the ease of onboarding and customer satisfaction. We also invested in building a robust IT banking infrastructure to support our internal and back-office processes. This improved our operational efficiency by facilitating better coordination between departments, eliminating bottlenecks, and accelerating data recovery and analysis. Consequently, we were able to reduce costs and foster innovation in product development to stay ahead of the competition. BisB is committed to pursuing technological innovation to improve its banking services and products. We will continue to expand our digital portfolio in the future. The following is a summary of our digital initiatives:

Enhancing Branch Services with Digital Solutions

BisB strives to provide the best branch services to our customers, with the help of digital solutions that improve convenience, efficiency, and security. In 2023, we implemented several initiatives in our branches to achieve this goal. These include:

- Enriching the Customer Experience Manager role in all our branches to serve and direct customers to the self-service area, where they can access our digital banking solutions with ease and comfort.
- Allowing our CSRs to update customers' contact details through an automated, controlled, and paperless process that reduces errors and saves time.
- Automating the KYC update process in the branch, allowing our CSR users to seamlessly update customers' KYC information. The service is integrated with Wathiq (eKYC national system), offering a fully automated, quick, and streamlined process, enhancing efficiency, and ensuring compliance.
- Using QR code to collect customer feedback and measure Net Promoter Score (NPS). By scanning the QR code displayed in our branches, customers can easily share their feedback and rate their satisfaction with our branch services. This allows us to gather valuable insights from our customers and improve our branch services accordingly. During 2023, this project delivered an initial Net Promoter Score (NPS) of 61 and will be repeated in future years.

Continuous Improvement and Digital Initiatives

At BisB, we are always striving to improve our customer experience and satisfaction. We believe that digital innovation and transformation are key to achieving this goal. That is why we have introduced and enhanced our existing services based on the feedback we receive from our customers. The following are some of the digital enhancements and initiatives that we have implemented in the past year, and how they have benefited our customers and the bank:

- Enhanced Open Banking Interface by streamlining the pre-registration and improved the overall user experience to comply with the latest standards.
- Upgraded PayPal integration and introduced major user experience enhancements, making it easier and faster for our customers to create or link their PayPal.
- Enabled digital transfers from Tejoori accounts, giving our customers more flexibility and control over their money.
- Enhanced the card activation and PIN change process within the app, allowing customers to reset their PIN numbers and activate their cards without visiting a branch or calling a customer service agent.
- Simplified the retail onboarding process with Tejoori accounts, enabling our customers to open a Tejoori account simply during the onboarding process.
- Revamped the 'Block by Merchant' and 'Block by Country' features, enhancing the

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(Continued)

user experience and security, and adding email notifications to the customers.

- Simplified the transactions dispute management process online, allowing our customers to raise disputes in a more streamlined way.
- Enhanced the investment deposit creation process to enable transfer of profits to a separate account, giving our customers more options and convenience.
- Enhanced the rewards redemption process, making it easier for our customers to redeem their points in various methods.

Leading the Way in Digital Corporate Banking

BisB is proud to be the first bank in the kingdom to offer a fully digitised and automated onboarding process for our corporate customers, covering all types of companies from Sijili to BSC's. We use an innovative API connection to the MOIC (Sijilat) service to simplify the onboarding process and make it more user friendly and efficient. In 2023, we introduced more enhancements to this service to meet the needs and expectations of our corporate clients.

- We have also leveraged our integration with MOIC (Sijilat) service to automate our KYC update process for our corporate customers, by fetching the data from Sijilat. This ensures that our corporate clients' information is always up to date and compliant with the regulations. Moreover, our corporate clients can update their information through online channels without the need to visit us in person, saving them time and hassle.
- Automated promotional emails to potential corporate customers, informing them about our services and encouraging them to join the bank and use our digital banking solutions.
- We also introduced a notification system whereby the client is immediately notified of any transaction that happens through the registered email.
- Several other enhancements to our existing digital corporate banking services were made, such as enhancements to trade finance, remittance, batch transfers, and user access privileges, to provide our corporate clients with more convenience, security, and efficiency.

Back-End Systems Upgrades

BisB is committed to improving its back-end system to enhance its performance, security, and efficiency. In 2023, we accomplished the following:

- Upgraded the IT infrastructure, by updating the core banking software, hardware, and infrastructure setup. This improved our reliability, scalability, and speed.
- Improved the database infrastructure and bank connectivity, by upgrading our database servers, storage, and network devices. This enhanced our data availability, integrity, and accessibility.
- Strengthened our customer data protection and privacy, by upgrading our application and internal network systems. This increased our data encryption, authentication, and authorisation levels.
- Upgraded the Retail Early Settlement portal to newer technology to increase its performance, security, and reliability.

Compliance and Security Certifications

BisB is committed to achieving various certifications to demonstrate its compliance with the best practices and standards in the industry. In 2023, we obtained the following certifications:

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- Independent attestation against the latest version of SWIFT's cyber security control framework, SWIFT Customer Security Controls Framework (CSCF 2023).
- ISO 27001:2022, Information Security Management System certification.
- ISO27701:2019, Privacy Information Management System certification.
- PCI-DSS 4.0, Payment Card Industry Data Security Standard, version 4.0.
- ISO 22301:2019, Business Continuity Management System certification.

Automation and Efficiency

We have introduced automation in our processes and operations, which has increased efficiency, saved time, and reduced human error. Some of the automation initiatives that we have implemented in 2023 are:

- Automation of financing disbursement steps in our core banking system, which has improved the accuracy and speed of the financing process and enhanced the customer satisfaction.
- Automation of ATM card issuance in additional account opening process in digital banking.
- Enhancement of merchant onboarding and settlement process, which has simplified and streamlined the process of registering and settling merchants.
- Reduction of steps in the commodity trading platform (AlFajr), which has reduced the time and complexity of processing the finance and amount disbursement process.
- Created and improved the applications used by BisB staff on Tejoori stand campaign which helped in streamlining the processes of onboarding customers, updating KYC information, opening and depositing Tejoori accounts, and automation of winner's prises posting.

BisB Recognised for Excellence in Smart Devices Application

We are proud to announce that BisB has won the "Best Application for Smart Devices" award at the eGovernment Excellence Awards 2023. This award is a testament to our commitment and efforts to provide the best digital banking solutions to our customers, and to enhance their satisfaction and loyalty. We would like to thank our customers for their trust and support, and our team for their hard work and dedication. We will continue to innovate and improve our application and services, and to contribute to the vision and goals of the digital transformation in the region.

BisB, as one of the pioneering banks in Bahrain, offers its banking services through online and digital platforms. Embracing digitalisation has led to reduced overhead costs and decreased reliance on physical branches. Leveraging cutting-edge technology, first-time customers can sign up using their National ID cards. By taking a selfie and completing all necessary forms electronically, the onboarding process is streamlined. Rigorous authenticity checks validate the IDs, which are then cross-referenced with the submitted selfies, subject to thorough liveness checks and robust security controls—all done digitally. Notably, in 2023, 91% of the newly onboarded customers chose to sign up via our digital platforms.

Case Study – Corporate Mobile Applications

Since 2016, BisB has been working on the development of its mobile banking application as part of a strategy to automate its operations and transform the traditional banking experience for its customers.

The mobile application is compatible with the iOS and Android platforms and is offered in both English and Arabic. It was the first banking app to be developed with a bilingual interface in the Kingdom, designed to give users access to a range of convenient services on their laptop, tablet, mobile phone.

Continuing the improvements on the BisB Mobile Application reiterates the Bank's efforts to enhance its products and services to meet customer expectations. In developing the mobile application, BisB ensured that the application enabled users to experience secure and easy management of their finances on the go through the convenience of their smartphone.

The Bank prioritises keeping pace with the

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industry's latest developments meeting the needs of its customers. With the aim of simplifying the complicated process of conducting banking transactions, BisB launched 'BisB Corporate Digital', combining its e-Banking portal for corporate customers and BisB mobile application, the first of its kind in Bahrain.

One of the key features of BisB's fully-fledged corporate mobile application is the clean design and intuitive user-friendly interface. Moreover, unparalleled customization options ensure that the user can control the privacy of the account and maintain control on transactions. It protects customer data by providing additional security features, including real-time notifications and multi-factor authentication aligned with principles of the secure customer authentication (SCA) EU standard.

Ultimately, the aim of BisB's digital platforms is to improve customers' online experience, allowing them to conduct all transactions safely and securely, anywhere, anytime. It gives customers access to a wide range of convenient services online.

BisB has an exclusive partnership with PayPal giving retail businesses and individuals ease of sending and receiving payments and increased exposure to global e-commerce.

Through the app, users can create new PayPal accounts or link their existing ones. They can top up their PayPal accounts, as well as withdrawing their PayPal balances to their bank accounts through the app. We are the only bank in Bahrain that offers these PayPal Integration services. In 2023, BisB has enhanced the customer experience for PayPal services, simplifying and reducing the steps of the PayPal account creation and linking processes.

BisB Corporate Digital catalysed the migration of customers online, taking basic transactions out of the branch, allowing the Bank's staff to focus on more complex services. This not only creates increased efficiency, but better customer satisfaction, leading to shorter queueing times and therefore a more streamlined customer experience. As a result, the BisB Digital Platform gives customers a simplified, more intuitive, and completely transformed banking experience.

RESPONSIBLE CUSTOMER RELATIONSHIPS

BisB is constantly striving to improve customer relationships and service. This is achieved through training programs for our employees, simplified processes, and digitalization that enhanced customer experience to streamline internal processes and speed up banking services. Our customer service includes catering to individual customer needs, listening to their concerns, and taking prompt action on complaints. BisB offers its customers various channels for communication with the Bank:

- Contact center
- Electronic forms on the Bank's website
- Social media accounts
- Customer support email
- Visiting any of our branches
- WhatsApp

As a retail bank with a large customer base, day-to-day operational issues can lead to customer complaints. Customer-facing employees are charged with resolving routine issues without further escalation. Customer complaints are reported to the management and the Board-designated committee.

During 2023, the Bank received 118 customer complaints representing less than 0.1% of the Bank's total active customer base of over 230,000 customers. The Bank is committed to responding, resolving, and reporting customer complaints in accordance with regulatory requirements.

SUSTAINABILITY THROUGH AUTOMATION

BisB automated and digitalised many corporate and personal banking services, eliminated paper-based systems, and enabled remote access and transactions. This facilitated quicker transaction and processing speeds to help reduce our carbon footprint. Four new services were digitalised across Retail and Corporate Banking, taking the total number of digital services offered by the bank to 62. As a result, BisB was able to save 1.5 million sheets of paper in 2023.

DATA PRIVACY AND SECURITY

In accordance with our philosophy to embed privacy, security, and resilience by design in all our digitalization initiatives, we have and continued to be

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an adopter of a wide range of information security, privacy and business continuity best practices. During 2023, we became the first bank in Bahrain to achieve the latest ISO 27001:2022 Information Security Management System (ISMS) certification, the first Islamic bank in Bahrain to achieve the ISO 27701:2019 Privacy Information Management System (PIMS), and the first to be certified with the card security-specific Payment Card Industry – Data Security Standard (PCI-DSS) version 4.0; all by leveraging the expertise of our skilled in-house Bahraini resources.

Driven by our vision to operate as a regional centre of excellence for security, privacy and continuity domains, we were keen on spreading our knowledge and proven practices for the benefit of the banking industry and the nation as a whole. We became the first bank to develop enhanced Apple Pay provision guidelines which proved their effectiveness in mitigating almost all of Apple Pay frauds. Our implementation was shared with the regulator and other banks to set the new local guidelines in this area. We as well were invited to support the development and provide feedback on various national frameworks and initiatives, setting a new strategic direction in several cases.

We also collaborated and worked with various regulators and national government bodies, in the development of national frameworks, standards and regulations.

Building on existing certifications against ISO 22301:2019 Business Continuity Management System (BCMS) and SWIFT Customer Security Controls Framework (CSCF), we completed a full independent reassessment against the BCMS ISO standard to ensure capability of the bank to continue its operations during periods of crises and SWIFT CSCF v2023 to protect the bank's SWIFT environment against unauthorised access and cyber threats, extending the validity of both of those prestigious certifications to 2024. The Bank's processes are also aligned with leading best practices including the National Institute of Standards and Technology (NIST) Cybersecurity Framework, the Business Continuity Institute (BCI) Good Practice Guideline (GPG), The Open Worldwide Application Security Project (OWASP) guidelines, Center of Internet Security (CIS) benchmark and others.

As an institution, we value customer data privacy and protection. We believe privacy is a fundamental value aligned with Shari'a law and ethical business practices. We continue to embed security, privacy and resilience awareness into the culture and working ethos of our organisation. We aim to ensure that customised and strategically designed data privacy and protection principles are applied to existing and newly enhanced processes, products, and services. Our layered trust controls approach is entrenched in everything we do as we transform our business.

We value the importance of transparency and place great regard on customers trusting the Bank's products and services. It is our core mandate to ensure that all communications with customers are fair and transparent, and that sensitive communications with customers and third parties are sufficiently vetted by professionally trained frontline staff from respective departments, such as Marketing, Corporate Communications, Legal, Compliance, Information Security and Business Units.
Our range of security and privacy measures enable us to safeguard our customers and facilitate transactions across different platforms: online, mobile, self-service Kiosks, ATMs and ITMs. To build on this endeavour, training programmes and awareness activities took place over the year to further embed privacy, security, and operational resilience into our culture. This included the practice of ensuring that 'Privacy by Design' and 'Security by Design' principles are followed in the development, maintenance and operations of products and services we introduce and operate. We are pleased to report that no security breaches were reported this year.

Business Continuity Management

We were the first organisation in Bahrain, and among the first worldwide, to achieve ISO 22301:2019 Business Continuity Management System certification. We implemented a Business Continuity Management (BCM) programme that allows us to enhance the resilience and continuity of critical services. We continued maintaining and enhancing our Business Continuity and Operational Resilience framework, through the utilization of innovative cloud-based management solutions.

During the year, several exercises were conducted to simulate the response to site unavailability, cyberattacks, and business disruptions and assess our response and recovery capabilities through extensive tests and exercises that were conducted on live and simulated disaster recovery environments

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(Continued)

and business continuity physical site. We organised a training and professional certification program for our team on business continuity and resilience best practice by training them on Business Continuity Institute (BCI) certification programs.

Our contribution extended to participation in various international and regional projects and initiatives. During 2023, our CISO became the first GCC national to be awarded the Fellow of the BCI grade (FBCI), an honor only granted to those who contribute to the profession on a regional and international level. This follows years of service as head of the Bahrain Association of Banks' Business Continuity Committee and to the BCI – both as a jury member in all six BCI awards program across all regions and as the only Middle Eastern participant in the BCI Good Practice Guideline (GPG) 2023 Working Group.

This working group of international experts was tasked with developing a new version of the international best practice in Business Continuity and Resilience framework, and our CISO was recognised for his significant contribution to the development of the latest BCI GPG version 7.0. Another member of our information security department, a department which now boasts 23 professional certifications collectively, was named Best Continuity and Resilience Newcomers in the BCI's 2023 Middle East awards.

The integration with NBB has enabled us to further develop our BCM framework. A core team of individuals with expertise in the fields of resilience, information, and cyber security have worked together to develop and implement new systems for BCM across the group. Work has involved implementing, testing, and auditing components, structures, templates, and documentation for an enhanced BCM system.

The first groupwide BCM framework was jointly developed and approved by the Board at the end of 2021. Our approach is closely aligned with best practices and international standards. The system has enabled us to better understand the challenges, gaps in infrastructure, interdependencies, and potential scenarios.

The full BCM framework, which is cloud-based and paperless, brings a number of advantages including process efficiencies, the provision of computer-based training that is accessible for all staff and new joiners, enhanced exercises, automation of key processes, the development of new measures and performance indicators that are linked to the Board approved policies, and reductions in cost.

Bahrain Islamic Bank B.S.C.

07 ⟵ Natural Capital

Natural Capital

Preserving Natural Resources

We aim to measure, track, and minimize our environmental footprint using a targeted approach that focuses on our energy consumption, water usage, waste reduction, and more

Natural Capital

We believe that our business thrives on the sustainability of the environment, communities and economies in which we operate, and aspire to be recognised nationally as a top supporter of sustainable development. As a leading financial institution, we strive to manage our environmental impacts, risks and opportunities to safeguard the environment where we operate. BisB has established an Environmental Management System (EMS) that follows the international standard for an EMS, ISO 14001:2015. The system includes our Environmental Policy that sets the foundation of Environmental Management framework and governs main environmental activities that is appropriate to the Bank. It also improves the Banks' environmental performance and showcases its commitment to protect the environment and reduces our footprint. The EMS covers all operations of The Bank (direct) and our value chain (indirect). It includes, but not limited to, minimizing our direct and indirect environmental impacts including energy use and climate change, water use and waste.

Environmental objectives will be documented in the Environmental Management Plan, together with details of a plan for how they will be achieved. Once approved, this plan will be reviewed on a semi-annual basis as part of the management review process, at which time the objectives will also be reviewed to ensure that they remain valid and relevant issues are identified through the audit programme and management processes.

At BisB, we are committed to managing our direct environmental impacts through:

- Meeting our environmental objectives and targets by monitoring, reporting and taking appropriate actions to reduce energy consumption (power & water), greenhouse gas emissions as well as paper consumption and waste;
- Investing in energy efficient technologies;
- Managing our business operations to prevent pollution;
- Managing waste generated from our business operations according to the principles of reducing, re-using and recycling – where cost efficient; and
- Giving due consideration to environmental issues and energy performance in the acquisition, design, refurbishment, location and use of buildings.

We aim to work with our suppliers to positively influence their environmental performance by:

- Considering environmental criteria while procuring goods and services;
- Focusing on material outsourcing and high-risk suppliers where we regularly monitor their environmental performance and address environmental issues, risks and opportunities where applicable;
- Increasing suppliers' awareness on environmental, social and ethical issues as well as risks and opportunities that are relevant to their operations and products; and
- Ensuring our suppliers are abiding to local standards of practice.

Energy Efficiency

Our objective is to optimise our energy consumption. We undertook steps to track our energy use across various activities, including Bank operations, overseas travel, and more. We actively worked to minimise our consumption of different energy sources, such as electricity and fuel, across these activities by 5% this year We acknowledge the fact that the Bank's operations may include means of transportation in which environmental impacts may result. For that, we abide by our commitment to explore various initiatives that can assist in reducing and eliminating such impacts wherever possible, applicable, and feasible from the business point of view through the adoption of technological innovations.

Water Conservation

With reference to the Bank's commitment to the EMS, water conservation measures at BisB include tracking our water consumption and expenditure, implementing different methods of minimizing wastage, including raising awareness among staff and distributing thermal water flasks to the members of BisB staff, with the objective of mitigating the consumption of single-use water bottles. Thus, ensuring to achieve the organisation's environmental objective of minimizing of water consumption.

Waste Reduction

We strive to reduce our waste generation by 5%. Through spreading awareness and encouraging employees to recycle waste within the bank, composting programs, monitoring the recycling reports, promoting eco-friendly products across our offices, and reducing our reliance on paper and packaged products.

Natural Capital
(Continued)

Climate Risk

BisB's proactive approach to reducing the Bank's greenhouse gas (GHG) emissions is through the implementation of ISO 14001:2015. Through this Certification, BisB is able to manage its environmental responsibilities, enhance environmental performance, fulfil its regulatory obligations, and achieve the organisation's environmental objective of reducing 5% of gases produced.

The creation of a comprehensive dashboard with ESG specific targets and goals that align with our sustainability objectives is a crucial step in our commitment to sustainability. This dashboard serves as a central tool for monitoring and tracking our ESG performance across various key indicators. This includes a proactive approach to reducing the Bank's GHG emissions and incorporating climate risk in our risk management framework, introducing green products, financing and spreading awareness around ESG to employees throughout the Bank. This comprehensive dashboard provides transparency and accountability in its monthly and year on year monitoring mechanism, enabling us to effectively communicate our sustainability efforts to stakeholders.

Energy Use data

Total energy consumed and breakdown by type:

- Indirect energy consumed in the form of electricity, heating, cooling (i.e., total of energy purchases): 14,025.63 GJ and energy intensity 43.29GJ

- Direct energy consumed, classified by renewable and non-renewable sources: 164.95 GJ and energy intensity 0.51GJ

(These points are produced as per ISO14001:2015)

Energy Consumption: electricity, waste, water

(Al Salam Tower only)
- Electricity: 3591000 KwH
- Water: 7468 m3
- Waste: 0.87497 Metric Tons

Updates on Solar installations on branches:

BisB has implemented solar panel systems in 2 of its branches, specifically at the Arad Financial Mall branch and the Hamad Town Financial Mall branch. The installation of these solar panels showcases BisB's commitment to sustainability and renewable energy practices.

Green House Gas (GHG) Emissions:

BisB uses the DEFRA standards to calculate Green House Gas (GHG) Emissions.

Unit: metric tons of CO_2 or equivalent

- Scope 1 (fuel) = 6.06 (MT CO_2 e)
- Scope 2 (electricity)= 1908.91 (MT CO_2 e)
- Scope 3 (Water, Wastewater, Waste, Paper consumption) = 33.8 (MT CO_2 e)

Total GHG emissions/per output scaling factor e.g. revenue or employee. - E.g. report GHG emissions/employee/yr - N/A

Total non-GHG emissions per output scaling factor - N/A

Water Usage:

- Total annual amount of water consumed by the organisation. 7468 m3 (only AlSalam Tower)
- Total annual amount of water withdrawn by the organisation - N/A
- Total annual amount of water recycled/reclaimed by the organisation - N/A

Waste Generation:

To effectively manage waste within the bank, a comprehensive approach is taken which includes monitoring the total weight of waste generated in metric tons, with a specific focus on AlSalam Tower. The composition of the total waste generated is hazardous and non-hazardous, which amounts to 0.87497 Metric tons. The Bank engages a third-party vendor conducting monthly weighing of recycled waste, and the bank adheres to the recycling method done by the third-party vendor.

08 ⟵ Social Capital

Social & Relationship Capital

Supporting Our Community

Since its establishment, BisB has been committed to its corporate social responsibility. Over the years, we have implemented and supported various initiatives to strengthen our local communities in line with our Islamic principles and commitment to giving back.

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Social Capital

COMMUNITY INVESTMENT

How We Support Our Communities

Since its establishment, BisB has been committed to corporate social responsibility. Over the years, we have implemented and supported various initiatives to strengthen our local communities in line with our Islamic principles and commitment to giving back. Recent society-benefitting initiatives have included the instituting of housing solutions, the provision of case-by-case healthcare financing, bespoke construction financing, and special loans for marriages and other significant occasions. The diverse suite of financial support offered by BisB to its clients helps to shine a spotlight on Islamic banking and its ancillary benefits.

Our dedicated volunteer team, Jood, leads philanthropy and CSR outreach at BisB. The team manages sponsorship of welfare programs, zakat collection and distribution, and regular donations to charity organisations aligned with BisB values. Jood has consistently delivered on BisB's promise to support the communities where we operate through programs aimed at social welfare, education, health, the environment, and community development. We also regularly partner with government agencies and NGOs on community development and sustainability initiatives. The success of our philanthropic efforts is largely due to the commitment of our employees, who volunteer their time to worthy causes in their communities.

BisB initiatives such as 'Iftar on the Road', which honours the holy month of Ramadan, have become widely recognised across the Kingdom. The bank has always encouraged the spirit of giving and the Jood team strives to embody the generosity and spirit of friendship which can be found throughout the villages, towns, and cities of Bahrain. During Ramadan the Jood team distributes Iftar meals packed in recyclable paper bags. This year, volunteers and their family members distributed over 1,500 Iftar meals to drivers at major traffic intersections prior to the sunset call to prayer, personifying the spirit of collaboration.

Community Service in Practice

In 2023, BisB organised and supported several programs as part of its CSR agenda:

- In March the Bank sponsored 'The Family Forum', held by Kaaf Humanitarian at the Diplomat Radisson Blu Hotel in Manama. Through a range of engaging seminars and discussions, this forum aimed to spread awareness to prospective spouses on the different aspects of family life and how to overcome marital challenges, ultimately leading to closer family bonds and a stronger society.

Social Capital
(Continued)

- Also in March, the Bank announced the winners of its 'Outstanding Achievement Awards'. This new initiative aims to celebrate the successes of exceptional, pioneering Bahrainis. Winners were selected from among over 800 submissions in categories as diverse as sports, business, film making and education, with winners taking home cash prises up to BD10,000.

- While Jood team members took to the streets to give back to Bahrainis during the Holy Month of Ramadan, the bank played its part with offers of reduced profit rates on several financing schemes, from auto to property. Customers applying for a Mazaya finance also enjoyed free life insurance.

- For the second year running BisB supported the national forestation campaign, 'Forever Green', by taking part in the planting of over 100 trees and shrubs in the Casino Garden at Muharraq.

- In May, the Bank supported the Ministry of Housing and Urban Planning by participating in an event to help the private sector facilitate housing solutions in Bahrain. BisB took a stand at the Housing Finance Exhibition, at which the Government formally introduced homes in the Suhail Project to Bahrainis eligible for housing service. Representatives of the Bank helped explain the housing market to visitors and offered a range of financing benefits.

- Also in May, the Bank was the Golden sponsor of the 21st Edition of the Annual AAOIFI Shari'a Board Conference. The AAOIFI Conference discusses essential developments within the Islamic banking sector, and acts as a knowledge-sharing forum for elite scholars of Islamic law, officials from central banks, regulatory bodies, financial, accounting, and auditing institutions, law firms, universities, and higher education institutions from across the world.

- In June, BisB sponsored the 'Coins Through Culture & History' exhibition at the Bahrain National Museum. Through rare and historic coins, the exhibition showcased the cultural and commercial aspects of Arab-Roman relations, including dinars and dirhams that were in circulation during the time of the Prophet Mohammed, peace be upon him.

- Also in June, the Jood team joined with the Al Sanabel Orphan Care Society to shop for Eid clothes for more than 30 orphaned children aged between 7 and 12.

- To coincide with World Humanitarian Day, Jood organised a series of humanitarian and voluntary initiatives that ran through the month of August. These included taking gifts to children being treated for cancer in hospital and distributing hats and cold drinks to outdoor workers.

- In the second half of August BisB and INJAZ Bahrain launched the second edition of the 'Future Leaders Camp' for young people under the age of 18. Around 200 students took part in the Camp, including a tour of the Bank's departments and attending educational and recreational trips to the program's partners organized by INJAZ Bahrain. This aimed to equip the students with a variety of skills and knowledge in financial management, and to develop their creative thinking and leadership skills through various activities. The initiative also raised awareness on the importance of preserving the environment by encouraging students to use Future Leaders wearables to buy recyclable eco-friendly goods.

- Recognising the vital role medical professionals play in the success of Bahraini society, BisB signed an agreement with the Labor Fund (Tamkeen) in October to finance the education of doctors looking to pursue advanced academic studies and attain master's degrees and fellowships in desired specializations. Tamkeen will be subsidizing 100% of the profit during the grace period and 50% during the repayment period upon verifying the academic program's accreditation with the National Health Regulatory Authority (NHRA).

- In November, the Bank took on the golden sponsorship of the 18th edition of AAOIFI's Islamic Banking and Finance Conference. The event was also supported by the Central Bank of Bahrain.
- In celebration of the International Day of Older People, Jood organised a visit to the Ebrahim Khalil Kanoo Community Center during which gifts were distributed to the elderly. Bank employees also joined them for a community breakfast followed by entertaining competitions.

- The national afforestation campaign, 'Forever Green', was back in focus for the Jood team in November when it joined children from the Bahrain Down Syndrome Society on World Children's Day. Together they planted 100 seedlings at Samaheej Park in the third phase of the campaign.

Social Capital
(Continued)

- In December, the Bank sponsored traditional village events to mark and celebrate Bahrain National Day.

RESPONSIBLE SOURCING

BisB is driven to promote sustainability and social responsibility across its supply chain to eliminate risk to the Bank's reputation, support the local business community, and abate some of its Scope 3 GHG Emissions. Responsible sourcing entails ensuring that all BisB's supply chain partners use ethical and sustainable practices to procure their materials. It also means ensuring that all our suppliers use fair labour practices, minimise their environmental impact, and provide safe working conditions to their employees.

Responsible resource procurement is essential in our efforts to boost the local economy. We support our local communities and businesses by sourcing directly from them. In 2023, 86% of the Bank's suppliers were locally based and earned a total of BH 10.4 million from the Bank. We put all prospective suppliers through a rigorous vetting process to measure service quality, vendor capability, and cost competitiveness.

FINANCIAL INCLUSION & LITERACY

Financial Inclusion

At BisB, we envision a financially empowered Bahrain where everyone can access basic financial products and services. Our product and service portfolio, based on the principles of Islamic Finance, is fit for the needs of all people and businesses in the country. We ensure financial inclusion by making our services readily accessible all individuals and businesses across the Kingdom of Bahrain, enabled by our digital activities. Also, the development of the national economy is aided by utilizing a variety of Islamic banking products, including social housing programs to individuals in coordination with Eskan Bank, Tasheel Aqari in association with Ministry of Housing, home financing business in coordination with Naseej, Era Real Estate and Delmon Gate and the Qard Al-Hassan profit free financing solutions.

BisB has partnered with the Ministry of Finance and Tamkeen to offer liquidity to clients at substantially subsidised rates through a variety of initiatives to SMEs. It aims to provide SMEs with much-needed support to grow and eventually achieve their goals, especially in the light of the current economic environment. Because we value SMEs as a key segment of the economy, we held a joint event for them in November together with the SMEs Development Board. Over 300 SMEs attended the event to hear from informative speakers and to learn about the integrated services we can offer them, from export solutions to 24-hour approvals on financing and fast payment services.

We also seek to raise awareness of financial matters across society. Our relationship managers are trained to provide their clients with the most appropriate financial advice and ensure that our product offering provides the best possible match to their requirements.

Financial Literacy

A country's future is its youth. Therefore, it is critical that Bahrain invests in the education and training of its future leaders to enable them to become valuable drivers for economic growth, social improvement, and sustainability transformation. BisB is playing its part in supporting and providing financial education and training to children in Bahrain. We have implemented and supported several programs that teach skills like financial management to high school and college students.

Prudent financial literacy is the key to empowering young adults and ensuring they make smart economic decisions. In 2023, we introduced various educational initiatives to increase financial literacy in our youth. Our programs were organized in collaboration with the following:

Social Capital
(Continued)

The Bank's 'Virtual Innovation Camp' is the result of its collaboration with INJAZ Bahrain and was introduced for University of Bahrain students. The initiative was designed to develop and inspire entrepreneurial students by providing them with a window into the realm of investment, broadening their horizons and encouraging them to consider a career in finance. The annual Virtual Innovation Camp takes place over the course of two days, drawing hundreds of students.

In the second half of August BisB and INJAZ Bahrain launched the second edition of the 'Future Leaders Camp' for young people under the age of 18. Around 200 students took part in the Camp, including a tour of the Bank's departments and attending educational and recreational trips to the program's partners organized by INJAZ Bahrain.

The Camp highlighted BisB's range of products designed for youth, especially for holders of the Future Leaders wearables, a cashless payment solution that enables parents to track and manage their children's spending through a prepaid card, the BisB mobile application, or the Bank's website.

This aimed to equip the students with a variety of skills and knowledge in financial management, and to develop their creative thinking and leadership skills through various activities.

The initiative also raised awareness on the importance of preserving the environment by encouraging students to use Future Leaders wearables to buy recyclable eco-friendly goods. During the conclusion of the program, the winning students were honoured by the Chief Executive Officer of BisB and INJAZ Bahrain representatives.

09 ← Safeguarding Value

Safeguarding Value

Effective Risk Management

At BisB, we safeguard the financial interests of our stakeholders by ensuring a comprehensive system of checks, balances, and accountability. The Bank maintains its financial stability and business continuity by ensuring sufficient liquidity, implementing effective risk management and internal control systems, and complying with all relevant laws and regulations.

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09 ⟵ Safeguarding Value

At BisB, we safeguard the financial interests of our stakeholders by ensuring a comprehensive system of checks, balances, and accountability. The Bank maintains its financial stability and business continuity by ensuring sufficient liquidity, implementing effective risk management and internal control systems, and complying with all relevant laws and regulations.

We have put in place systematic checks to ensure business functions are performed efficiently, and our risk exposure is minimised. Our robust internal governance system aligns our operations with our key pillar within our strategy 'safe, sustainable and trusting' which aims to establish a secure and trustworthy environment for our customers, employees and stakeholders by rigorously adhering to compliance and risk standards, maintaining the highest levels of integrity, and upholding transparency. BisB also strives to have a robust compliance framework that ensures all employees and departments follow internal policies and the regulatory requirements of all relevant authorities.

The governance structure at BisB comprises several board committees that ensure separation of functions on our financial performance, remuneration, governance, and sustainability practices. Moreover, our risk management division monitors our services and operations and assesses our credit, liquidity, market, operational, and reputation risks. We aim to keep our risk exposure at a minimum and to avoid any breaches of internal or external policies and regulations. Our independent internal audit function plays a crucial role here, providing extra protection against internal and external threats.

ROBUST GOVERNANCE STRUCTURE

At BisB we recognise that responsible and ethical governance is essential to the success of any organisation, especially as we assume greater economic responsibility and exposure to risk. BisB's governance structure identifies key individuals and committees that provide oversight to the Bank's operations in line with our internal rules and external regulations. Our Board of Directors and Executive Management are responsible for making strategic decisions and ensuring company-wide alignment with the Bank's vision, mission, and guiding principles.

Our governance structure is supported by policies and frameworks that define business rules. These protocols primarily govern our human resources and financial management. Furthermore, we have formal frameworks for whistleblowing, countering money laundering, and fraud prevention to ensure compliance with regulatory requirements and ethical business practices. BisB's governance structure aims to ensure that the Bank is run efficiently, in line with industry best practice, and protects the interests of all stakeholders.

Board of Directors

BisB has 5 board committees that oversee the Bank's operations and ensure good governance:

Executive Committee

Empowered by the Board to manage the group's ongoing credit activities. Decisions by the Board Executive Committee are taken at periodic meetings or when (and if) circumstances call for it.

Nomination, Remuneration, Governance & Sustainability Committee

Determines all Bank employees' rewards and incentive structures, advising the Bank's compensation policies and practices. It also determines the variables across remuneration packages. This committee aims to ensure fair and responsible compensation for all employees.

Audit Committee

The Audit Committee, a subset of the Board of Directors, plays a crucial role ensuring the organization has strong and effective processes

Safeguarding Value
(Continued)

relating to independence, internal control, risk management, compliance, ethics, and financial disclosures. The committee reinforces both internal and external audit processes. The Internal Audit Department supports the committee by regularly assessing internal controls across operating units and reporting any relevant findings to the committee.

Board Risk & Compliance Committee

Responsible for overseeing the Bank's risk management governance, specifically concerning identifying, measuring, monitoring, and reporting the risks critical to the Bank's operations. The committee also oversees compliance with the Regulatory and Legal requirements.

Board Independent Committee

Oversees the acquisition of BisB's shares. The Board Independent Committee has been reactivated to handle an advisory role and to provide advice and recommendations to the Board of Directors on issues related to synergies between NBB and BisB.

SUSTAINABILITY GOVERNANCE

Board Oversight

In 2021, Sustainability was incorporated as a strategic pillar within the Nomination, Remuneration and Governance Committee. The objective was to empower the Board to provide the necessary impetus towards achieving the Bank's ESG objectives in line with its 3-year road map and strategy through regular assessment of ESG factors impacting the organisation, its competitive advantage and stakeholder relationships. Board members are updated on a regular basis and approve initiatives proposed by the newly established Sustainability Committee.

At least every quarter, the Bank's ESG objectives are tracked and reported to the NRGSC. Through this governance framework, the Bank has taken proactive steps in embedding sustainability practices throughout its policies, procedures, risk management practices and strategic decision making. Through this practice, the Bank is looking to enhance its resilience, reputation and create long term value for its stakeholders and contributing toward the national and international Sustainable Development Goals.

In 2023, BisB took significant steps to embed sustainable practices throughout the bank. We have appointed a Chief of Strategy and Sustainability alongside a Head of Sustainability & Governance. These two roles have been responsible for developing and implementing a comprehensive sustainability strategy that is embedded within the larger strategy of the Bank and that aligns with organisational values and vision.

Sustainability Committee

The Bank has also established a Sustainability Committee to make sure that sustainability is integrated in the Bank's governance structure, activities and work. This effort has been further reinforced through the introduction of Sustainability KPIs and performance targets across the organisation.

The Sustainability Committee also consists of Sustainability Champions representing cross-departmental functions and is responsible for assisting the Bank's Management in incorporating sustainability considerations when executing the approved business Strategy. In addition to guiding, supporting and monitoring the Bank's ongoing commitment to develop and successfully implement the Sustainability Framework and 3-year roadmap through its close association with its identified stakeholders. The Sustainability Committee is also tasked with growing awareness and creating impact around new and ongoing ESG identified initiatives.

Workforce Awareness

The Bank has made a concerted effort in raising ESG awareness by mandating ESG training across its workforce and has ensured 100% of its employees has undertaken the required training. The organisation has also through its commitment to raising awareness around ESG introduced a month-long curriculum around ESG. Furthermore, the bank is providing a wide variety of E-Learning courses related to ESG and sustainability through the Bank HR Portal that is accessible for all employees.

Safeguarding Value

COMPLIANCE

BisB is committed to ensuring that the activities of the Bank and its employees are conducted in accordance with the applicable laws and regulations issued by relevant regulatory authorities, as well as the Bank's internal policies and procedures. The Compliance function at BisB is independent of any business unit and reports directly to the Board Risk and Compliance Committee.

The Compliance Department assists in the development of a healthy compliance culture by increasing awareness of the regulatory environment and the compliance risks that the Bank is exposed to. Its role includes covering against the risk of legal or regulatory sanctions, material financial loss, or loss of reputation that the Bank may suffer as a result of failure to comply with laws, regulations, directives, directions, reporting requirements and codes of conduct, including internal codes of conduct.

Compliance falls under the second line of defence alongside other support functions, such as risk management, legal, human resources, finance, operations, and information technology. Each of these functions, in close collaboration with the business units, ensures that risks in the business units have been appropriately identified and managed. The business support functions work closely to help define the strategy, implement Bank policies and procedures, and collect information to create a Bank-wide view of risks.

We strive to strengthen our compliance culture and are committed to enhancing our policies, procedures, systems, and controls. Considering the regulatory updates and the Bank's internal guidelines, the Compliance Department ensures that the Bank's policies and procedures are periodically reviewed and approved by Executive Management and the Board of Directors, as applicable. Accordingly, compliance risk monitoring is a continuous process of examining whether sufficient compliance risk controls are designed and working effectively.

BisB is committed to implementing the Anti-Money Laundering and Combating the Financing of Terrorism ('AML/ CFT') Policy and Procedures Framework in conformity with the legal and regulatory requirements of the Kingdom of Bahrain as well as the CBB's Financial Crime Module - Rulebook - (Volume 2). These legal and regulatory requirements align with The International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation, including the FATF's Recommendations. The framework also includes adopting procedures reasonably designed to comply with the requirements of applicable local and International Sanctions Programs.

Safeguarding Value
(Continued)

INTERNAL AUDIT

BisB's Internal Audit division is responsible for evaluating and providing reasonable, objective, and independent opinions about the adequacy and the effectiveness of the Bank's internal controls, risk management, and governance processes. The Audit Committee charter, Internal Audit charter, and the Whistleblowing policy were updated during 2023 in light with recent changes in the CBB requirements and to align with the recommendations made by the Group.

The Internal Audit team regularly conducts audit tasks on the Bank's operations and systems according to the plan approved by the Board Audit Committee, in order to identify any areas of weakness or risk and provides recommendations for improvement.

RISK MANAGEMENT

BisB's Risk Management division is responsible for identifying, assessing, and managing the Bank's risks. The main objective is to minimise risks and safeguard the Bank's assets in line with the Bank's Risk Appetite and Framework. The division develops and implements policies and procedures to mitigate risks, monitor, and report the Bank's overall risk profile to ensure that the Bank operates within the limits set forth by the Board of Directors.
BisB's risk management strategy aims at maintaining robust Risk Management practice driven by talent and control, and at enhancing shareholders' value through risk-reward optimization. It aims to achieve this by having robust policies, procedures, controls and processes that allow the identification, measurement, assessment, monitoring and reporting the different types of risks the Bank is exposed to with the objective of ensuring compliance with the Bank's risk appetite/ framework as approved by the Board of Directors.

The Board's Risk and Compliance Committee advises the Board of Directors on the risk limits the Bank should set. The limits set forth, and the Bank's overall risk management policy, protect asset values, revenue streams, and the value of our portfolios. They are binding on all Bank employees.

10 ⟵ Corporate Governance Review

Corporate Governance Framework

BisB is committed to upholding the highest standards of corporate governance by way of balancing entrepreneurship, regulatory compliance, and industry best practices, while creating value for all stakeholders. It also involves having the right checks and balances in place throughout the organisation to ensure that the Bank's processes are within an adequate, efficient, and robust internal control and governance framework. The Corporate Governance Policy was amended to take into account all revisions made as per the revised HC Module published by the CBB in 2023.

Statement of Responsibility

The Board of Director (the Board) is ultimately accountable to the shareholders for the creation and delivery of strong sustainable financial performance and long-term shareholder value through strategic initiatives. The Chairman is responsible for leading the Board, ensuring its effectiveness, monitoring the performance of the Executive Management and maintaining a dialogue with the Bank's shareholders. The Board has established the following Committees to assist it in carrying out its responsibilities:

1. Executive Committee (EC);
2. Audit Committee (AC);
3. Nomination, Remuneration, Governance, and Sustainability Committee (NRGSC);
4. Board Risk and Compliance Committee (BRCC); and
5. Board Independent Committee (BIC)* .

*The Board Independent Committee has been formed to handle an advisory role and provide advice and recommendations to the Board of Directors on issues related to integration and synergies between National Bank of Bahrain (NBB) and Bahrain Islamic Bank (BisB). BisB's corporate governance framework is built on a code of conduct, policies, procedures, internal controls, risk management, Shari'a review and audit, internal and external audit and compliance functions. The framework is based on effective communications, transparent disclosures, performance measurement and accountability. An independent Internal Audit function is established within the Bank that reports functionally to the AC.

Code of Conduct

BisB conducts its business in accordance with the highest standards of ethical behaviour. A Business Code of Conduct has been developed, based on the Central Bank of Bahrain (CBB) Principles of Business regulations, to govern the personal and professional conduct of the directors and employees of the Bank. The Code of Conduct is based on the following principals:

1. Integrity;
2. Conflicts of Interest;
3. Due Skill, Care and Diligence;
4. Confidentiality;
5. Market Conduct;
6. Customer Assets;
7. Customer Interests;
8. Relations with Regulators;
9. Adequate Resources;
10. Management, System and Controls.

The requirements under each of the above principles are made available to the Board and employees of the Bank. The Board monitors any exceptions to the above principles by way of reviewing formal reports issued to the Board's AC.

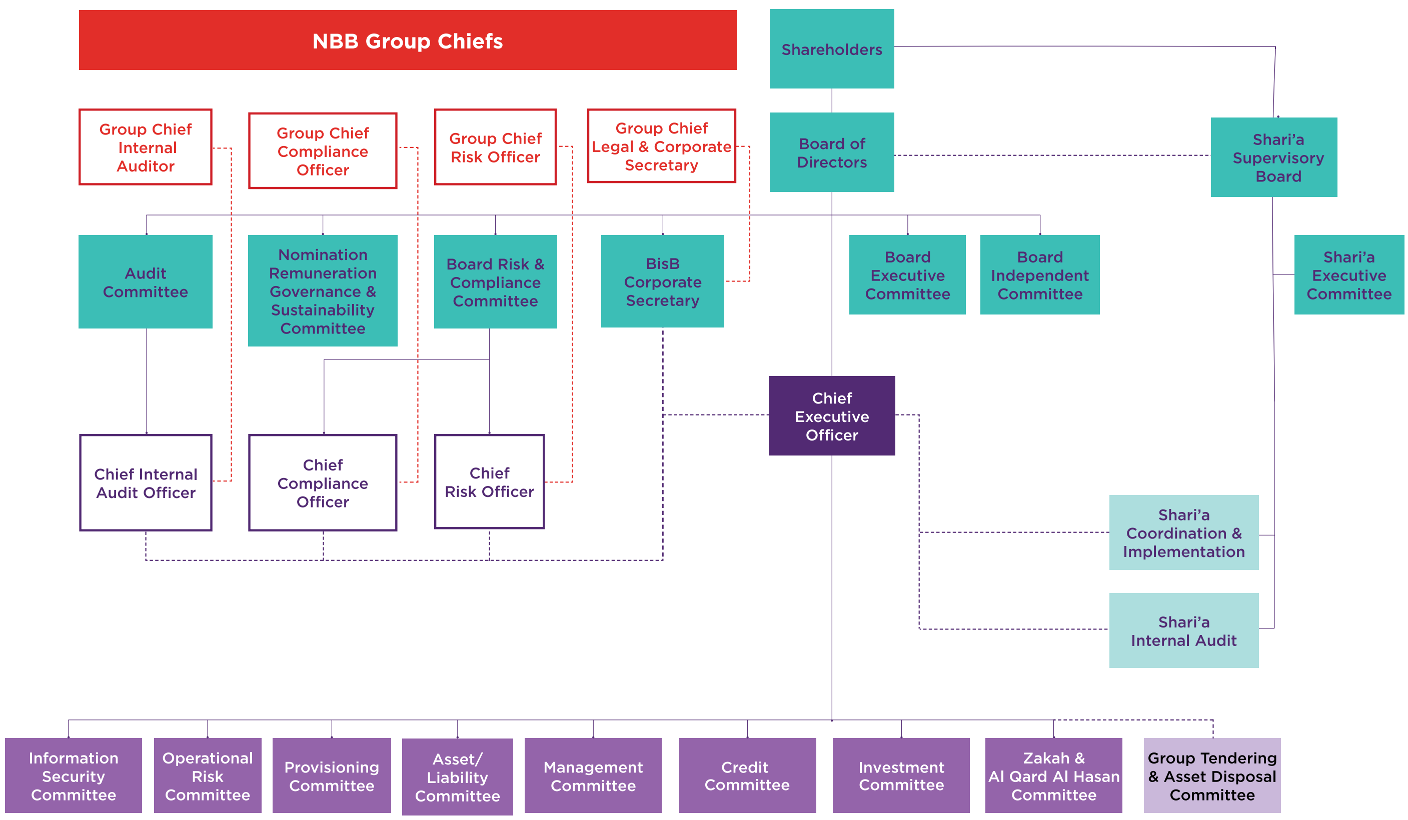
Compliance

Compliance is an independent function that reports to the BRCC. The Compliance function, guided by the Board's approved policies, works with various business and control functions of the Bank to ensure compliance with the applicable rules and regulations of the relevant regulatory authorities. Given the digital business strategy of the Bank, as well as the expanding regulatory scrutiny and enforcement, the Compliance Department of the Bank is keeping up with the digital advancements by participating in the risk management process from regulatory compliance perspective.

Communications

BisB conducts all communications with its stakeholders in a professional, honest, transparent, understandable, accurate and timely manner. Main communication channels include the annual report, website, and regular announcements in the appropriate local media.

Corporate Governance Review
(Continued)



Corporate Governance Review
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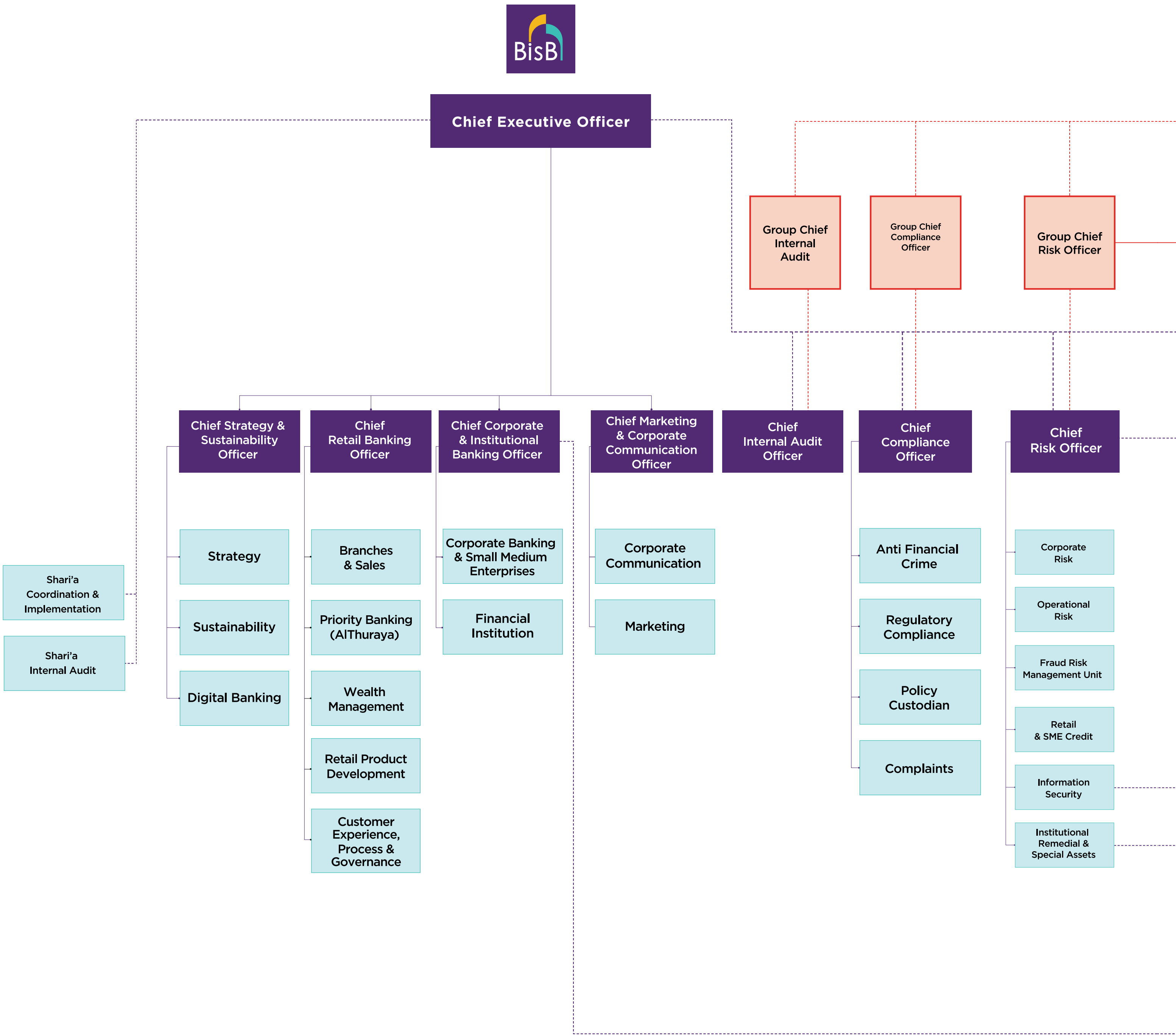
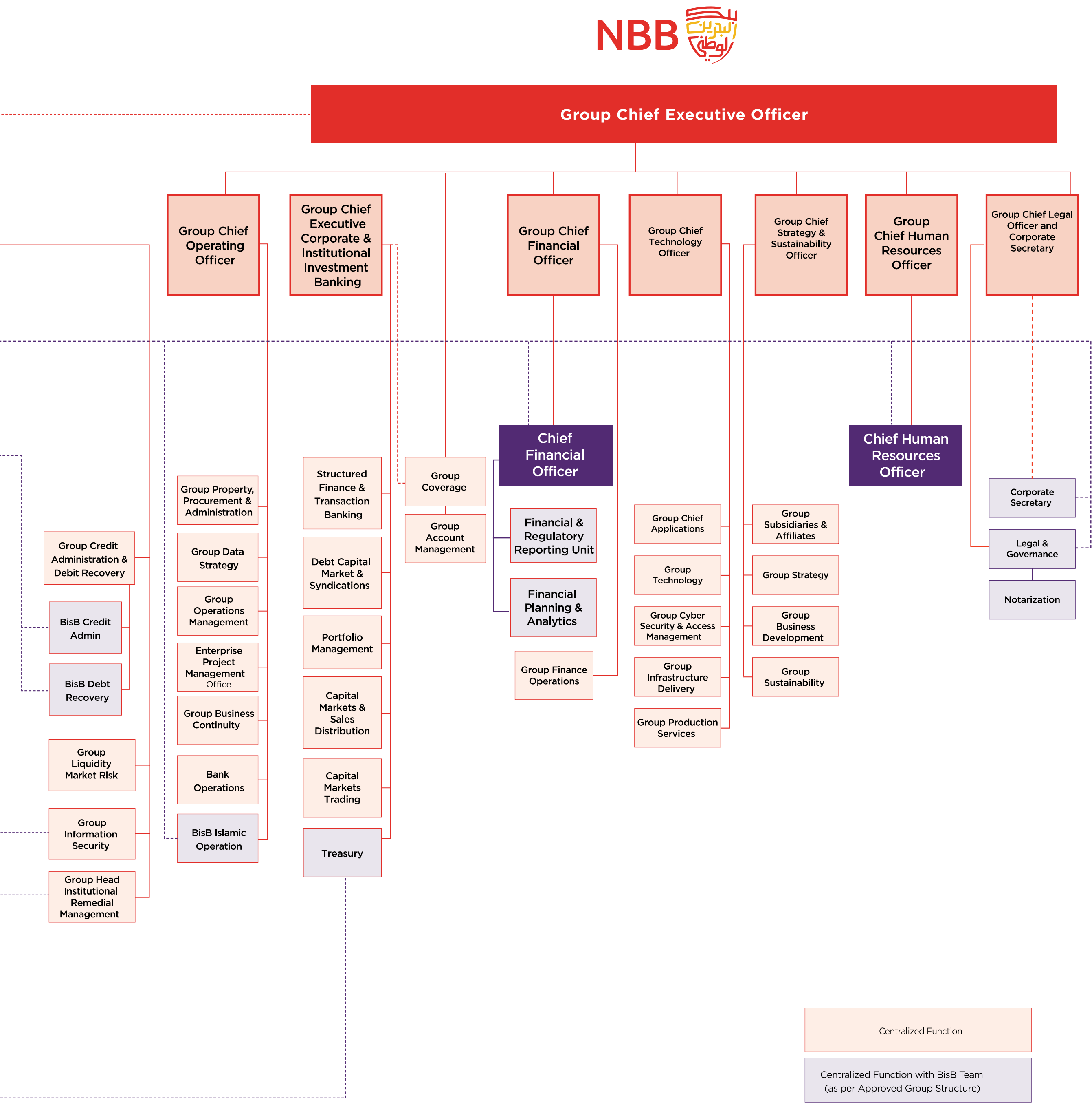


Corporate Governance Review
(Continued)



Corporate Governance Review
(Continued)

Board of Directors Composition*

No.	Director	Designation	Start Date	Term
1.	Dr. Esam Abdulla Fakhro	Non-Executive Director	23 Mar 2016	Third
2.	Mr. Khaled Yusuf AbdulRahman	Non-Executive Director	23 Mar 2016	Third
3.	Mr. Usman Ahmed**	Executive Director	11 January 2023	First
4.	Mr. Mohammed Abdulla Nooruddin	Independent Director	21 Mar 2019	Second
5.	Mr. Khalid Abdulaziz Al Jassim	Independent Director	21 Mar 2019	Second
6.	Mr. Marwan Khaled Tabbara	Independent Director	21 Mar 2019	Second
7.	Mr. Saqer Abdulmohsin Al Sijari	Independent Director	28 Mar 2022	First
8.	Mr. Isa Hasan Maseeh	Executive Director	19 Apr 2020	Second
9.	Mr. Gaby Samir El Hakim***	Executive Director	11 January 2023	First
10.	Ms. Rana Abdulaziz Qambar****	Executive Director	22 May 2023	First

**10% of the Board Members is represented by women.*
*** In replacement of Mr. Jean-Christophe Durand.*
**** In replacement of Mr. Yaser Alsharifi.*
***** In replacement of Ms. Dana Buheji.*
The detailed profiles of the Board members are available on the Bank's website.

Board of Directors' Responsibilities

The primary responsibility of the Board of Directors is to provide effective governance over the Bank's affairs for the benefit of its stakeholders and to balance the interests of its diverse constituencies, including associated concerns, employees, and other stakeholders. In all actions taken by the Board, the Directors are expected to exercise their business judgment in what they reasonably believe to be in the best interests of the Bank.

The Board will approve and oversee the implementation of the Bank's strategies and will review and approve the Bank's strategic plan. As part of its strategic review process the Board will review major action and business plans, set performance objectives, and oversee major investments, divestitures, and acquisitions. The Board is also ultimately responsible to ensure effective risk management function, regulatory compliance, adequate internal controls, preparation of financial statements as well as compliance with Shari'a rulings. Every year, the Board reviews the progress of the strategic plan.

One of the Board's most important responsibilities is identifying, evaluating, and selecting candidates for the Board of Directors. The Board will seek members from diverse professional backgrounds who combine a broad spectrum of experience and expertise with a reputation for integrity. Directors should have had experience in positions with a high degree of responsibility, be leaders in the companies or institutions with which they are affiliated and be selected based upon the contributions they can make to the Board.

The Board may not necessarily carry out all these responsibilities but should ensure that these have been delegated to various Board committees or Executive Management committees to act on their behalf and communicate periodic reports to the Board for their review.

Induction of New Directors

The Bank provides an orientation program for new Directors which includes presentations by senior management on the Bank's strategic plans, its significant financial, accounting and risk management issues, its compliance programs, its operations, its Code of Conduct, its management structure and executive officers and its internal and external auditors. A guideline for new Board members was created under a codified document called the 'New Board Member Onboarding Guidelines'. This document is in place to ensure that new Board members are able to fulfil their governance responsibilities and director duties, and most importantly adjust to the Bank as soon as possible.

Corporate Governance Review
(Continued)

Code of Conduct

The Bank adopts a Code of Conduct and other internal policies and guidelines to comply with the laws, rules and regulations that govern the Bank's business operations. The Code of Conduct applies to all employees of the Bank as well as to Directors.

Review of Internal Control Processes and Procedures

The AC assists the Board in fulfilling its oversight responsibility relating to the performance of the internal audit function, which regularly reviews and ensures adherence to internal control processes and procedures.

Board Membership

The Board of Directors' membership term is three years, subject to renewal. The current term started in March 2022 and is expected to end in March 2025. Shareholders owning 10% or more of the share capital have the right to nominate a representative on the Board of Directors in proportion to the number of Board members. A secret ballot is held at the Ordinary General Meeting for electing the remaining Board members. The Board of Directors elect, by a secret ballot, a Chairman and Vice Chairman for a renewable term of three years.

Membership of the Board of Directors can be terminated in the following cases:

1. If a member fails to attend at-least 75% of the meetings without a reasonable excuse;
2. If he/she tenders his resignation in writing;
3. If he/she fails to fulfil any related conditions referred to the Bank's Articles of Association;
4. If he/she is appointed or elected in violation of the provisions of the CBB Law and/or Bahrain Commercial Companies Law;
5. If he/she abuses his/her membership for carrying on other business that competes with or is detrimental to the Bank's business;
6. If the shareholder who nominated him/her applies for his/her removal; or
7. If the shareholder who nominated him/her is no longer a shareholder or loses its eligibility to nominate a representative on the Board of Directors.

Board Meetings and Attendance

Minimum Number of Meetings Required = 4

Director	20 Feb 23	03 May 23	02 Aug 23	10 Sep 23	09 Oct 23	31 Oct 23	20 Nov 23	06 Dec 23	Attendance Percentage
Dr. Esam Abdulla Fakhro	✓	✓	✓	✓	✓	✓	✔	✓	100%
Mr. Khaled Yusuf AbdulRahman	✓	✓	✔	✓	✓	✓	✔	✓	100%
Mr. Usman Ahmed*	✓	✓	✓	✓	✓	✓	✔	✓	100%
Mr. Mohammed Abdulla Nooruddin	✓	✔	✔	✔	✓	✓	✔	✓	100%
Mr. Khalid Abdulaziz Al Jassim	✓	✓	✔	✓	✓	✓	✔	✓	100%
Mr. Marwan Khaled Tabbara	✓	✓	✔	✓	✓	✓	✔	✓	100%
Mr. Saqer Abdulmohsin Al Sijari	✓	✓	✓	✔	✓	✓	✔	✓	100%
Mr. Isa Hasan Maseeh	✓	✓	✓	✓	✓	✓	✔	✓	100%
Mr. Gaby Samir El Hakim**	✓	✓	✔	✓	✓	✓	✔	✓	100%
Ms. Rana Abdulaziz Qambar***	-	-	✓	✓	✓	✓	✔	✓	100%

** In replacement of Mr. Jean-Christophe Durand.*
*** In replacement of Mr. Yaser Alsharifi.*
**** In replacement of Ms. Dana Buheji.*

✓ Participated physically
✔ Participated via phone/video link

Corporate Governance Review
(Continued)

Board Committees

Board Committee	Members	Objectives
Executive Committee (EC)	Mr. Usman Ahmed* (Chairperson) Members: 1. Mr. Khalid Yousif Abdul Rahman 2.Mr. Gaby Samir El Hakim** * Appointed on 11th January 2023 in replacement of Mr. Jean Christophe Durand. **Appointed on 11th January 2023 in replacement of Mr. Yaser Alsharifi.	The EC assists the Board of Directors in fulfilling their responsibilities with regards to financing and investments activities, as well as any other matters not delegated to a specific Board Committee. Accordingly, the EC is empowered to approve specific credit and investment proposals, review budgets, plans and major initiatives for eventual submission to the Board for approval, and to monitor the Bank's performance against business plan objectives.
Audit Committee (AC)	Mr. Khalid Abdulaziz Al Jassim (Chairperson) Members: 1. Mr. Saqer Abdulmohsin Al Sijari 2. Mr. Isa Hasan Maseeh	The AC oversees the integrity and reporting of the Bank's quarterly and annual financial statements. It also covers review of audit findings, provisions, and impairments.
Nomination, Remuneration, Governance, and Sustainability Committee (NRGSC)	Dr. Esam Abdulla Fakhro (Chairperson) Members: 1. Mr. Mohamed Abdulla Nooruddin 2. Mr. Usman Ahmed* 3. Mr. Marwan Khaled Tabbara *Replacing Ms. Dana Buheji who resigned from BisB Board on 10th May 2023.	The NRGSC is responsible for developing and recommending changes from time to time in the Bank's nomination and remuneration policy, including the variable payment policy. It is also entrusted to identify and recommend persons occupying senior positions including Board members. Furthermore, the Committee also oversees Bank's governance related matters. NRGSC is also responsible of ensuring the availability of a continuously growing awareness around ESG and sustainability areas.
Board Risk and Compliance Committee (BRCC)	Mr. Marwan Khaled Tabbara (Chairperson) Members: 1. Mr. Mohamed Abdulla Nooruddin 2.Mr. Khalid Abdulaziz Al Jassim 3.Mr. Isa Hasan Maseeh	The BRCC is formed to assist the Board of Directors in fulfilling their regulatory as well as fiduciary responsibilities towards the stakeholders. Furthermore, the Committee also oversees compliance with legal and regulatory requirements.
Board Independent Committee (BIC)	Mr. Mohamed Abdulla Nooruddin (Chairperson) Members: 1.Mr. Khalid Abdulaziz Al Jassim 2.Mr. Marwan Khaled Tabbara 3.Mr. Saqer Abdulmohsin Al Sijari	The BIC was initially formed to supervise the acquisition of BisB's shares has been reactivated to provide advice and recommendations to the Board of Directors on issues related to integration and synergies between NBB andBisB.

Corporate Governance Review
(Continued)

Executive Committee Meetings and Attendance
Minimum Number of Meetings Required = 4

Members	23 Jan 23	06 Mar 23	19 Jun 23	24 Aug 23	18 Sep 23	27 Nov 23	Percentage
Mr. Usman Ahmed*	✓	✓	✓	✓	✓	✓	100%
Mr. Khalid Yousif Abdul Rahman	✓	✓	✓	✔	✓	✓	100%
Mr. Gaby Samir El Hakim**	✓	✓	✓	✔	✓	✓	100%

* In replacement of Mr. Jean-Christophe Durand.
** In replacement of Mr. Yaser Alsharifi.

✓ Participated physically
✔ Participated via phone/video link

Audit Committee Meetings and Attendance
Minimum Number of Meetings Required = 4

Members	08 Feb 23	02 May 23	08 Jun 23	01 Aug 23	17 Sep 23	30 Oct 23	14 Dec 23	Percentage
Mr. Khalid Abdulaziz Al Jassim	✓	✓	✓	✔	✓	✓	✓	100%
Mr. Saqer Abdulmohsin Al Sijari	✓	✓	✔	✓	✓	✓	✔	100%
Mr. Isa Hasan Maseeh	✓	✓	✓	✓	✓	✓	✓	100%

✓ Participated physically
✔ Participated via phone/video link

Nomination, Remuneration, Governance, and Sustainability Committee Meetings and Attendance
Minimum Number of Meetings Required = 2

Members	01 Feb 23	15 Feb 23	15 Jun 23	13 Nov 23	Percentage
Dr. Esam Abdulla Fakhro	✓	✓	✓	✓	100%
Mr. Mohammed Abdulla Nooruddin	✓	✓	✓	✔	100%
Mr. Usman Ahmed*	-	-	✓	✓	100%
Mr. Marwan Khaled Tabbara	✓	✓	✓	✓	100%

* In replacement of Ms. Dana Buheji.

✓ Participated physically
✔ Participated via phone/video link

Board Risk and Compliance Committee Meetings and Attendance
Minimum Number of Meetings Required = 4

Members	23 Jan 23	13 Mar 23	26 Mar 23	28 May 23	25 Jun 23	07 Sep 23	12 Sep 23	15 Nov 23	26 Nov 23	13 Dec 23	Percentage
Mr. Marwan Khaled Tabbara	✓	✓	✓	✓	✓	✔	✓	✓	✔	✓	100%
Mr. Mohammed Abdulla Nooruddin	✓	✓	✓	✓	✓	✔	✔	✔	✔	✓	100%
Mr. Khalid Abdulaziz Al Jassim	✓	✓	✓	✓	✔	✔	✓	✓	✔	✔	100%
Mr. Isa Hasan Maseeh	✓	✓	✓	✓	✓	✔	✓	✓	✔	✔	100%

✓ Participated physically
✔ Participated via phone/video link

Corporate Governance Review
(Continued)

Board Independent Committee Meetings and Attendance

Minimum Number of Meetings Required = Upon Request

Members	23 Feb 23	18 Apr 23	23 Oct 23	Percentage
Mr. Mohammed Abdulla Nooruddin	✓	✔	✓	100%
Mr. Khalid Abdulaziz Al Jassim	✓	✔	✓	100%
Mr. Marwan Khaled Tabbara	✓	✔	✓	100%
Mr. Saqer Abdulmohsin Al Sijari	✔	✔	✔	100%

✓ Participated physically
✔ Participated via phone/video link

Evaluation of the Board and Each Committee

An enhanced Board performance evaluation has been conducted electronically for the year 2023 through the completion of a structured performance evaluation questionnaire form against certain pre-defined criteria as per the mandate of the Board and each of its committees on the effectiveness and contribution of the overall performance of the Board, its committees, and the performance of each Board member. NRGSC carried out an evaluation of the Board, its committees and all Board members through the distribution of questionnaires to each Board member. The NRGSC expressed its satisfaction with the positive results of the evaluation. The Board considers this as a beneficial exercise that can maintain the highest standards of governance to comply with the CBB rules and regulations.

Board of Directors Remuneration and Sitting Fees

The Board of Directors are paid an annual remuneration as approved by the shareholders at the Ordinary General Meeting. While the amount of the remuneration is not directly linked to the performance of the Bank, factors such as the Bank's performance, industry comparison and the time and effort committed by the Directors to the Bank, are considered for determining the total remuneration. In addition, Directors are paid sitting fees for attending the meetings of the Board and its various subcommittees. Non-resident directors are also entitled to travel expenses. Further details on the remunerations paid to Board as well as Senior Management are available under the remuneration disclosures of the annual financial and sustainability report.

Shari'a Supervisory Board Objective

The main objective of Shari'a Supervisory Board (SSB) is to advise the Bank on any Shari'a matter and to ensure compliance with the Shari'a tenets and requirements in their operations. The SSB is entrusted with the duty of directing, reviewing, and supervising the activities of the Bank in order to ensure that the Bank is in compliance with Shari'a rules and AAOIFI. The profiles of the Shari'a Supervisory Board are available on the Bank's website.

The SSB has established a Shari'a Coordination & Implementation function to ensure the Shari'a compliance of the Bank and performance of supervision and reviewer from the Shari'a point of view, in addition to the secretariat of the SSB. The SSB has also established an independent Internal Shari'a Audit function that reports any exceptions to the Shari'a fatwas and guidelines.

Corporate Governance Review
(Continued)

Shari'a Board Meetings

Members	05 Mar 23	07 Jun 23	03 Oct 23	20 Nov 23	20 Nov 23*	Attendance Percentage
Sh. Dr. Abdul Latif Al Mahmood	✔	✔	✔	✔	✔	100%
Sh. Dr. Nedham Yacoubi	✔ (phone/video)	✔	✔	✔	✔	100%
Sh. Adnan Al Qattan	✔	✔	✔	✔	✔	100%
Sh. Mohammed Al Juffairi	✔	✔	✔	✔	✔	100%

** Meeting on the 20th of November was conducted with the Board of Directors.*

✔ Participated physically
✔ Participated via phone/video link

Executive Management

The management structure that clearly defines roles, responsibilities, and reporting lines, is available in the annual report of the Bank. Within the management structure there are separate committees responsible for meeting on a regular basis to discuss and decide on the various strategic and tactical issues within their respective areas.

Name & Designation	Profession	Experience in years	Qualification
Yaser Abduljalil Alsharifi ***Chief Executive Officer***	Business Administration	29	• BSc. of Business Administration Accounting Major, University of Massachusetts at Amherst • CPA from New Hampshire Board of Accountancy
Fatema Al Alawi ***Chief Retail Banking Officer*** From 2 May 2023	Business Administration	26	• BSc. In Business Administration, University of Bahrain
Jawad Abdulhadi Humaidan ***Chief Corporate & Institutional Banking***	Economics & Finance	19	• Bachelor of Arts in Economics, Carleton University • MSc in Finance from DePaul University
Ameer Abdul Ghani Dairi ***Chief Financial Officer***	Accounting	24	• CPA, New Hampshire Board of Accountancy • CMA, Chartered Institute of Management Accountants BSc in Accounting from the University of Bahrain
Afnan Ahmed Saleh ***Chief Human Resources Officer***	Business Administration	24	• BSc. In Business Administration, University of Bahrain • MBA, University of Strathclyde
Ajay Kumar Jha ***Chief Risk Officer*** From 9 Jul 2023	Banking & Finance	27	• MBA (Finance), Institute of Management Studies, Devi Ahilya University, Indore, India • BSc Ramjas College, Delhi University, India
Mohamed Kadhem Alaali ***Chief Strategy & Sustainability Officer*** From 2 May 2023	Strategy & Sustainability	18	• Master of Business Administration, Business Strategy & Operations- GIES College of Business – University of Illinios • BSc of Science in Business, Information Systems, Murry state University, University of Bahrain

Corporate Governance Review
(Continued)

Name & Designation	Profession	Experience in years	Qualification
Andrew Mario Stefan Corera ***Chief Application Officer***	IT Professional in Banking & Finance	35	• Chartered Information Technology Practitioner (MBCS CITP) • British Chartered Institute for IT Graduate in Management Information Systems and Design, National Institute of Business Management Sri Lanka • PMP in Project Management
Naeema Taheri ***Chief Compliance Officer***	Banking & Financial Services	32	• BSc in Business Administration, University of Bahrain • International Diploma in Compliance, International Compliance Association (ICA), UK • Certified Anti-Money Laundering Specialist (CAMS), USA Master Compliance Professional (MCP), USA • Certified Compliance Officer (CCO), USA • Professional Certificate in Capital Markets, Regulation and Compliance, USA
Salman Mahmood Sayyar ***Chief Internal Audit Officer*** From 14 May 2023	Auditing & Banking	16	• BSc in Accounting, University of Bahrain • Certified Public Accountant (CPA), 2011 • Chartered Global Management Accountant (CGMA), 2013 • Certified Islamic Professional Accountant (CIPA), 2019
Mahmood Ali Rabeea ***Chief Marketingand Communications Officer*** From 15 Oct 2023	Banking & Finance	21	• BSc of Arts- Publishing Media – Napier University, UK
Hussain Ebrahim Al Banna ***Head of Treasury***	Banking & Finance	20	• BSc in Banking & Finance, University of Bahrain • Treasury and Capital Markets Diploma, BIBF
Siddharth Kumar ***Acting Chief Risk Officer and Head of Corporate & Liquidity Risk*** Resigned 15 Aug 2023	Finance	20	• Postgraduate in IT, Mumbai University • Chartered Financial Analyst (CFA), CFA Institute, USA • Professional Risk Manager (PRM) • Certified Islamic Banker, CIBAFI
Faisal Hamed Al Abdullah ***Acting Head of Retail Banking and Head of Priority Banking*** From 24 Oct 2022 to 2 May 2023	Banking & Finance	18	• BSc. in Banking & Finance from Ahlia University in Bahrain • Series 7
Salah Yasein Ahmed ***Head of Legal***	Legal	32	• BAR Certificate • Legal Practitioner license • Bachelor's Degree in Law – University of Khartoum
Dr. Hamad FarooqAl- Shaikh ***Head of Shari'a Coordination & Implementation***	Shari'a	18	• PHD of Islamic Banking and Finance from Islamic International University Malaysia (IIUM) • Masters of Shari'a, ALEmam ALAwzaie University, Lebanon • Chartered Islamic Finance Professional (CIFP)

Corporate Governance Review
(Continued)

Name & Designation	Profession	Experience in years	Qualification
			• Advanced Diploma in Islamic Commercial Jurisprudence (ADICJ), BIBF • Certified Shari'a Adviser and Auditor (CSAA) AAOIFI • Certified Islamic Banker (CIB), CIBAFI • Bachelor's Degree in Law and Shari'a, Qatar University
Eman Mohammed AlBinghadeer ***Head of Internal Shari'a Audit***	Shari'a	19	• Professional Diploma in Shari'a Auditing, CIBAFI • Certified Specialist in Islamic Accounting (CSIA) Certified Islamic Banker (CIB), CIBAFI • Certified Shari'a Adviser and Auditor (CSAA), AAOIFI Diploma in Computing and Business Studies, Bournemouth University and Technology Centre, UK

Management Committee

Committee(s)	Members	Objectives
Management Committee (MANCO)	Yaser Abduljalil Alsharifi (Chairperson) Members: • Ameer Abdul Ghani Dairi • Mohamed Kadhem Alaali • Afnan Ahmed Saleh • Jawad Abdulhadi Humaidan • Fatema Al Alawi • Razi Amin • Nabeel Kazim • Hussain Al Banna • Ajay Kumar Jha	MANCO is the highest management body that reviews the Bank's strategy implementation. In addition, the committee also plays a significant role in establishing the policies, procedures and frameworks covering risk management, compliance, retail, and corporate banking. The Committee also monitors the performance of business, support, and control functions of the Bank.
Asset & Liability Committee (ALCO)	Yaser Abduljalil Alsharifi (Chairperson) Members: • Ameer Abdul Ghani Dairi • Ajay Kumar Jha • Hussain Al Banna • Jawad Abdulhadi Humaidan • Fatema Al Alawi • Hisham Saeed Al Kurdi • Jaafar Mohamed Naser	The purpose of Asset & Liability Committee is to function as a decision- making body and guiding force responsible for balance sheet planning from risk return perspective, including strategic management of yield and liquidity risks.
Credit Committe (CC)	Yaser Abduljalil Alsharifi (Chairperson) Members: • Ajay Kumar Jha • Ahmed Askar • Hussain Al Banna	Credit Committee determines the Credit Policy of the Bank, identifies potential risks assumed by the Bank for different types of transactions. The CC has the authority to make a final decision on approval or rejection of proposed transactions within its delegated authority as well as to monitor the performance and quality of the Bank's credit portfolio.

Corporate Governance Review
(Continued)

Committee(s)	Members	Objectives
Investment Committe (IC) (IC)(e	Yaser Abduljalil Alsharifi (Chairperson) Members: • Ameer Abdul Ghani Dairi • Ajay Kumar Jha • Hussain Al Banna • Nayef Al Naser	IC identifies potential risks assumed by the Bank for different types of investments (equity holdings, Sukuks, lands etc). The IC has the authority to make a final decision on approval or rejection of proposed transactions within its delegated authority as well as to monitor the performance and quality of the bank's investment portfolio.
Qard Al Hassan, Donation & Zakat	Dr. Hamad Farooq AlShaikh (Chairperson) Nada Ishaq Abdul Karim (Vice Chairperson) Members: • Hamad Al Bassam • Nayef Alnasser • Manar Hood Hashem	The main objective of Qard Al Hassan, Donation and Zakah Committee is to discharge the Group's social responsibilities toward its society through distributingzakah, charity funds, donations & good faith Qard for marriage, medical treatments, etc.
Project Steering Committee	Yaser Abduljalil Alsharifi (Chairperson) Members: • Nabeel Kazim • Razi Amin • Ameer Abdul Ghani Dairi • Mohamed Kadhem Alaali • George Faraj (Observer) • Group EPMO Team (Enabler)	BisB Project Steering Committee's main objective is to ensure proper governance across BisB and the Group in relation to the projects' portfolios as part of the Enterprise Project Management Office (EPMO) while providing direction and taking necessary decisions to ensure investments achieve their goals within their set schedules and budgets in total alignment with BisB's strategic objectives and Group Strategy.
Provisioning Committee	Yaser Abduljalil Alsharifi (Chairperson) Members: • Ajay Kumar Jha • Ahmed Askar • Ameer Abdul Ghani Dairi • Salah Yaseen Mohammed (Observer) • Salman Sayyar (Observer)	Provisioning Committee reviews the Bank's provisions as well reviewing the progress on recovery for impaired assets and problem exposures.

Corporate Governance Review
(Continued)

Committee(s)	Members	Objectives
Operational Risk Committee	Ajay Kumar Jha (Chairperson) Members: • Yaser Abduljalil Alsharifi • Ameer Abdul Ghani Dairi • Fatema Al Alawi • Mohamed Khadem Alaali • Naeema Hasan Taheri • Afnan Ahmed Saleh • Jawad Abdulhadi Humaidan • Andrew Mario Stefan Corera • Mohammed Isa Hammad • Salman Sayyar • Mahmood Ali • Hussain Al Banna • Hamad Farooq AlShaikh • Eman AlBinghadeer • Amal Saif Ahmed • Sohail Kabeer • Ebtisam Abdulkarim	Operational Risk Committee purpose is to: a) Oversee and review the Bank's operational risk framework. b) Assist the management in fulfilling its operational risk management responsibilities as defined by applicable laws and regulations.
Group Tendering & Asset Disposal Committee	Fatima AlKooheji (Chairperson) Members: • Rana Qambar • Konstantinos Monogios • Zaid Yusuf Khonji	As a part of the shared operating model, the Group Tendering and Asset Disposal Committee has been centralized to have an oversight over the related activities of both NBB and BisB.
Information Security Committee (ISC)	Ajay Kumar Jha (vote) (Chairperson) Mohamed Isa Hammad (vote) (Vice Chairperson) Members: • Yaser Abduljalil Alsharifi (vote) • Jawad Abdulhadi Humaidan (vote) • Razi Amin (vote) • Naeema Hasan Taheri (vote) • Fatema Al Alawi (vote) • Salman Sayyar (observer)	ISC is responsible for overseeing and approving the implementation of the information security and privacy strategy to protect its information assets, in line with BisB's strategic direction and risk appetite. The ISC provides the organisational framework for the corporate governance of information security and privacy, ensuring that the information security and privacy management requirements are integrated into the organsation's processes to achieve its intended outcomes. The scope of the ISC covers all information systems used by the Bank or third parties.

Corporate Governance Review
(Continued)

Succession Planning

Succession planning in the Bank is driven by our business strategy and forward-looking approach. The primary objective of the plan is to develop people to meet future demands of the Bank and ensure smooth business continuity. On an annual basis, the Human Resources Department of the Bank reviews and consults the Board's NRGSC to ensure availability of a practical and executable succession plan.

Related Party Transactions and Conflict of Interest

Under the Bahrain Commercial Companies Law and the CBB's regulations, Board members are required to disclose potential conflicts as well as refrain from participating in any conflicted decisions. This includes potential conflicts that may arise when a Director takes up a position with another company or has any material transactions with the Bank. In addition, exposures to major shareholder, directors and senior management are governed by the regulations of the CBB.

Related party transactions are entered into in compliance with Article 189 of the Commercial Companies Law. All material service providers are selected following a satisfactory tendering process which is governed by the vendor management policy of the Bank. Any director or member of the senior management conflicted is excluded throughout the decision-making process. Details of related party transactions, carried out at arm's length, are disclosed in Note 28 of the financial statements.

The Bank is committed to professionally manage potential conflicts of interest which may arise during business to meet the Bank's obligations. As such the Bank maintains a Conflict-of-Interest Policy outlining clear and transparent procedures for dealing with instances falling under the abovementioned scenarios in line with the CBB Rulebook Volume 2 and Volume 6 in addition to the provisions of the Bahrain Commercial Companies Law. In the event of a Conflict of Interest occurring, the individual must promptly disclose any matter that may result, or has already resulted, in a conflict of interest.

The concerned individual must additionally abstain from getting involved in or voting on any matter where they may have a conflict of interest or where their objectivity or ability to properly fulfil duties may be otherwise compromised. Any decision to enter into a transaction in which an approved person appears to have a material conflict of interest must be formally and unanimously approved by the entire Board. These events are recorded in the applicable Board or subcommittees official proceedings.

Below illustrates the instances whereby a Board Member has abstained from voting because of a conflict of interest. It is to be noted that the below is inclusive of the Board and its subcommittees.

Ser.	Board Member Name	Abstaining from Voting Instances	Approval Authority	Status
1	Dr. Esam Abdullah Fakhro	3	Board of Directors	Approved
2	Mr. Usman Ahmed	2	Board of Directors	Approved
3	Mr. Khalid Abdulaziz Al Jassim	1	Board of Directors	Approved
4	Mr. Marwan Khalid Tabbara	1	Board of Directors	Approved
5	Mr. Isa Hasan Maseeh	3	Board of Directors	Approved

Material Transactions Requiring Board Approval

The Board has delegated certain authorities to the Executive Management to ensure smooth and effective day to day management however, all material financing transactions, as provided in the delegation of authority matrix of the Bank, are subject to Board approval. Furthermore, major decisions such as change in strategy, changes in the organization structure, capital expenditures, amending policies and hiring Executive Management are subject to approval of either Board or relevant Board committees.

Corporate Governance Review
(Continued)

Exceptions to CBB's Corporate Governance Regulations

Banks are required to comply with the High-Level Controls (HC) Module of the CBB Rulebook Volumes 2 and 6, which contains both Rules and Guidance. In accordance with the HC Module Volume 6, Rules must be complied with, but Guidance may either be complied with or non-compliance to be explained to the shareholders and to the CBB. Exceptions to guidance are explained as follows:

Reference	Explanation
HC-1.3.6	HC1.3.6- states that no one person should hold more than three directorships in public companies in the Kingdom of Bahrain, with the provision that no conflict of interest may exist. Dr. Essam Abdulla Fakhro, the Chairman of the Board, holds more than three directorships in public companies in the Kingdom of Bahrain. The Board is of the opinion that this does not impact the effectiveness and efficiency of the Board of Directors, as he provides adequate attention to his responsibilities and there is no conflict of interest between his other directorships and that of the Bank.
HC-1.4.5	HC1.4.5- states that the Chairman of the Board of Directors should be an independent director. The Bank's Chairman, Dr. Essam Abdulla Fakhro is appointed by the National Bank of Bahrain (NBB) which is a Controller of the Bank. Accordingly, Dr. Fakhro is reported as a Non-Independent Director. The Board is of the view that given the seniority and experience of Dr. Essam Fakhro in business and leadership in addition to his ability to segregate between the interests of the Bank he is representing and the interests of BisB, he has been appointed in the position of the chairman of the Board. The CBB was notified of such appointment based on the previous CBB approval.
HC-1.8.6	HC1.8.6- states that the Board should establish a Corporate Governance Committee of at least three independent members and HC1.8.4- allows combination of committees. The Bank has combined the responsibility of the Corporate Governance Committee with that of the NRGSC. The Board is of the view that this does not compromise the high standards of corporate governance as the NRGSC has sufficient resources and time to discharge its duties and holds sufficient number of meetings to fulfil its responsibilities.
HC-5.3.2	HC5.3.2- states that the Remuneration Committee should include only independent directors or, alternatively, only non-executive directors of whom a majority are independent directors, and the Chairperson is an independent director. The Remuneration Committee of the Bank is combined with the Nomination, Governance and Sustainability Committee as allowed under HC-1.8.4. The Chairperson of the NRGSC, Dr. Essam Abdulla Fakhro, is treated as Non-Independent on the basis that his nomination is through NBB (a Controller of the Bank). The Board is of the view that given the seniority, leadership character and experience of Dr. Essam Fakhro, he has been appointed as a Chairperson of the NRGSC. The CBB was notified of such appointment based on the previous CBB approval. Additionally, the CBB has formally granted an exemption for Mr. Usman Ahmed as an Executive Director on the basis that his nomination will enable BisB to enhance Group Synergies and alignment which will ultimately create more efficient and more effective nomination, remuneration, governance, and sustainability initiatives.

Employments of Relatives

The Bank has a policy in place on employment of relatives to prevent the potential conflict of interest. As a matter of policy, employment of direct relatives is allowed but not in the same reporting line as the current family employee. The relatives should also not be in a sole checker/approval role for each other.

Remuneration of the External Auditors

KPMG Fakhro are the Group's external auditors for the financial year ended 31 December 2023. Fees paid to KPMG during the year 2023 amount to BD 167 thousand out of which BD 83 thousand is for audit services, BD 54 thousand is for audit related services required by regulatory bodies and BD 30 thousand is for non-recurring non-audit services. During the Annual General Meeting held on 21st March 2023, the shareholders approved the re-appointment of KPMG as external auditors for the year ending 31st December 2023 and authorized the Board of Directors to determine their remuneration.

Corporate Governance Review
(Continued)

Information on Products and Services, and Availability of Financial Information

New product information, announcements and information related to all stakeholders are made available in a timely manner through various channels of communication which may include publications, website, direct mailers, electronic mail and local media. In addition, the Consolidated Financial Statements of at least past 5 years in addition to all supplementary disclosures required by CBB regulations, are available in the Bank's website.

Customer Complaints

The Compliance Department is responsible for managing customer complaints. BisB customers may use the Bank's website or the contact centre for lodging a complaint. All complaints are logged, monitored, and reported to the CBB. A user- friendly guide is made available to customers by way of a conspicuous notice and Bank's website.

Whistleblowing Policy

The Board has adopted a Whistleblowing Policy (by appointing Mr. Khalid Al Jassim in his capacity as a board member and a Chairperson of the Audit Committee to be responsible for the Whistleblowing Policy) which provides all employees an opportunity to raise any observation regarding unethical and improper practices or any other wrongful conduct of a financial or legal nature in the Bank and to prohibit managerial personnel from taking any adverse action against employees for doing so.

Major Shareholders Ownership (5% and above)

Shareholder	Nationality	Number of Shares	Percentage	Type of Ownership
National Bank of Bahrain	Bahraini	838,630,728	78.81 %	Majority Sovereign
General Council of Kuwaiti Awqaf	Kuwait	76,366,321	7.18 %	Sovereign

Distribution of Ownership of Shares by Nationality

Country	Percentage	Number of Shares
Kingdom of Bahrain	87.41%	930,123,260
Kuwait	8.74%	92,950,238
United Arab Emirates	2.79%	29,710,341
Kingdom of Saudi Arabia	0.79%	8,398,088
Qatar	0.13%	1,333,923
Others	0.14%	1,542,737
Total	100.00%	1,064,058,587

Changes In Distribution Ownership Shares of Directors, Shari'a Members, Approved Persons and Related Persons

Name	Shares as of 31 Dec 2022	Sold During 2023	Acquired During 2023	Shares as of 31 Dec 2023
Directors				
Dr. Esam Abdulla Fakhro *	352,500	-	-	352,500
Mr. Khalid Yousif Abdul Rahman **	-	-	-	-
Mr. Jean-Christophe Durand	-	Resigned from BisB Board on 11 Jan 2023		
Mr. Usman Ahmed	-	-	-	-
Mr. Khalid Abdulaziz Al Jassim	-	-	-	-

Corporate Governance Review
(Continued)

Name	Shares as of 31 Dec 2022	Sold During 2023	Acquired During 2023	Shares as of 31 Dec 2023
Directors				
Mr. Saqer Abdulmohsin Al Sijari	-	-	-	-
Mr. Marwan Khaled Tabbara	-	-	-	-
Mr. Mohamed Abdulla Nooruddin	-	-	-	-
Mr. Isa Hasan Maseeh	-	-	-	-
Mr. Gaby El Hakim	-	-	-	-
Ms. Rana Qambar	-	-	-	-
Ms. Dana Buheji	-	Resigned from BisB Board on 10 May 2023		

* Dr. Esam Abdulla Fakhro owns 50% of shares in Kingdom Investment which owns 861,250 number of shares in BisB.
** Khalid Yousif Abdul Rahman owns 30.25% of shares in Yousif Abdul Rahman Engineer Holding Co WLL. which owns 536,020 number of shares in BisB.

Shari'a Supervisory Board	Shares as of 31 Dec 2022	Sold During 2023	Acquired During 2023	Shares as of 31 Dec 2023
Shaikh Dr. Abdul Latif Mahmood Al Mahmood	545,159	-	-	545,159
Shaikh Dr. Nedham Mohamed Saleh Yacoubi	13,237	-	-	13,237
Shaikh Mohammed Jaffar Al Juffairi	-	-	-	-
Shaikh Adnan Abdulla Al Qattan	-	-	-	-

Approved Persons	Shares as of 31 Dec 2022	Sold During 2023	Acquired During 2023	Shares as of 31 Dec 2023
1. Yaser Abduljalil Alsharifi Chief Executive Officer	-	-	-	-
2. Ameer Abdul Ghani Dairi Chief Financial Officer	-	-	-	-
3. Ajay Kumar Jha Chief Risk Officer	-	-	-	-
4. Afnan Ahmed Saleh Chief Human Resources Officer	47,834	-	-	47,834
5. Jawad Abdulhadi Humaidan Chief Corporate and Institutional Banking Officer	-	-	-	-
6. Fatema Moosa Al Alawi Chief Retail Banking Officer	143,958	-	-	143,958
7. Salman Sayyar Chief Internal Audit Officer	-	-	-	-
8. Mahmood Al Rabea Chief Corporate Communications & Marketing Officer	-	-	-	-
9. Naeema Hasan Taheri Chief Compliance Officer	-	-	-	-

Corporate Governance Review
(Continued)

Approved Persons	Shares as of 31 Dec 2022	Sold During 2023	Acquired During 2023	Shares as of 31 Dec 2023
10. Mohamed Kadhem Alaali Chief Strategy & Sustainability Officer	-	-	-	-
11. Mohammed Isa Hammad Chief Information Security Officer	-	-	-	-
12. Hussain Ebrahim Al Banna Head of Treasury	-	-	-	-
13. Amal Saif Ahmed Head of Islamic Operations	-	-	-	-
14. Hussain Ali Bahram Head of Wealth Management	-	-	-	-
15. Sohail Kabiruddin Head of Operational Risk	-	-	-	-
16. Faisal Hamed Al Abdullah Head of Thuraya Banking	-	-	-	-
17. Dr. Hamad Farooq AlShaikh Head of Shari'a Coordination & Implementation	-	-	-	-
18. Eman Mohammed AlBinghadeer Head of Shari'a Internal Audit	-	-	-	-
19. Ahmed Majeed Askar Head of Corporate Risk	-	-	-	-
20. Nayef Naser Yusuf Acting Head of Special Assets & Remedial	-	-	-	-
21. Hamad Hussain Al Qattan Deputy Money Laundering Reporting Officer	-	-	-	-
22. Ammar Fuad Alsabah Head of Financial Institutions	-	-	-	-
23. Saleh Isa Almehri Head of Retail Credit Review	-	-	-	-
24. Siddharth Kumar Acting Chief Risk Officer and Head of Corporate & Liquidity Risk	-	Resigned from BisB on 15 Aug 2023		
25. Mohamed Jamal Aish MLRO	-	Resigned from BisB on 25 May 2023		

As of 31 Dec 2023, the total number of shares held by the Board of Directors, Shari'a Supervisory Board members and the Approved Persons of the Bank are 1,102,688 which represents %0.1 of the total issued shares of the Bank. The shares held by the Approved Persons includes shares granted by the Bank under the Share Incentive Scheme.

Corporate Governance Review
(Continued)

Previous AGM Results

Results of the previous Ordinary General Meeting held on the 21st of March 2023 at 10:00 am at AlDana Hall (3)- Gulf Hotel Bahrain Convention and Spa, Manama through physical attendance with a quorum of 87.72%.

The following major items were discussed and approved at the meeting:

#	Items
1.	The minutes of the previous Ordinary General Assembly meeting no (46) held on 28th March 2022
2.	The Board of Director's report on the Bank's activities and its financial position
3.	Listened to the External Auditors report
4.	Listened to the Shari'a Supervisory Board's report
5.	The audited financial statements
6.	The notification of transactions carried out during the year ended 31st December 2022 between the Bank and related parties including major shareholders of the Bank as presented in note 28 of the consolidated financial statements, pursuant to Article 189 of the Bahrain Commercial Companies Law
7.	The Board of Directors recommendation to allocate the net profit of BD 12,567,396 for the year ended 31st December 2022, as follows: a. BD 170,286 to Zakah fund and authorize the Board of Directors to distribute it. b. BD 250,000 for charitable donation and authorize the Board of Directors to distribute it. c. Transfer of BD 1,256,740 to the statutory reserve. d. Transfer of BD 10,890,370 to the retained earnings
8.	The payment of a total amount of BD 273,906 as remuneration to the Board of Directors for the financial year ended on 31st December 2022, in addition to all benefits and privileges including the sitting fees for the financial year ending December 2022 and the sitting fees for the year 2023 at a similar rate of the previous year
9.	The Bank's Corporate Governance report for the year ended 31st December 2022 which includes the bank's commitment to the requirements of the Central Bank of Bahrain
10.	Absolved the members of the Board of Directors from liability for their actions during the year ended 31st December 2022
11.	The re-appointment of KPMG as external auditors for the year 2023 and authorize the Board of Directors to determine their fees, after obtaining the approval of the Central Bank of Bahrain
12.	No request was received to add a topic under others matters

Note: All reports and financial statements were for the financial year ended on 31st December 2022.

11 Remuneration Disclosures

The Bank's total compensation approach, which includes the variable remuneration policy and the Share Incentive Scheme, sets out the Banks's policy on remuneration for Directors and senior management and the key factors that are taken into account in setting the policy.

The Bank adopted regulations concerning Sound Remuneration Practices issued by the Central Bank of Bahrain. The revised policy framework and incentive components were approved by the Board of Directors and the policy came into effect as of January 2014 and was reviewed at the end of 2023.

The key features of the remuneration framework are summarised below:

Remuneration strategy

It is the Bank's basic compensation philosophy to provide a competitive level of total compensation to attract and retain qualified and competent employees. The Bank's variable remuneration policy is driven primarily by a performance-based culture that aligns employee interests with those of the shareholders of the Bank.

These elements support the achievement of the Bank's objectives through balancing rewards for both short-term results and long-term sustainable performance. This strategy is designed to share success, and to align employees' incentives with the risk framework and risk outcomes.

The quality and long-term commitment of all BisB's employees is fundamental to success. The Bank therefore aims to attract, retain and motivate the very best people who are committed to maintaining a career with the Bank, and who will perform their role in the long-term interests of shareholders.

The Bank's reward package comprises the following key elements:

1. Fixed pay
2. Benefits
3. Annual performance bonus

A robust and effective governance framework ensures that the Bank operates within clear parameters of its compensation strategy and policy. All compensation matters, and overall compliance with regulatory requirements, are overseen by the Board Nomination, Remuneration, Governance & Sustainability Committee (NRGSC).

The Bank's remuneration policy in particular, considers the role of each employee and has set guidance on whether an employee is a Material Risk Taker and / or an Approved Person in a business line, control or support function. An Approved Person is an employee whose appointment requires prior regulatory approval because of the significance of the role within the Bank; and an employee is considered a Material Risk Taker if they are the Head of a significant business line or any individuals within their control who have a material impact on the Bank's risk profile.

In order to ensure alignment between what BisB pays its people and the business strategy, individual performance is assessed against annual and long-term financial and non-financial objectives summarised in the performance management system. This assessment also takes into account adherence to the Bank's values, risks and compliance measures and above all integrity. Altogether, performance is therefore judged not only on what is achieved over the short and long-term, but also importantly on how it is achieved, as the NRGSC believes the latter contributes to the long-term sustainability of the business.

NRGSC role and focus

The NRGSC has oversight of all reward policies for the Bank's employees. The NRGSC is the supervisory and governing body for compensation policy, practices and plans. It is responsible for determining, reviewing and proposing variable remuneration policy for approval by the Board. It is responsible for setting the principles and governance framework for all compensation decisions. The NRGSC ensures that all persons must be remunerated fairly and responsibly. The remuneration policy is reviewed on a periodic basis to reflect changes in market practices, the business plan and risk profile of the Bank.
The responsibilities of the NRGSC with regards to the Bank's variable remuneration policy, as stated in its mandate, include but are not limited to, the following:

- Approve, monitor and review the remuneration system to ensure the system operates as intended.
- Approve the remuneration policy and amounts for each Approved Person and Material Risk-Taker, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits.
- Ensure remuneration is adjusted for all types of risks and that the remuneration system takes into consideration employees that earn the same short-run profit but take different amounts, of risk on behalf of the Bank.
- Ensure that for Material Risk-Takers, variable remuneration forms a substantial part of their total remuneration.
- Review the stress testing and back testing results before approving the total variable remuneration to be distributed including

Remuneration Disclosures
(Continued)

salaries, fees, expenses, bonuses and other employee benefits.
- Carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The NRGSC will question playouts for income that cannot be realised or whose likelihood of realisation remains uncertain at the time of payment.
- Ensure that for Approved Persons in risk management, internal audit, operations, financial control and compliance functions, the mix of fixed and variable remuneration is weighted in favour of fixed remuneration.
- Recommend Board member remuneration based on their attendance and performance and in compliance with Article 188 of the Bahrain Commercial Companies Law.
- Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves not to use personal hedging strategies or remuneration-and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

Scope of application of the remuneration policy

The variable remuneration policy has been adopted on a bank-wide basis.

Board remuneration

The Bank's Board remuneration is determined in line with the provisions of Article 188 of the Bahrain Commercial Companies Law. The Board of Directors' remuneration will be capped so that total remuneration (excluding sitting fees) does not exceed 10% of the Bank's net profit after all required deductions as outlined in Article 188 of the Bahrain Commercial Companies Law, in any financial year. Board remuneration is subject to approval of the shareholders in the Annual General Meeting as well as Ministry of Industry and Commerce. Remuneration of non-executive Directors does not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits.

Variable remuneration for staff

Variable remuneration is performance related and consists primarily of the annual performance bonus award. As a part of staff's variable remuneration, the annual bonus rewards delivery of operational and financial targets set each year, the individual performance of the employees in achieving those targets, and their contribution to delivering the Bank's strategic objectives.

The Bank has adopted a Board approved framework to develop a transparent link between variable remuneration and performance. The framework is designed on the basis of meeting both satisfactory financial performance and the achievement of other non-financial factors, that will, all other things being equal, deliver a target bonus pool for employees, prior to consideration of any allocation to business lines and employees individually. In the framework adopted for determining the variable remuneration pool, the NRGSC aims to balance the distribution of the Bank's profits between shareholders and employees.

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

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

The NRGSC carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. NRGSC demonstrates that its decisions are consistent with an assessment of the Bank's financial condition and future prospects. The Bank uses a formalised and transparent process to adjust the bonus pool for quality of earnings. It is the Bank's objective to pay out bonuses out of realised and sustainable profits. If the quality of earnings is not strong, the profit base could be adjusted based on the discretion of the NRGSC. For the overall Bank to have any funding for distribution of a bonus pool, threshold financial targets have to be achieved. The performance measures ensure that total variable remuneration is generally, considerably contracted where subdued or negative financial performance of the Bank occurs. Furthermore, the target bonus pool as determined above is subject to risk adjustments in line with the risk assessment and linkage framework.

Remuneration of control functions

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

Remuneration Disclosures
(Continued)

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

Variable compensation for business units

The variable remuneration of the business units is primarily determined by key performance objectives set through the performance management system of the Bank. Such objectives contain financial and non-financial targets, including risk control, compliance and ethical considerations as well as market and regulatory requirements. The consideration of risk assessments in the performance evaluation of individuals ensures that any two employees who generate the same short-run profits but take different amounts of risk on behalf of the Bank are treated differently by the remuneration system.

Risk assessment framework

The purpose of risk linkages is to align variable remuneration to the risk profile of the Bank. In its endeavour to do so, the Bank considers both quantitative measures and qualitative measures in the risk assessment process. Both quantitative measures and human judgement play a role in determining any risk adjustments. The risk assessment process encompasses the need to ensure that the remuneration policy as designed reduces employees' incentives to take excessive and undue risks, is symmetrical with risk outcomes, and delivers an appropriate mix of remuneration that is risk aligned.

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

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

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

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

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

The NRGSC keeps itself abreast of the Bank's performance against the risk management framework. The NRGSC will use this information when considering remuneration to ensure returns, risks and remuneration are aligned.

Risk adjustments

The Bank has an ex-post risk assessment framework which is a qualitative assessment to back-test actual performance against prior risk assumptions.

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

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

The NRGSC, with the Board's approval, can rationalise and make the following discretionary decisions:

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

Remuneration Disclosures
(Continued)

Malus and Clawback Framework
The Bank's malus and clawback provisions allow the Board of Directors to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited / adjusted or the delivered variable remuneration recovered in certain situations.

The intention is to allow the Bank to respond appropriately if the performance factors on which reward decisions were based turn out not to reflect the corresponding performance in the longer term. All deferred compensation awards contain provisions that enable the Bank to reduce or cancel the awards of employees whose individual behaviour has had a materially detrimental impact on the Bank during the concerned performance year.

Any decision to take back an individual's award can only be made by the Bank's Board of Directors.

The Bank's malus and clawback provisions allow the Board to determine that, if appropriate, vested / unvested elements under the deferred bonus plan can be adjusted / cancelled in certain situations. These events include the following:

- Reasonable evidence of willful misbehaviour, material error, negligence or incompetence of the employee causing the Bank/ the employee's business unit to suffer material loss in its financial performance, material misstatement of the Bank's financial statements, material risk management failure or reputational loss or risk due to such employee's actions, negligence, misbehavior or incompetence during the concerned performance year.
- The employee deliberately misleads the market and/or shareholders in relation to the financial performance of the Bank during the concerned performance year.
- Clawback can be used if the malus adjustment on the unvested portion is insufficient given the nature and magnitude of the issue.

Components of Variable remuneration Variable remuneration has the following main components:

Upfront cash:
The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.

Deferred cash:
The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a period of 3 years.

Upfront shares:
The portion of variable compensation that is awarded and issued in the form of shares on conclusion of the performance evaluation process for each year.

Deferred shares:
The portion of variable compensation that is awarded and paid in the form of shares on a pro-rata basis over a period of 3 years.

All deferred awards are subject to malus provisions. All share awards are released to the benefit of the employee after a six month retention period from the date of vesting. The number of equity share awards is linked to the Bank's share price as per the rules of the Bank's Share Incentive Scheme. Any dividend on these shares is released to the employee along with the shares (i.e. after the retention period).

Deferred Compensation
The CEO, his deputies and 5 most highly paid business line employees are subject to the following deferral rules:

Elements of variable remuneration	*Payout percentages*	*Vesting period*	*Retention*	*Malus*	*Clawback*
Upfront cash	40%	Immediate	-	-	Yes
Deferred cash	10%	3 years	-	Yes	Yes
Deferred share awards	50%	3 years	6 months	Yes	Yes

Remuneration Disclosures
(Continued)

All other covered staff, i.e. Assistant General Manager level and above are subject to the following deferral rules:

Elements of variable remuneration	Payout percentages	Vesting period	Retention	Malus	Clawback
Upfront cash	50%	Immediate	-	-	Yes
Deferred cash	10%	Immediate	6 months	Yes	Yes
Deferred share awards	40%	3 years	6 months	Yes	Yes

The NRGSC, based on its assessment of the role profile and risk taken by an employee could increase the coverage of employees that will be subject to deferral arrangements.

Details of remuneration paid

(a) Board of Directors & committees

BD 000's	2023	2022
Sitting fees and others	199*	178*
Remuneration	274**	274**

*Includes NRGSC sitting fees as of 31 December 2023 amounted to BD 16 thousand (2022: BD 24 thousand).
**Subject to AGM and regulatory approval.

(b) Shari'a Supervisory Board

BD 000's	2023	2022
Remuneration, Fees and Expenses	69	71

*Includes NRGSC sitting fees as of 31 December 2023 amounted to BD 16 thousand (2022: BD 24 thousand).
**Subject to AGM and regulatory approval.

(c) Employee Remuneration

2023

BD 000's	Number of staff	Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable remuneration					Total
						Upfront		Deferred			
		Others	Others	(Cash/ Shares)	(Cash/ Shares)	Cash	Shares	Cash	Shares	Others	Total
Approved persons											
- Business lines	8	968	-	-	-	171	-	33	165	-	1,337
- Control & Support	17	1,242	-	-	-	88	12	-	50	8	1,400
Other material risk takers	-	-	-	-	-	-	-	-	-	-	-
Other staff	331	8,347	-	-	-	892	4	-	15	-	9,258
Total	356	10,557*	-	-	-	1,151	16	33	230	8	11,995

* Includes end of service compensations, ex-gratia & staff costs of employees who have left the Bank during the year.

Remuneration Disclosures
(Continued)

2022

BD 000's	Number of staff	Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable remuneration					Total
						Upfront		Deferred			
		Others	Others	(Cash/ Shares)	(Cash/Shares)	Cash	Shares	Cash	Shares	Others	Total
Approved persons											
- Business lines	9	1,354	-	-	-	82	-	9	46	2	1,493
- Control & Support	15	1,386	-	-	-	116	11	-	45	6	1,564
Other material risk takers	-	-	-	-	-	-	-	-	-	-	-
Other staff	300	7,955	-	-	-	1,160	5	-	18	-	9,138
Total	324	10,695*	-	-	-	1,358	16	9	109	8	12,195

* Includes end of service compensations & staff costs of employees who have left the Bank during the year.

Deferred awards disclosures 2023

BD 000's	Cash	Shares		Total
		Number	BD 000's	
Opening balance	34	3,569,809	364	398
Adjustment based on final award price of 2022	-	(116,866)	(10)	(10)
Awarded for the year	33	3,851,500	246	279
Paid out / released during the year	(15)	(1,282,174)	(123)	(138)
Corporate action adjustment	-	-	-	-
Closing balance	52	6,022,269	477	529

* As approved by the Central Bank of Bahrain, during the year, 320,897 shares were bought back at market price by the Bank as treasury shares, upon completion of vesting period.

Deferred awards disclosures 2022

BD 000's	Cash	Shares		Total
		Number	BD 000's	
Opening balance	48	3,577,487	414	462
Adjustment based on final award price of 2021	-	-	-	-
Awarded for the year	9	1,616,649	124	143
Paid out / released during the year	(23)	(1,624,327)*	(184)	(207)
Corporate action adjustment	-	-	-	-
Closing balance	34	3,569,809	364	398

* As approved by the Central Bank of Bahrain, during the year, 1,070,604 shares were bought back at market price by the Bank as treasury shares, upon completion of vesting period.

12 CONSOLIDATED FINANCIAL STATEMENTS

Contents

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Bahrain Islamic Bank B.S.C.
Manama, Kingdom of Bahrain

Opinion

We have audited the consolidated financial statements of Bahrain Islamic Bank B.S.C. (the "Bank"), and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated statements of income, changes in owners' equity, cash flows, sources and uses of good faith qard fund and sources and uses of zakah and charity fund for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

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

Basis for Opinion

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

Key Audit Matters

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

Impairment allowance on financing assets and Ijarah muntahia bittamleek

Refer to accounting policy in note 2 z, use of estimates and judgments in note 2 bb (i) and management of credit risk in note 29 e to the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
We focused on this area because: • of the significance of financing assets and Ijarah muntahia bittamleek representing 68% of total assets;	Our audit procedures, amongst others, to address significant risks associated with impairment included: • Evaluating the appropriateness of the accounting policies adopted based on the requirements of FAS 30, our business understanding, and industry practice. • Confirming our understanding of management's processes, systems and controls implemented, including controls over expected credit loss ("ECL") model development.

INDEPENDENT AUDITORS' REPORT (Continued)

To the Shareholders of Bahrain Islamic Bank B.S.C.
Manama, Kingdom of Bahrain

The key audit matter	How the matter was addressed in our audit
• impairment of financing assets and Ijarah muntahia bittamleek involves: ◦ complex estimates and judgement over both timing and recognition of impairment including susceptibility to management bias; ◦ use of statistical models and methodologies for determination of expected credit losses. The Group exercises significant judgments and makes a number of assumptions in developing its 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.	**Controls testing** We performed process walkthroughs to identify the key systems, applications and controls used in the ECLprocesses. We tested the relevant General IT and application controls over key systems used in the ECL process incorporating consideration of the economic disruption. Key aspects of our control testing involved the following: • Performing detailed credit risk assessment for a sample of performing and non-performing financing assets to test controls over credit rating and its monitoring process; • Testing the design and operating effectiveness of the key controls over the completeness and accuracy of the key inputs and assumptions elements into the FAS 30 ECL models; • Testing controls over the transfer of data between underlying source systems and the ECL models that the Group operates; • Testing controls over the modelling process, including governance over model monitoring, validation and approval; • Testing key controls relating to selection and implementation of material economic variables; and • Testing controls over the governance and assessment of model outputs and authorisation and review of post model adjustments and management overlays including selection of economic scenarios and the probability weights applied to them. **Test of details** Key aspects of our testing involved: • Sample testing over key inputs and assumptions impacting ECL calculations including economic forecasts and weights to confirm the accuracy of information used; • Re-performing key aspects of the Group's significant increase in credit risk ("SICR") determinations and selecting samples of financial instruments to determine whether a SICR was appropriately identified; • Re-performing key elements of the Group's model calculations and assessing performance results for accuracy; and • Selecting a sample of post model adjustments and management overlays in order to assess the reasonableness of the adjustments by challenging key assumptions, testing the underlying calculation and tracing a sample back to source data.

INDEPENDENT AUDITORS' REPORT (Continued)

To the Shareholders of Bahrain Islamic Bank B.S.C.
Manama, Kingdom of Bahrain

The key audit matter	How the matter was addressed in our audit
• The need to measure ECLs on an unbiased forward-looking basis incorporating a range of economic conditions. Significant management judgment is applied in determining the economic scenarios used and the probability weightings applied to them; and • Adjustments to the ECL model results are made by management to address known impairment model limitations or emerging trends or risks. Such adjustments are inherently uncertain and significant management judgment is involved in estimating these amounts.	**Use of specialists** For the relevant portfolios examined, we have involved KPMG specialists to assist us in assessing IT system controls and challenging key management assumptions used in determining expected credit losses. Key aspects of their involvement include: • We involved our information technology specialists to test controls over the IT systems, recording of data in source systems and transfer of data between source systems and the impairment models; • We involved our credit risk specialists in: ◦ evaluating the appropriateness of the Groups' 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 weighing applied to them; and ◦ evaluating the overall reasonableness of the management economic forecast by comparing it to external market data and reflective of underlying credit quality and macroeconomic trends. **Disclosures** We assessed the adequacy of the Group's disclosure in relation to use of significant estimates and judgement and credit quality of financing assets and Ijarah muntahia bittamleek by reference to the requirements of the relevant accounting standards.

INDEPENDENT AUDITORS' REPORT (Continued)

To the Shareholders of Bahrain Islamic Bank B.S.C.
Manama, Kingdom of Bahrain

Other Information

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

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

In connection with our audit of the 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 Shariah 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 judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

INDEPENDENT AUDITORS' REPORT (Continued)

To the Shareholders of Bahrain Islamic Bank B.S.C.
Manama, Kingdom of Bahrain

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

– Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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.

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

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

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

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

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

Report on Other Regulatory Requirements

As required by the Commercial Companies Law and Volume 2 of the Rule Book issued by the Central Bank of Bahrain (CBB), we report that:

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

b. the financial information contained in the board of directors' 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 Salman Manjlai.

KPMG Fakhro
Partner Registration Number 213
18 February 2024

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	Note	2023 BD'000	2022 BD'000
ASSETS			
Cash and balances with banks and Central Bank	3	**61,602**	70,037
Placements with financial institutions	4	**51,689**	69,755
Financing assets	5	**605,503**	620,023
Investment securities	6	**278,213**	259,029
Ijarah Muntahia Bittamleek	8	**318,837**	289,986
Investment in associates	7	**8,302**	8,832
Investment in real estate	10	**14,725**	16,176
Property and equipment	9	**13,692**	14,019
Other assets	11	**5,528**	13,960
TOTAL ASSETS		**1,358,091**	1,361,817
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
Liabilities			
Placements from financial institutions		**95,842**	152,404
Placements from non-financial institutions and individuals		**297,215**	245,442
Financing from financial institutions	12	**181,502**	110,113
Customers' current accounts		**202,511**	231,078
Other liabilities	13	**24,668**	36,621
Total Liabilities		**801,738**	775,658
Equity of Investment Accountholders			
Financial institutions		**39,865**	29,953
Non-financial institutions and individuals		**371,856**	420,455
Total Equity of Investment Accountholders	14	**411,721**	450,408
Owners' Equity			
Share capital	15	**106,406**	106,406
Treasury shares	15	**(892)**	(892)
Shares under employee share incentive scheme		**(195)**	(293)
Share premium		**206**	206
Reserves		**14,107**	5,324
Equity Attributable to Shareholders of the Bank		**119,632**	110,751
Subordinated Mudaraba (AT1)	15	**25,000**	25,000
Total Owners' Equity		**144,632**	135,751
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		**1,358,091**	1,361,817

The consolidated financial statements were approved by the Board of Directors on 18 February 2024 and signed on its behalf by:

Dr. Esam Abdulla Fakhro
Chairman

Usman Ahmed
Vice Chairman

Yaser Abduljalil Alsharifi
Chief Executive Officer

The attached noted 1 to 35 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2023

	Note	2023 BD'000	2022 BD'000
INCOME			
Income from financing	18	**52,274**	49,408
Income from investment in Sukuk	19	**14,994**	12,641
Total income from jointly financed assets		**67,268**	62,049
Return on equity of investment accountholders		**(20,613)**	(23,362)
Group's share as Mudarib		**18,083**	19,306
Net return on equity of investment accountholders	14.5	**(2,530)**	(4,056)
Group's share of income from jointly financed assets (both as mudarib and investor)		**64,738**	57,993
Expense on placements from financial institutions		**(8,695)**	(5,561)
Expense on placements from non-financial institutions and individuals		**(15,513)**	(7,630)
Expense on financing from financial institutions		**(6,024)**	(1,637)
Fee and commission income, net		**5,773**	5,751
Income from investment securities	20	**6**	30
Income from investment in real estate, net	21	**221**	(617)
Share of results of associates, net	7	**347**	13
Other income, net	22	**4,477**	1,984
Total income		**45,330**	50,326
EXPENSES			
Staff costs		**12,384**	13,092
Depreciation and amortization	9, 11.1	**1,823**	1,707
Other expenses	23	**13,352**	11,514
Total expenses		**27,559**	26,313
Profit before impairment allowances and other provisions		**17,771**	24,013
Impairment allowance and other provisions, net	24	**(6,635)**	(11,445)
PROFIT FOR THE YEAR		**11,136**	12,568
BASIC AND DILUTED EARNINGS PER SHARE (fils)	27	**8.76**	10.13

Dr. Esam Abdulla Fakhro
Chairman

Usman Ahmed
Vice Chairman

Yaser Abduljalil Alsharifi
Chief Executive Officer

The attached noted 1 to 35 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Note	2023 BD'000	2022 BD'000
OPERATING ACTIVITIES			
Profit for the year		**11,136**	12,568
Adjustments for non-cash items:			
Depreciation	9	**1,484**	1,383
Impairment allowance and other provisions, net	24	**6,635**	11,445
Loss on sale of investment in real estate	21	**28**	-
Amortization of right-of-use asset	11.1	**339**	324
Fair value movement in investment in real estate	21	**50**	794
Amortization of gain on sale of investment in real estate	21	**(108)**	(19)
Gain on sale of investment in sukuk	19	**(2)**	(710)
Share of results of associates, net	7	**(347)**	(13)
Operating profit before changes in operating assets and liabilities		**19,215**	25,772
Working capital adjustments:			
Mandatory reserve with Central Bank of Bahrain		**940**	(15,060)
Financing assets		**9,048**	(20,136)
Ijarah Muntahia Bittamleek		**(29,103)**	(33,475)
Other assets		**6,864**	(1,843)
Customers' current accounts		**(28,567)**	(18,671)
Other liabilities		**(11,813)**	6,470
Placements from financial institutions		**(57,676)**	21,207
Placements from non-financial institutions and individuals		**51,773**	33,024
Equity of investment accountholders		**(38,687)**	(65,822)
Net cash used in operating activities		**(78,006)**	(68,534)
INVESTING ACTIVITIES			
Disposal of investment in real estate		**1,373**	-
Purchase of investment securities		**(18,125)**	(19,124)
Purchase of property and equipment		**(1,157)**	(1,911)
Proceeds from disposal of investment securities		**107**	33,107
Net cash (used in) / from investing activities		**(17,802)**	12,072
FINANCING ACTIVITIES			
Purchase of treasury shares		**(26)**	(80)
Profit distribution on AT1 Capital		**(1,901)**	(1,901)
Proceeds from financing from financial institutions		**71,389**	53,194
Lease liability paid		**(328)**	(356)
Net cash from financing activities		**69,134**	50,857
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(26,674)**	(5,605)
Cash and cash equivalents at 1 January		**101,073**	106,678
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**74,399**	101,073
Cash and cash equivalents comprise of:			
Cash on hand	3	**12,601**	16,577
Balances with CBB, excluding mandatory reserve deposits	3	**5,875**	2,569
Balances with banks and other financial institutions excluding restricted balances	3	**4,234**	12,172
Placements with financial institutions with original maturities less than 90 days	4	**51,689**	69,755
		74,399	101,073

The attached noted 1 to 35 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2023

					Reserves							
2023	**Share capital BD'000**	**Treasury shares BD'000**	**Shares under employee share incentive scheme BD'000**	**Share premium BD'000**	**Statutory reserve BD'000**	**Real estate fair value reserve BD'000**	**Investment securities fair value reserve BD'000**	**Retained earnings / (Accumulated losses) BD'000**	**Total reserves BD'000**	**Equity Attributable to Shareholders of the Bank BD'000**	**Sub-ordinated mudaraba (AT1) BD'000**	**Total owners' equity BD'000**
Balance at 1 January 2023	**106,406**	**(892)**	**(293)**	**206**	**6,606**	**1,320**	**1,615**	**(4,217)**	**5,324**	**110,751**	**25,000**	**135,751**
Profit for the year	-	-	-	-	-	-	-	**11,136**	**11,136**	**11,136**	-	**11,136**
Zakah approved	-	-	-	-	-	-	-	**(170)**	**(170)**	**(170)**	-	**(170)**
Donations approved	-	-	-	-	-	-	-	**(250)**	**(250)**	**(250)**	-	**(250)**
Profit distribution on AT1 Capital	-	-	-	-	-	-	-	**(1,901)**	**(1,901)**	**(1,901)**	-	**(1,901)**
Share of reserve of investment in associate	-	-	-	-	-	-	-	-	-	-	-	-
Shares allocated to staff during the year	-	-	**124**	-	-	-	-	-	-	**124**	-	**124**
Purchase of treasury shares	-	**(26)**	-	-	-	-	-	-	-	**(26)**	-	**(26)**
Transfer to shares under employee share incentive scheme	-	**26**	**(26)**	-	-	-	-	-	-	-	-	-
Net movement in investment securities fair value reserve	-	-	-	-	-	-	**(32)**	-	**(32)**	**(32)**	-	**(32)**
Net movement in real estate fair value reserve	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to statutory reserve	-	-	-	-	**1,114**	-	-	**(1,114)**	-	-	-	-
Balance at 31 December 2023	**106,406**	**(892)**	**(195)**	**206**	**7,720**	**1,320**	**1,583**	**3,484**	**14,107**	**119,632**	**25,000**	**144,632**
2022												
Balance at 1 January 2022	106,406	(892)	(289)	206	5,349	1,545	1,778	(13,343)	(4,671)	100,760	25,000	125,760
Profit for the year	-	-	-	-	-	-	-	12,568	12,568	12,568	-	12,568
Zakah approved	-	-	-	-	-	-	-	(138)	(138)	(138)	-	(138)
Donations approved	-	-	-	-	-	-	-	(350)	(350)	(350)	-	(350)
Profit distribution on AT1 Capital	-	-	-	-	-	-	-	(1,901)	(1,901)	(1,901)	-	(1,901)
Share of reserve of investment in associate	-	-	-	-	-	-	(204)	204	-	-	-	-
Shares allocated to staff during the year	-	-	76	-	-	-	-	-	-	76	-	76
Purchase of treasury shares	-	(80)	-	-	-	-	-	-	-	(80)	-	(80)
Transfer to shares under employee share incentive scheme	-	80	(80)	-	-	-		-	-	-	-	-
Net movement in investment securities fair value reserve	-	-	-	-	-	-	41	-	41	41	-	41
Net movement in real estate fair value reserve	-	-	-	-	-	(225)	-	-	(225)	(225)	-	(225)
Transfer to statutory reserve	-	-	-	-	1,257	-	-	(1,257)	-	-	-	-
Balance at 31 December 2022	106,406	(892)	(293)	206	6,606	1,320	1,615	(4,217)	5,324	110,751	25,000	135,751

The attached noted 1 to 35 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF GOOD FAITH QARD FUND

For the year ended 31 December 2023

	Qard Hasan receivables BD'000	Funds available for Qard Hasan BD'000	Total BD'000
Balance at 1 January 2023	**107**	**110**	**217**
Sources of Qard Fund			
Repayments	**(47)**	**47**	**-**
Total sources during the year	**(47)**	**47**	**-**
Uses of Qard fund			
Marriage	**21**	**(21)**	**-**
Others (Waqf)	**57**	**(57)**	**-**
Total uses during the year	**78**	**(78)**	**-**
Balance At 31 December 2023	**138**	**79**	**217**
Balance at 1 January 2022	94	123	217
Sources of Qard Fund			
Repayments	(45)	45	-
Total sources during the year	(45)	45	-
Uses of Qard fund			
Marriage	-	-	-
Others (Waqf)	58	(58)	-
Total uses during the year	58	(58)	-
Balance at 31 December 2022	107	110	217

	2023 BD'000	2022 BD'000
Sources of Qard fund		
Contribution by the Bank	**125**	125
Donation	**3**	3
Non-shariah compliant income	**89**	89
	217	217

The attached noted 1 to 35 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND

For the year ended 31 December 2023

	2023 BD'000	2022 BD'000
Sources of zakah and charity funds		
Undistributed zakah and charity funds at the beginning of the year	**676**	353
Non-shariah compliant income / late payment fee	**304**	109
Contributions by the Bank for zakah	**170**	138
Contributions by the Bank for donations	**256**	350
Others	**-**	4
Total sources of zakah and charity funds during the year	**1,406**	954
Uses of zakah and charity funds		
Philanthropic societies	**12**	16
Aid to needy families	**370**	221
Others	**97**	41
Total uses of funds during the year	**479**	278
Undistributed zakah and charity funds at the end of the year	**927**	676

The attached noted 1 to 35 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

1. REPORTING ENTITY

Bahrain Islamic Bank B.S.C. (the "Bank") was incorporated in the Kingdom of Bahrain in 1979 by Amiri Decree No.2 of 1979 and registered with the Ministry of Industry and Commerce ("MOIC") under Commercial Registration (CR) number 9900, to carry out banking and other financial trading activities in accordance with the teachings of Islam (Shari'a). The Bank operates under an Islamic retail banking license issued by the Central Bank of Bahrain ("CBB"). The Bank's Shari'a Supervisory Board is entrusted to ensure the Bank's adherence to Shari'a rules and principles in its transactions and activities. The Bank is listed on the Bahrain Bourse.

The Bank's registered office is at Building 722, Road 1708, Block 317, Manama, Kingdom of Bahrain.

The Bank has eight branches (2022: nine branches), all operating in the Kingdom of Bahrain.

The consolidated financial statements include the results of the Bank and its wholly owned subsidiaries (together the "Group"). The Bank holds 100% (2022: 100%) of the share capital of Abaad Real Estate W.L.L.

Abaad Real Estate W.L.L ("Abaad")
Abaad was incorporated in the Kingdom of Bahrain on 8 April 2003 with an authorised and fully paid-up share capital of BD 25 million. Abaad started operations in 2007. The main activity of Abaad is investment in real estate (in accordance with the Islamic Shari'a rules and principles).

National Bank of Bahrain (NBB) owns 78.81% (2022: 78.81%) of shares. Hence, NBB is considered as Parent of the Bank for financial reporting purposes.

a. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for the "risk management instruments", "investments in real estate" and "equity type instruments carried at fair value through equity" that have been measured at fair value and repossessed assets that have been measured at lower of carrying value or fair value less cost to sell. In addition, financial assets that are hedged in a fair value hedge relationship are adjusted to record changes in fair value attributable to the riskw that is being hedged.

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Management believes that the underlying assumptions are appropriate and the Group's consolidated financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note (3 (bb)).

The consolidated financial statements have been presented in Bahraini Dinars ("BD"), which is also the functional currency of the Group's operations. All the values are rounded to the nearest BD thousand except when otherwise indicated.

b. Statement of Compliance

The consolidated financial statements of the Group have been prepared in accordance with Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI) and applicable rules and regulations issued by the Central Bank of Bahrain ("CBB").

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting polices applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been consistently applied by the Group and are consistent with those used in the previous year except those arising from the adoption of the following standards and amendments to Standards early adopted by the Group.

a. New standards, amendments, and interpretations

i) New standards, amendments, and interpretations issued and effective for annual periods beginning on or after 1 January 2023

(i) FAS 39 Financial Reporting for Zakah

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

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

This standard does not prescribe the method for determining the Zakah base and measuring Zakah due for a period. An institution shall refer to relevant authoritative guidance for determination of Zakah base and to measure Zakah due for the period.

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

The Bank does not have any obligation to pay Zakah as per its constitutional documents but only pays Zakah on undistributed profits as an agent on behalf of its shareholders. The Bank has adopted this standard and has provided the necessary additional disclosures in its annual financial statements (refer to notes 2(q) and 26).

(ii) FAS 41 Interim Financial Reporting

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

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

(iii) FAS 44 Determining Control of Assets and Business

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2023

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a. New standards, amendments, and interpretations (Continued)

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

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

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

The revision of FAS 1 is in line with the modifications made to the AAOIFI conceptual framework for financial reporting. Some of the significant revisions to the standard are as follows:
a) Revised conceptual framework is now integral part of the AAOIFI FAS's;
b) Definition of Quassi equity is introduced;
c) Definitions have been modified and improved;
d) Concept of comprehensive income has been introduced;
e) Institutions other than Banking institutions are allowed to classify assets and liabilities as current and non-current;
f) Disclosure of Zakah and Charity have been relocated to the notes;
g) True and fair override has been introduced;
h) Treatment for change in accounting policies, change in estimates and correction of errors has been introduced;
i) Disclosures of related parties, subsequent events and going concern have been improved;
j) Improvement in reporting for foreign currency, segment reporting;
k) Presentation and disclosure requirements have been divided into three parts. First part is applicable to all institutions, second part is applicable only to banks and similar IFI's and third part prescribes the authoritative status, effective date an amendments to other AAOIFI FAS's; and
l) The illustrative financial statements are not part of this standard and will be issued separately.

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

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

AAOIFI has issued Financial Accounting Standard (FAS) 45 "Quasi-Equity (Including Investment Accounts)" during 2023. The objective of this standard is to establish the principles for identifying, measuring, and presenting "quasi-equity" instruments in the financial statements of Islamic Financial Institutions "IFIs".
The standard prescribes the principles of financial reporting to participatory investment instruments (including investment accounts) in which an IFI controls underlying assets (mostly, as working partner), on behalf of the stakeholders other than owner's equity. This standard provides the overall criteria for on-balance sheet accounting for participatory investment instruments and quasi-equity, as well as, pooling, recognition, derecognition, measurement, presentation and disclosure for quasi-equity. This standard shall be effective for the financial reporting periods beginning on or after 1 January 2026 with an option to early adopt.
The Group does not expect any significant impact on the adoption of this standard.

(iii) FAS 46: Off-Balance-Sheet Assets Under Management

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

This standard is applicable to all IFIs with fiduciary responsibilities over asset(s) without control, except for the following:
• The participants' Takaful fund and / or participants' investment fund of a Takaful institution; and
• An investment fund managed by an institution, being a separate legal entity, which is subject to financial reporting in line with the requirements of the respective AAOIFI FAS.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a. New standards, amendments, and interpretations (Continued)

ii) New standards, amendments, and interpretations issued but not yet effective (Continued)

(iv) 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.

b. Basis of consolidation

Subsidiaries are all entities (including special purpose entities) controlled by the Group 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. Subsidiaries are consolidated from the date on which control is transferred to the Group to the date that control seizes.

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 financial statements of the subsidiaries are prepared for the same reporting year as the Group, using consistent accounting policies.

All intra-group balances, income, expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

c. 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 less than 90 days when acquired.

d. Placements with and financing from financial institutions

i) Placements with financial institutions

Placements with financial institutions comprise of commodity Murabaha receivables and Wakala receivables. Commodity Murabaha receivables are stated at amortised cost net of deferred profits and provision for impairment, if any. Wakala receivables are stated at amortised cost less provision for impairment, if any.

ii) Financing from financial institutions

Financing from financial institutions comprise of financing obtained through a murabaha contract recognized on the origination date and carried at amortized cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2023

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. Financing assets
Financing assets comprise of Shari'a compliant financing contracts with fixed or determinable payments. These include financing provided through Murabaha and Musharaka contracts. Financing assets are recognised on the date at which they are originated and carried at their amortised cost less impairment allowance, if any.

f. Murabaha financing
Murabaha financing consist mainly of deferred sales transactions which are stated net of deferred profits and provisions for impairment, if any.

Murabaha financing is a sale on deferred terms. The Group arranges a Murabaha transaction by buying a commodity (which represents the object of the Murabaha) and then resells this commodity to a Murabeh (beneficiary) after computing a margin of profit over cost. The sale price (cost plus profit margin) is repaid in instalments by the Murabeh over the agreed period.

g. Musharaka financing
Musharaka financing are stated at the fair value of consideration given less impairment, if any.

Musharaka financing are a form of capital partnership. Musharaka financing capital provided by the Group at inception in kind (if other than cash) is measured at the fair value of the assets. If the valuation of the assets results in a difference between fair value and book value, such difference is recognised as profit or loss to the Group.

h. Investment securities
Investment securities comprise investments in equity securities and investments in debt-type securities, sukuk.

(i) Classification

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

Amortised cost
An investment shall be measured at amortised cost if both of the following conditions are met:

a) The investment is held within a business model whose objective is to hold such investment in order to collect expected cash flows till maturity of the instrument; and
b) The investment represents either a debt-type instrument or other investment instrument having reasonably determinable effective yield.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h. Investment securities (Continued)

(i) Classification (Continued)

Fair value through equity
An investment shall be measured at fair value through equity if both of the following conditions are met:

a) The investment is held within a business model whose objective is achieved by both collecting expected cash flows and selling the investment; and

b) The investment represents a non-monetary debt-type instrument or other investment instrument having reasonably determinable effective yield.

Irrevocable classification at initial recognition
On initial recognition, an institution may make an irrevocable election to designate a particular investment, at initial recognition, being:

a) An equity-type instrument that would otherwise be measured at fair value through income statement – to present subsequent changes in fair value in equity.

b) A non-monetary debt-type instrument or other investment instrument – as measured at fair value through income statement if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or correlated liabilities or quasi-equity or recognizing the gains and losses on them on different bases. This shall, however, be subject to the Shari'a requirements with regard to the attribution of, and distribution of such gains to the respective stakeholders.

Fair value through income statement
All other investments are measured at FVTIS.

Business model assessment
The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profit, maintaining practical profit rate profile and realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Group's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Investments that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTIS.

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 income statement. For other investment securities, transaction costs are included as a part of the initial recognition.

Subsequent to initial recognition, investments carried at FVTIS and FVTE are re-measured to fair value. Gains and losses arising from a change in the fair value of investments carried at FVTIS are recognised in the income statement in the period in which they arise. Gains and losses arising from a change in the fair value of investments carried at FVTE are recognised in the consolidated statement of changes in equity and presented in a separate fair value reserve within equity. The fair value gains/losses are recognised taking into consideration the split between portions related to owners' equity and equity of investment account holders. When the investments carried at FVTE are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in equity is transferred to the income statement.

Subsequent to initial recognition, debt-type securities, other than those carried at FVTIS, are measured at amortised cost using the effective profit method less any impairment allowances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2023

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
h. Investment securities (Continued)

(ii) Measurement principles

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

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received.

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If a market for a financial instrument is not active or there is no market, the Group establishes fair value using well-recognised valuation techniques that may include recent arm's length transactions between knowledgeable, willing parties (if available), discounted cash flows or market multiples for similar instruments.

Some or all of the inputs into these models may not be market observable, but are estimated based on assumptions. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

Fair value estimates 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 determining fair valuation, the Group in many instances relies on the financial data of investees and on estimates by the management of the investee companies as to the effect of future developments.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

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

j. Investment in associates
Associates are all entities in which the Group holds, between 20% and 50% of the voting rights and exercises significant influence, but not control or joint control, over the financial and operating policies of the entities. Investment in associates are accounted for using the equity method of accounting.

Investments in associates are initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from the changes in the investee's equity. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued, except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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 being the difference between the recoverable amount of the associates and the carrying value and recognises this amount in the consolidated statement of income.

Accounting policies of the associates are consistent with the policies adopted by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. Ijarah Muntahia Bittamleek

Ijarah Muntahia Bittamleek are stated at cost less accumulated depreciation and any impairment in value. Under the terms of the lease, the legal title of the asset passes to the lessee at the end of the lease term, provided that all lease installments are settled. Depreciation is calculated using rates that systematically reduce the cost of the leased assets over the period of the lease in a pattern which is reflective of the expected pattern of economic benefits arising from these assets. The Group assesses at each reporting date whether there is objective evidence that the assets acquired for leasing are impaired. Impairment losses are measured as the difference between the carrying amount of the asset and the estimated recoverable amount. The estimates of future cash flows, when dependent on a single customer, takes into consideration the credit evaluation of the customers in addition to other factors. Impairment losses, if any, are recognised in the consolidated statement of income.

l. Investment in real estate

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

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

m. Property and equipment

Property and equipment are recognised at cost. The cost of additions and major improvements are capitalised; maintenance and repairs are charged to the consolidated statement of income as incurred. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets as follows:

Buildings	25 to 35 years
Fixtures and fittings	5 years
Equipment	5 years
Furniture	5 years

n. Equity of investment accountholders

Equity of investment accountholders are funds held by the Group in unrestricted investment accounts, which it can invest at its own discretion. The investment account holder authorises the Group to invest the account holders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. The Group charges management fee (Mudarib fees) to the investment account holders. Of the total income from investment accounts, the income attributable to customers is allocated to investment accounts after setting aside provisions, reserves (profit equalisation reserve and investment risk reserve) and deducting the Group's share of income as a Mudarib. The allocation of income is determined by the management of the Group within the allowed profit sharing limits as per the terms and conditions of the investment accounts. Administrative expenses incurred in connection with the management of the funds are borne directly by the Group and are not charged separately to investment accounts. Only profits earned from the pool of assets funded by the equity of investment accountholders are allocated between the owners' equity and equity of investment accountholders.

Investment accounts are carried at their book values and include amounts retained towards profit equalisation and investment risk reserves, if any. Creation of any of these reserves results in an increase in the liability towards the pool of unrestricted investment accounts.

o. Investment risk reserve

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2023

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

q. Zakah
Zakah is calculated annually on the Zakah base of the Group in accordance with FAS 39 issued by AAOIFI using the net invested funds method. The Group calculates Zakah based on the consolidated figures of statutory reserve, general reserve and retained earning balances at the end of the year and notifies the shareholders. Payment of Zakah on equity of investment accountholders and other accounts is the responsibility of respective accountholders. The calculations of Zakah are approved by the Shari'a Supervisory Board.

r. Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

s. Dividends
Dividends are recognised as liabilities in the year in which they are declared / approved by the shareholders.

t. Derecognition of financial assets and liabilities

i) Financial assets

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

- the right to receive cash flows from the asset has expired;
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the asset; or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement.

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

ii) Financial liabilities

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

u. Treasury shares
These are own equity instruments of the Group which are reacquired through its own broker. Treasury shares are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase or sale of the Group's own equity instruments is recognised directly in equity. No gain or loss is recognised in consolidated statement of income on the purchase, sale, issue, or cancellation of own equity instruments.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

x. Income recognition

i) Murabaha and Wakala

Income from Murabaha and Wakala contracts is recognised on a time-apportioned basis over the period of the contract using effective profit rate method.

ii) Musharaka

Profit or losses in respect of the Group's share in a Musharaka financing transaction that commence and end during a single financial period is recognised in the consolidated statement of income at the time of liquidation (closure of the contract). Where the Musharaka financing continues for more than one financial period, profit is recognised to the extent that such profits are being distributed during that period in accordance with the profit sharing ratio stipulated in the Musharaka agreement.

iii) Mudarbah financing

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

iv) Sukuk

Income from Sukuk is recognised using effective profit rate over the term of the instrument.

v) Placements with financial institutions

Income on placements with financial institutions is recognised proportionately over the period of the contract based on the principal amounts outstanding and the profit agreed with clients.

vi) Ijarah Muntahia Bittamleek

Income from Ijarah Muntahia Bittamleek is recognised proportionately over the lease term.

vii) Dividend income

Dividend income is recognised when the right to receive payment is established.

viii) Fees and commission income

Fees and commission income that is integral to the effective profit rate on a financial asset carried at amortised cost are included in the measurement of the effective profit rate of the financial asset. Other fees and commission income, including account servicing fees, sales commission, management fees, placement and arrangement fees and syndication fees, are recognised as the related services are performed.

y. Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into Bahraini Dinars at the rate of exchange ruling at the consolidated statement of financial position date. All differences are taken to the consolidated statement of income.

Translation gains or losses on non-monetary items carried at fair value are included in owners› equity as part of the fair value adjustment.

z. Impairment of exposures subject to credit risk

The Group recognizes expected credit losses (ECLs) on the following:

- Bank balances and placements with banks;
- Financing assets;
- Ijarah Muntahia Bittamleek;
- Investment in Sukuk - debt type securities at amortised cost;
- Financial guarantee contracts issued; and
- Commitments to finance.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, which are measured at 12-month ECL:

- Debt-type securities that are determined to have low credit risk at the reporting date; and
- Other debt-type securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2023

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

z. Impairment of exposures subject to credit risk (Continued)

When determining whether the credit risk of an exposure subject to credit risk has increased significantly since initial recognition when estimating ECLs, 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 informed credit assessment including forward-looking information.
The Group assumes that the credit risk on an exposure subject to credit risk has increased significantly if it is more than 30 days past due.

The Group considers an exposure subject to credit risk to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security, if any is held; or
- the financial asset is 90 days past due or more.

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group considers this to be BBB- or higher per S&P.

The Group applies a three-stage approach to measuring ECL on exposures subject to credit risk. Exposures migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12-months ECL
Stage 1 includes exposures subject to credit risk on initial recognition and that do not have a significant increase in credit risk since initial recognition or that have low credit risk. 12-month ECL is the expected credit losses that arise from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12-months.

Stage 2: Lifetime ECL - not credit impaired
Stage 2 includes exposures subject to credit risk that have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment. For these assets, lifetime ECL is recognised. Lifetime ECL is the expected credit losses that result from all possible default events over the expected life of the financial instrument. Expected credit losses are the weighted average credit losses with the life-time probability of default ('PD').

Stage 3: Lifetime ECL - credit impaired
Stage 3 includes exposures subject to credit risk that have objective evidence of impairment at the reporting date in accordance with the indicators specified in the CBB's rule book. For these assets, lifetime ECL is recognised.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

i) Measurement of ECL
ECL is a probability-weighted estimate of credit losses. It is measured as follows:

- Exposures subject to credit risk that are not credit-impaired at the reporting date: 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);
- Exposures subject to credit risk that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn commitments to finance: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

z. Impairment of exposures subject to credit risk (Continued)

ii) Restructured exposures

If the terms of an exposures subject to credit risk are renegotiated or modified or an existing exposures subject to credit risk is replaced with a new one due to financial difficulties of the borrower, the exposures subject to credit risk should be derecognized and ECL is calculated using the cash shortfalls from the existing exposures subject to credit risk that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing exposures subject to credit risk.

iii) Credit-impaired exposures

At each reporting date, the Group assesses whether exposures subject to credit risk are credit-impaired. An exposure subject to credit risk is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the exposures have occurred.

Evidence that an exposure subject to credit risk is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default;
- The restructuring of a financing facility by the Group on terms that the Group would not consider
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

iv) Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as a deduction from gross carrying amount of wexposures subject to credit risk.

v) Write-off

Exposures subject to credit risk are written off either partially or in their entirety. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to other income.

Financing asset exposures are either fully or partially written off when there is no expectation for further recovery. Indicators that there is no reasonable expectation of recovery include (i) borrower is insolvent or (ii) all possible recovery options have been exhausted.

aa. Equity investments classified at Fair Value Through Equity (FVTE)

For equity-type investments classified as fair value through equity and measured at fair value, a significant or prolonged decline in the fair value of an investment below its cost is considered in determining whether the investments are impaired. If such evidence exists for equity-type investments classified as fair value through equity, the cumulative loss previously recognized in the consolidated statement of changes in equity is removed from equity and recognized in the consolidated statement of income. Impairment losses recognized in the consolidated statement of income on equity-type investments are subsequently reversed through equity.

bb. Use of estimates and judgements in preparation of the consolidated financial statements

In the process of applying the Group's accounting policies, management has made estimates and judgements in determining the amounts recognised in the consolidated financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. The most significant use of judgements and estimates are as follows:

i) Impairment of exposures subject to credit risk

- Establishing the criteria for determining whether credit risk on exposures subject to credit risk has increased significantly since initial recognition, determining methodology for incorporating forward looking information into measurement of ECL, and selection and approval of models used to measure ECL is set out in note (2 (z)) and note (29).
- Impairment on ijarah: key assumptions used in estimating recoverable cash flows is set out in note (2 (z)). Determining inputs into ECL measurement model including incorporation of forward looking information is set out in note (2 (z)) and note (29).

ii) Going concern

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2023

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
bb. Use of estimates and judgements in preparation of the consolidated financial statements (Continued)

iii) Impairment of equity investments
The Group determines that equity investments carried at fair value through equity are impaired when there is a significant or prolonged decline in the fair value of the investment below its cost. This determination of what is significant or prolonged requires judgment.

In case of equity investments, the Group considers a decline of more than 30% in the fair value below cost to be significant and considers a decline below cost which persists for more than 9 months as prolonged.

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

dd. Customers’ current accounts
Balances in current (non-investment) accounts are recognised when received by the Group. The transactions are measured at the cash equivalent amount received by the Group. At the end of the accounting period, the accounts are measured at their book value.

i) Short-term benefits
Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus as 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.

ii) Post-employment benefits
Pension and other benefits for Bahraini employees are covered by the Social Insurance Organisation Scheme, which is a “defined contribution scheme” in nature, and to which employees and employers contribute monthly on a fixed percentage of salaries basis. Contributions by the Group are recognised as an expense in the consolidated statement of income when they are due.

Expatriate employees on fixed contracts are entitled to leaving indemnities payable under Bahraini labour law, based on the 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.

These benefits are in the nature of “defined benefits scheme” and any increase or decrease in the benefit obligation is recognised in the consolidated statement of income.

The Group also operates a voluntary employee saving scheme under which the Group and the employee contribute monthly on a fixed percentage of salaries basis. The scheme is managed and administered by the bank. The scheme is in the nature of defined contribution scheme and contributions by the Group are recognised as an expense in the consolidated statement of income when they are due.

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

For share based awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

gg. Repossessed assets
In certain circumstances, property is repossessed following the foreclosure of financing facilities that are in default. Repossessed properties are measured at the lower of carrying amount or fair value less costs to sell and reported within 'other assets'.

hh. Statutory reserve
The Commercial Companies Law requires that 10 percent of the annual net profit be appropriated to a statutory reserve which is normally distributable only on dissolution. Appropriations may cease when the reserve reaches 50 percent of the paid up share capital.

ii. URIA protection scheme
Investment accounts held within the Group's Bahrain operations are covered by the regulation protecting URIA issued by the Central Bank of Bahrain in accordance with Resolution No (34) of 2010. The scheme applies to all eligible accounts held with Bahrain offices of the Bank subject to specific exclusions, maximum total amount entitled and other regulations governing the establishment of a URIA Protection Scheme and a URIA Protection Board.

jj. Risk management financial instruments
The Group enters into a variety of risk management financial instruments held to manage its exposure to profit rate risk and foreign exchange rate risk. Risk mangement instruments held include foreign exchange swaps and profit rate swaps.

All risk management financial instruments are initially recognised at cost, being the fair value at contract date, and aresubsequently re-measured at their fair values. Fair values are obtained from quoted market prices in active markets including recent market transactions, and valuation techniques including discounted cash flow models and option pricing models as appropriate.

Changes in the fair value of risk management financial instruments that do not qualify for hedge accounting are recognised in same statement of income line as the hedged item. In the case of fair value hedges that meet the criteria for hedge accounting, any gain or loss arising from remeasuring the hedging instruments to fair value as well as the related changes in fair value of the item being hedged are recognised in the statement of income under other income.

A risk management instrument with a positive fair value is recognised as a financial asset whereas a risk management instrument with a negative fair value is recognised as a financial liability. A risk management instrument is presented as an other asset or other liability.

Hedge accounting (Tahawwut)

The Group designates certain risk management instruments as hedging instruments in respect of profit rate risk in fair value hedges. The Group does not apply fair value hedge accounting of portfolio hedges of profit rate risk.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- There is an economic relationship between the hedged item and the hedging instrument;
- The effect of credit risk does not dominate the value changes that result from that economic relationship; and
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

The Group rebalances a hedging relationship in order to comply with the hedge ratio requirements when necessary. In such cases, discontinuation may apply to only part of the hedging relationship. For example, the hedge ratio might be adjusted in such a way that some of the volume of the hedged item is no longer part of a hedging relationship, hence hedge accounting is discontinued only for the volume of the hedged item that is no longer part of the hedging relationship.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2023

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
jj.Risk management financial instruments (Continued)

Fair value hedges
The fair value change on qualifying hedging instruments is recognised in the consolidated statement of income except when the hedging instrument hedges an equity instrument designated at FVTE in which case it is recognised in equity. The Group has not designated fair value hedge relationships where the hedging instrument hedges an equity instrument designated at FVTE.

The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in the consolidated statement of income. For debt instruments measured at FVTE, the carrying amount is not adjusted as it is already at fair value, but the part of the fair value gain or loss on the hedged item associated with the hedged risk is recognised in the consolidated statement of income instead of equity. When the hedged item is an equity instrument designated at FVTE, the hedging gain/loss remains in equity to match that of the hedging instrument.

Where hedging gains/losses are recognised in the consolidated statement of income, they are recognised in the same line as the hedged item.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. The fair value adjustment to the carrying amount of hedged items for which the Effective profit Rate (EPR) method is used (i.e. debt instruments measured at amortised cost or at FVTE) arising from the hedged risk is amortised to profit or loss commencing no later than the date when hedge accounting is discontinued.

As a result of these uncertainties, significant accounting judgement is involved in determining whether certain hedge accounting relationships that hedge the variability profit rate risk.

Fair value hedges: The Group uses profit rate swaps to hedge its exposure to changes in fair value, of certain investments in fixed rate Sukuk, attributable to changes in market profit rates. Fair values of the profit rate swap agreements are estimated based on the prevailing market rates of profit. During the year, the Group has entered into a profit rate swaps with its Parent.

Other risk management instruments: The Group uses risk management instruments, not designated in qualifying accounting hedge relationship, to manage its exposure to market risks. The Group enters into foreign exchange swap contracts (Waad) to manage against foreign exchange fluctuations. Fair values of the forward currency contracts are estimated based on the prevailing market rates of profit and forward rates of the related foreign currencies, respectively.

kk. Perpetual Tier 1 capital securities
Perpetual Tier 1 capital securities and sukuk of the Group are recognised under owners' equity in the consolidated statement of financial position and the corresponding distribution on those securities are accounted as a debit to the retained earnings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2023

3. CASH AND BALANCES WITH BANKS AND CENTRAL BANK

	2023 BD'000	2022 BD'000
Cash on hand	**12,601**	16,577
Balances with CBB, excluding mandatory reserve deposits	**5,875**	2,569
Balances with banks and other financial institutions**	**6,026**	12,851
	24,502	31,997
Mandatory reserve with CBB*	**37,100**	38,040
	61,602	70,037

* The mandatory reserve with CBB is not available for use in the day-to-day operations.
** Balances with banks and other financial institutions include an amount of BD 1,792 thousand (2022: BD 679 thousand) which is not available for use in the day-to-day operations.

4. PLACEMENTS WITH FINANCIAL INSTITUTIONS

	2023 BD'000	2022 BD'000
Commodity Murabaha	**48,079**	53,191
Deferred profits	**(8)**	(8)
	48,071	53,183
Wakala	**3,621**	20,263
	51,692	73,446
Impairment allowance	**(3)**	(3,691)
	51,689	69,755

5. FINANCING ASSETS

	2023 BD'000	2022 BD'000
Murabaha (note 5.1)	**520,162**	533,900
Musharaka (note 5.2)	**85,341**	86,123
	605,503	620,023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

5. FINANCING ASSETS (CONTINUED)

5.1 Murabaha

	2023 BD'000	2022 BD'000
Tasheel	**326,496**	347,562
Tawarooq	**199,759**	194,612
Altamweel Almaren	**70,842**	76,987
Letters of credit refinance	**9,586**	7,898
Motor vehicles Murabaha	**1,977**	2,332
Credit cards	**25,638**	20,968
Others	**-**	8
	634,298	650,367
Qard fund	**138**	107
Gross receivables	**634,436**	650,474
Deferred profits	**(82,719)**	(81,805)
Impairment allowance	**(31,555)**	(34,769)
	520,162	533,900

Non-performing Murabaha financing outstanding as of 31 December 2023 amounted to BD 41,504 thousand (2022: BD 55,845 thousand).

The Group considers the promise made in the Murabaha to the purchase orderer as obligatory.

The composition of the Murabaha financing portfolio net of deferred profit and before provision for impairment by sector is as follows:

	2023 BD'000	2022 BD'000
Commercial	**88,676**	99,572
Financial institutions	**13,396**	15,308
Others including retail	**449,645**	453,789
	551,717	568,669

The Group exposures of Murabaha financing portfolio is concentrated in the Middle East.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

5. FINANCING ASSETS (CONTINUED)

5.2 Musharaka

	2023 BD'000	2022 BD'000
Musharaka in real estate	**90,204**	90,563
Impairment allowance	**(4,863)**	(4,440)
	85,341	86,123

Non-performing Musharaka financing outstanding as of 31 December 2023 amounted to BD 5,703 thousand (2022: BD 7,840 thousand).

5.3 The movement on impairment allowances is as follows:

2023	Stage 1 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000
At 1 January 2023	**3,037**	**11,215**	**24,957**	**39,209**
Net movement between stages	**216**	**(1,899)**	**1,683**	**-**
Net charge for the year	**(720)**	**(918)**	**7,006**	**5,368**
Write-off	**-**	**-**	**(8,159)**	**(8,159)**
At 31 December 2023	**2,533**	**8,398**	**25,487**	**36,418**

2022	stage 1 BD'000	stage 2 BD'000	stage 3 BD'000	Total BD'000
At 1 January 2022	3,136	9,209	18,271	30,616
Net movement between stages	295	(155)	(140)	-
Net charge for the year	(394)	2,161	7,644	9,411
Write-off	-	-	(818)	(818)
At 31 December 2022	3,037	11,215	24,957	39,209

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

6. INVESTMENT SECURITIES

	2023 BD'000	2022 BD'000
a. Debt type instruments*		
Quoted Sukuk - carried at amortised cost		
Gross balance at beginning of the year	**222,116**	230,928
Acquisitions	**18,125**	19,124
Disposals and redemptions	**(105)**	(27,936)
Gross balance at the end of the year	**240,136**	222,116
Impairment allowance	**(82)**	(129)
Fair value losses on hedged items attributable to profit rate risk hedged**	**(738)**	(1,886)
Net balance at the end of the year	**239,316**	220,101
Unquoted Sukuk - carried at amortised cost		
Gross balance at beginning of the year	**30,938**	35,442
Acquisitions	**-**	-
Disposals and redemptions	**-**	(4,461)
Foreign currency translation changes	**(11)**	(43)
Gross balance at the end of the year	**30,927**	30,938
Impairment allowance	**(12,516)**	(12,527)
Net balance at the end of the year	**18,411**	18,411
b. Equity type instruments		
Unquoted shares - at fair value through equity		
Balance at beginning of the year	**20,081**	20,549
Fair value movement - net***	**(31)**	(468)
Balance at the end of the year	**20,050**	20,081
Unquoted managed funds	**436**	436
Total net investment securities	**278,213**	259,029

*As of 31 December 2023, debt type instruments includes Sukuk of BD 208,060 thousand (2022: BD 128,406 thousand) pledged against financing from financial institutions of BD 181,502 thousand (2022: BD 110,113 thousand) (note 12).

** As of 31 December 2023, sukuk of BD 77,360 thousand (2022: BD 97,134 thousand) carried at amortised cost were hedged through profit rate swaps and the resultant fair value losses on the hedged items related to profit rate risk of BD 738 thousand (2022: BD 1,886 thousand) were adjusted to the carrying value.

***Includes BD 32 thousand fair value loss (2022: BD 41 thousand fair value gain) reported in the investment securities fair value reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

6. INVESTMENT SECURITIES (CONTINUED)

The movement of impairment allowances on debt type instruments (Sukuk) is as follows:

2023	Stage 1 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000
At 1 January 2023	**129**	**-**	**12,527**	**12,656**
Net charge for the year	**(47)**	**-**	**-**	**(47)**
Foreign exchange movement	**-**	**-**	**(11)**	**(11)**
At 31 December 2023	**82**	**-**	**12,516**	**12,598**

2022	Stage 1 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000
At 1 January 2022	161	-	12,570	12,731
Net charge for the year	(32)	-	-	(32)
Foreign exchange movement	-	-	(43)	(43)
At 31 December 2022	129	-	12,527	12,656

During the year, impairment of BD Nil thousand (2022: BD 509 thousand) was provided on equity type instruments.

7. INVESTMENT IN ASSOCIATES

	2023 BD'000	2022 BD'000
At 1 January	**8,832**	9,314
Share of results of associates, net	**347**	13
Impairment allowance	**(877)**	(495)
At 31 December	**8,302**	8,832

Summarised financial information of associates that have been equity accounted for in these consolidated financial statements, not adjusted for percentage of ownership held by the Group:

	2023 BD'000	2022 BD'000
Total assets	**38,786**	32,592
Total liabilities	**705**	548
Total revenues	**3,351**	2,466
Total net profit / (loss)	**1,843**	(1,832)

Investment in associates comprise of:

Name of associate	Ownership %	Country of incorporation	Nature of business
Liquidity Management Centre B.S.C. (c)	25.00%	Bahrain	Liquidity Management Centre B.S.C. (c) was incorporated in 2002 as a bank, licensed and regulated by the Central Bank of Bahrain to facilitate the creation of an Islamic inter-bank market that allow Islamic financial services institutions to effectively manage their assets and liabilities.
LS Real Estate Company W.L.L.	36.75%	Bahrain	LS Real Estate Company W.L.L. was incorporated in the Kingdom of Bahrain in 2019. The Company focuses on real estate activities including the development and overall management of owned or leased properties.

The ownerships are as at 31 December 2023 and 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

8. IJARAH MUNTAHIA BITTAMLEEK

	2023			2022		
	Properties BD'000	Aviation related assets BD'000	Total BD'000	Properties BD'000	Aviation related assets BD'000	Total BD'000
Cost:						
At 1 January	**355,456**	**6,985**	**362,441**	311,778	6,029	317,807
Additions	**79,734**	**-**	**79,734**	83,087	956	84,043
Settlements / adjustments	**(42,870)**	**(215)**	**(43,085)**	(39,409)	-	(39,409)
At 31 December	**392,320**	**6,770**	**399,090**	355,456	6,985	362,441
Accumulated depreciation:						
At 1 January	**67,718**	**1,517**	**69,235**	57,421	655	58,076
Charge for the year	**18,137**	**862**	**18,999**	19,457	862	20,319
Settlements / adjustments	**(11,453)**	**-**	**(11,453)**	(9,160)	-	(9,160)
At 31 December	**74,402**	**2,379**	**76,781**	67,718	1,517	69,235
Impairment allowance	**(3,421)**	**(51)**	**(3,472)**	(3,108)	(112)	(3,220)
Net Book Value	**314,497**	**4,340**	**318,837**	284,630	5,356	289,986

8.1 The movement on impairment allowances is as follows:

2023	Stage 1 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000
At 1 January 2023	**1,680**	**327**	**1,213**	**3,220**
Net movement between stages	**82**	**(279)**	**197**	**-**
Net charge for the year	**(231)**	**166**	**317**	**252**
At 31 December 2023	**1,531**	**214**	**1,727**	**3,472**

2022	Stage 1 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000
At 1 January 2022	730	414	1,205	2,349
Net movement between stages	27	4	(31)	-
Net charge for the year	923	(91)	39	871
At 31 December 2022	1,680	327	1,213	3,220

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

9. PROPERTY AND EQUIPMENT

	2023						
	Lands BD'000	**Buildings BD'000**	**Fixture and fitting BD'000**	**Equipment BD'000**	**Furniture BD'000**	**Work in progress BD'000**	**Total BD'000**
Cost:							
At 1 January	**5,521**	**7,651**	**4,597**	**15,951**	**964**	**1,110**	**35,794**
Additions / Transfers	**-**	**-**	**441**	**624**	**25**	**67**	**1,157**
Disposals	**-**	**-**	**-**	**45**	**-**	**-**	**45**
At 31 December	**5,521**	**7,651**	**5,038**	**16,620**	**989**	**1,177**	**36,996**
Depreciation:							
At 1 January	**-**	**3,499**	**4,202**	**13,163**	**911**	**-**	**21,775**
Charge for the year	**-**	**254**	**203**	**1,010**	**17**	**-**	**1,484**
Relating to disposed assets	**-**	**-**	**-**	**45**	**-**	**-**	**45**
At 31 December	**-**	**3,753**	**4,405**	**14,218**	**928**	**-**	**23,304**
Net Book Value	**5,521**	**3,898**	**633**	**2,402**	**61**	**1,177**	**13,692**

	2022						
	Lands BD'000	Buildings BD'000	Fixture and fitting BD'000	Equipment BD'000	Furniture BD'000	Work in progress BD'000	Total BD'000
Cost:							
At 1 January	5,521	7,651	4,480	14,156	957	1,060	33,825
Additions / Transfers	-	-	117	1,737	7	50	1,911
Disposals	-	-	-	58	-	-	58
At 31 December	5,521	7,651	4,597	15,951	964	1,110	35,794
Depreciation:							
At 1 January	-	3,245	4,041	12,153	895	-	20,334
Charge for the year	-	254	161	952	16	-	1,383
Relating to disposed assets	-	-	-	58	-	-	58
At 31 December	-	3,499	4,202	13,163	911	-	21,775
Net Book Value	5,521	4,152	395	2,788	53	1,110	14,019

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

10. INVESTMENT IN REAL ESTATE

	2023 BD'000	2022 BD'000
Land	**14,725**	16,176
	14,725	16,176

	2023 BD'000	2022 BD'000
Movement in investment in real estate:		
At 1 January	**16,176**	17,195
Disposal	**(1,401)**	-
Fair value changes	**(50)**	(1,019)
At 31 December	**14,725**	16,176

Investment in real estate comprises of properties located in the Kingdom of Bahrain and the United Arab Emirates.

Investment in real estate is stated at fair value, which has been determined based on valuations performed by independent third party property valuators who have the qualification and experience of valuing similar properties in the same location. Fair value of investments in real estate is classified as category 2 of fair value hierarchy.

11. OTHER ASSETS

	2023 BD'000	2022 BD'000
Receivables*	**247**	8,273
Staff advances	**1,566**	1,537
Prepaid expenses	**368**	327
Right-of-use asset (11.1)	**438**	230
Risk management instruments (11.2)	**969**	2,071
Other	**1,940**	1,522
	5,528	13,960

*Receivables includes cash collateral deposited with an insurance company for issuance of surety bond of BD Nil thousand (2022: BD 7,641 thousand) relating to a legal case which was fully settled in 2023.

11.1 RIGHT-OF-USE ASSET

	2023 BD'000	2022 BD'000
At 1 January	**230**	**361**
Additions for the year	**547**	**193**
Amortization charge for the year	**(339)**	**(324)**
	438	230

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

11. OTHER ASSETS (continued)

11.2 RISK MANAGEMENT INSTRUMENTS

The risk management instruments are valued based on observable inputs. The fair values of risk management financial instruments held by the Group as at 31 December are provided below:

	2023		2022	
	Assets BD'000	Liabilities BD'000	Assets BD'000	Liabilities BD'000
Profit rate swaps (Fair value hedges)	**738**	**-**	1,886	-
Foreign exchange contracts (Waad) (Other risk management instruments)	**231**	**-**	185	-
At 31 December	**969**	**-**	2,071	-

The notional amount of risk management financial instruments held by the Group as at 31 December are provided below:

	2023		2022	
	Assets BD'000	Liabilities BD'000	Assets BD'000	Liabilities BD'000
Profit rate swaps (Fair value hedges)	**77,360**	**-**	97,134	-
Foreign exchange contracts (Waad) (Other risk management instruments)	**62,923**	**63,154**	63,423	63,608
At 31 December	**140,283**	**63,154**	160,557	63,608

The net hedge ineffectiveness gain/losses recognized in the consolidated income statement are as follows:

	2023 BD'000	2022 BD'000
Losses on the hedged items attributable to risk hedged	**(738)**	(1,886)
Gains on the hedging instruments	**738**	1,886
Net hedge ineffectiveness (loss) / gain	**-**	-

12. FINANCING FROM FINANCIAL INSTITUTIONS

Represents term murabaha facilities of BD 181,502 thousand (2022: BD 110,113 thousand) secured by pledge over Sukuk of BD 208,060 thousand (2022: BD 128,406 thousand). The average rate of financing is 5.86% (2022: 3.94%) (note 6).

13. OTHER LIABILITIES

	2023 BD'000	2022 BD'000
Managers' cheques	**1,433**	3,984
Payable to vendors	**1,051**	3,708
Accrued expenses	**6,640**	7,288
Zakah and charity fund	**927**	676
Net Ijarah liability (13.1)	**419**	191
Other*	**14,198**	20,774
	24,668	36,621

*Other includes impairment allowance for commitments and contingent liabilities of BD 1,525 thousand (2022: BD 1,582 thousand) (refer note 16) and provision for litigation claims of BD Nil thousand (2022: BD 5,087 thousand) (refer note 25).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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13. OTHER LIABILITIES (continued)

13.1 NET IJARAH LIABILITY

	2023 BD'000	2022 BD'000
Maturity analysis – Gross Ijarah liability		
Less than one year	**297**	147
One to five years	**236**	91
Total gross Ijarah liability	**533**	238
Maturity analysis – net Ijarah liability		
Less than one year	**207**	110
One to five years	**212**	81
Total net Ijarah liability	**419**	191

14. EQUITY OF INVESTMENT ACCOUNTHOLDERS

The Group comingles the Investment Account Holders' (IAH) funds with the owners' equity. In line with its policy, the Group utilizes the funds from IAH to finance assets.

14.1 Equity of investment accountholders balances

	2023 BD'000	2022 BD'000
Type of Equity of Investment Accountholders		
Placements and financing from financial institutions – Wakala	**39,865**	29,953
Placements from non-financial institutions and individuals – Wakala	**4,769**	15,050
Mudharaba	**367,087**	405,405
	411,721	450,408
Mudharaba-based customer investment accounts		
Balances on demand	**327,780**	331,513
Contractual basis	**39,307**	73,892
	367,087	405,405

14.2 Assets in which IAH funds were invested

Assets in which IAH funds were invested as at 31 December are as follows:

	2023 BD'000	2022 BD'000
Asset		
Cash and balances with banks and Central Bank	**13,673**	18,543
Financing assets, net	**203,896**	233,140
Ijarah Muntahia Bittamleek	**107,365**	109,040
Investment securities, net	**86,787**	89,685
	411,721	450,408

The Bank proportionately allocates non-performing assets (past due greater than 90 days) to the IAH pool of assets. The ECL charge is also allocated to the IAH pool, in proportion of the non-performing assets financed by IAH to the total non-performing assets. Amounts recovered from these non-performing assets shall be subject to allocation between IAH and owners' equity. During the year, the Bank allocated BD 17,675 thousand of ECL (2022: ECL of BD 20,712 thousand) to the IAH.

During the year, the Bank did not charge any administration expenses to investment accounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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14. EQUITY OF INVESTMENT ACCOUNTHOLDERS (CONTINUED)

14.3 Profit distribution by account type

The following is the average percentage of profit allocation between the owner's accounts applied during the year for each type of IAH account as agreed contractually with the customers:

	2023			2022		
	Utilization	**Mudarib Share**	**Profit to IAH**	Utilization	Mudarib Share	Profit to IAH
Account type						
Tejoori	**90%**	**98%**	**2%**	90%	98%	2%
Savings	**90%**	**98%**	**2%**	90%	98%	2%
Vevo	**90%**	**98%**	**2%**	90%	98%	2%
IQRA	**100%**	**63%**	**37%**	100%	68%	32%
Time deposits	**100%**	**34%**	**66%**	100%	55%	45%

During the year, the Group did not increase its percentage of profits as mudarib. Further, the Group did not receive any incentive from profits of investment account holders.

The Group does not share profits with IAH resulting from investing current accounts and other funds received on the basis other than mudaraba contract.

Funds from IAH are invested in assets on a priority basis.

14.4 Equity of Investment Accountholders Reserves

	2023 BD'000	**Movement BD'000**	2022 BD'000
Profit equalisation reserve	**113**	**(1,373)**	1,486

14.5 Return on equity of investment accountholders

	2023 BD'000	2022 BD'000
Gross return to equity of investment accountholders	**20,740**	23,448
Group's share as a Mudarib	**(18,083)**	(19,306)
Allocation to profit equalization reserve	**(127)**	(86)
Net return on equity of investment accountholders	**2,530**	4,056

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15. OWNERS' EQUITY

a. Share capital

	2023 BD'000	2022 BD'000
i. Authorised		
2,000,000,000 shares (2022: 2,000,000,000 shares) of BD 0.100 each	**200,000**	200,000
ii. Issued and fully paid up		
1,064,058,587 shares (2022: 1,064,058,587 shares) of BD 0.100 each	**106,406**	106,406

b. Subordinated Mudaraba (AT1)

In order to meet minimum regulatory requirements relating to total equity as prescribed by Central bank of Bahrain, during the year, the Bank issued a Subordinated Mudaraba Sukuk (Basel III compliant Additional Tier 1 capital securities) of BD 25 million. The issue was at par and was fully subscribed for and paid in cash by the Parent.

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

a. Profits on these securities shall be distributed annually starting June 2022 subject to and in accordance with terms and conditions on the outstanding par value of the securities at an expected rate of 7.5% p.a.
b. Security holder will not have a right to claim the profits and such event will not be considered as an event of default.
c. Subordinated Mudaraba is invested in a general mudaraba pool of assets on an unrestricted comingled basis.
d. In the event of non-viability, the Sukuk certificates will be converted either in full or in part in accordance with the conversion rules and procedures.
e. The Sukuk certificates carry a call option after 5 years from the date of issue.

The Subordinated Mudaraba is recognized under the owners' equity in the consolidated statement of financial position and the profits paid to rab al-maal (security holder) will be accounted for as appropriation of profits.

During the year, BD 1,901 thousand (2022: BD 1,901 thousand) was paid as profit declarations on AT1 securities.

c. Treasury Shares

	2023		2022	
	Number of Shares	**BD'000**	Number of Shares	BD'000
At 31 December	**5,855,358**	**892**	5,855,358	892

	2023 BD'000
Cost of treasury shares, excluding shares under employee share incentive scheme	**892**
Market value of treasury shares	**375**

The treasury shares as a percentage of total shares in issue is 0.55% (2022: 0.55%)

Owners' equity instruments which are reacquired are deducted from equity. No gain or loss is recognised in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2023

15. OWNERS' EQUITY (CONTINUED)

d. Reserves

i) Statutory reserve
During the year, the Bank has appropriated BD 1,114 thousand (2022: BD 1,257 thousand) to the statutory reserve representing 10% of the profit for the year of BD 11,136 thousand (2022: BD 12,568 thousand). The reserve is not distributable except in such circumstances as stipulated in the Commercial Companies Law and following the approval of CBB.

ii) General reserve
The general reserve is established in accordance with the articles of association of the Bank and is distributable following a resolution of shareholders at a general meeting and the approval of CBB. The Group may transfer any amount to the general reserve, as approved by the shareholders at a general meeting, out of the profit for the year after appropriating the statutory reserve.

iii) Real estate fair value reserve
This represents cumulative unrealised revaluation gains on investment in real estate. This reserve is transferred to the consolidated statement of income upon sale of the investment in real estate.

iv) Investment fair value reserve
This represents the net unrealised gains or losses on equity investments.

e. Additional information on shareholding pattern

i. Names and nationalities of the major shareholders and the number of shares in which they have an interest of 5% or more of outstanding shares:

		2023		2022	
Names	Nationality	Number of Shares	% holding	Number of Shares	% holding
National Bank of Bahrain	Bahraini	**838,630,728**	**78.81%**	838,630,728	78.81%
General Council of Kuwaiti Awqaf	Kuwaiti	**76,366,321**	**7.18%**	76,366,321	7.18%

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

iii. Distribution schedule of shares, setting out the number and percentage of holders in the following categories:

	2023			2022		
	Number of shares	Number of shareholders	of total % outstanding shares	Number of shares	Number of shareholders	of total % outstanding shares
Less than 1%	**86,303,690**	**2,728**	**8.11%**	86,303,690	2,723	8.11%
1% and less than 5%	**62,757,848**	**4**	**5.90%**	62,757,848	3	5.90%
5% and less than 10%	**76,366,321**	**1**	**7.18%**	76,366,321	1	7.18%
10% and more	**838,630,728**	**1**	**78.81%**	838,630,728	1	78.81%
	1,064,058,587	**2,734**	**100.00%**	1,064,058,587	2,728	100.00%

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15. OWNERS' EQUITY (CONTINUED)

e. Additional information on shareholding pattern (Continued)

Details of Directors' interests in the Group's shares as at the end of the year were:

Categories	2023 Number of Shares	2023 Number of directors	2022 Number of Shares	2022 Number of directors
Less than 1%	**352,500**	**1**	352,500	1

The following is the number of shares, and percentage of shareholding of Directors, Shari'a supervisory members and senior management (Assistant General Managers and above who are part of the management committee):

	2023 Number of Shares	2023 % of Shareholding	2022 Number of Shares	2022 % of Shareholding
Directors	**352,500**	**0.03%**	352,500	0.03%
Shari'a supervisory members	**558,396**	**0.05%**	558,396	0.05%
Senior management	**191,792**	**0.02%**	47,834	0.00%
	1,102,688	**0.10%**	958,730	0.08%

f. Proposed appropriations

The Board of Directors propose the appropriation for zakah of BD 289 thousand in 2023 (2022: BD 170 thousand), charitable donations of BD 250 thousand in 2023 (2022: BD 250 thousand) and dividends amounting to BD Nil thousand (2022: BD Nil thousand) which are subject to regulatory and shareholders' approval in the ensuing Annual General Meeting.

16. COMMITMENTS AND CONTINGENT LIABILITIES

Credit related commitments

These include commitments to enter into financing contracts which are designed to meet the requirements of the Group's customers.

Letters of credit and guarantees commit the Group to make payments on behalf of customers.

The Group has the following credit related commitments and contingent liabilities on behalf of customers:

	2023 BD'000	2022 BD'000
Letters of credit and acceptances	**1,154**	2,905
Guarantees	**24,011**	22,997
Credit cards	**39,551**	39,170
Altamweel Almaren	**38,084**	33,594
Commitments to finance	**11,895**	16,140
	114,695	114,806

As of 31 December 2023, the impairment allowance related to the credit risk for commitments and contingent liabilities was BD 1,525 thousand (2022: BD 1,582 thousand).

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For the year ended 31 December 2023

17. CAPITAL ADEQUACY

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue Sukuk etc. No changes were made in the objectives, policies and processes from the previous years.

The Group's capital structure primarily consists of its paid-up capital, including share premium and reserves. From a regulatory perspective, a significant amount of the Group's capital is classified as Tier 1 as defined by the CBB, i.e. most of the capital is of a permanent nature.

The Group's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of financing facilities growth expectations for each business group, expected growth in off-balance sheet facilities, and future sources and uses of funds.

The Central Bank of Bahrain issued the final regulation to give effect to the Basel III framework which came into effect on 1 January 2015. The Basel III framework significantly revises the definition of regulatory capital. The framework emphasises on common equity as the predominant component of tier 1 capital by adding a minimum Common Equity Tier 1 (CET 1) capital ratio. The Basel III rules also require institutions to hold capital buffers. For the purpose of calculating CET 1 capital, the regulatory adjustments (deductions) including amounts above the aggregate limit for significant investments in financial institutions, mortgage servicing rights, and deferred tax assets from temporary differences, will be deducted from CET1 over a phased manner to be fully deducted by 1 January 2019. The Bank's current capital position is sufficient to meet the new regulatory capital requirements. The Group has applied CBB concessionary measures relating to adjustment of modification loss and incremental ECL provisions for the purpose of computation of capital adequacy ratio for the years ended 31 December 2023 and 2022.

The classification of the Group's capital in accordance with the regulatory requirements is as follows:

	2023 BD'000	2022 BD'000
CET 1 Capital before regulatory adjustments	**129,749**	126,586
Less: regulatory adjustments	**-**	-
CET 1 Capital after regulatory adjustments	**129,749**	126,586
AT1 Capital	**25,000**	25,000
T 2 Capital adjustments	**12,190**	10,214
Regulatory Capital	**166,939**	161,800

To assess its capital adequacy requirements in accordance with the CBB requirements, the Group adopts the Standardised Approach for its Credit Risk, Basic Indicator Approach for its Operational Risk and Standardised Approach for its Market Risk. The capital requirements for these risks are as follows:

	2023 BD'000	2022 BD'000
Risk weighted exposure:		
Total Credit Risk Weighted Assets	**869,590**	711,536
Total Market Risk Weighted Assets	**163**	186
Total Operational Risk Weighted Assets	**119,149**	117,705
Total Regulatory Risk Weighted Assets	**988,902**	829,427
Investment risk reserve (30% only)	**-**	-
Profit equalization reserve (30% only)	**34**	446
Total Adjusted Risk Weighted Exposures	**988,868**	828,981
Capital Adequacy Ratio	**16.88%**	19.52%
Tier 1 Capital Adequacy Ratio	**15.65%**	18.29%
Minimum requirement	**12.5%**	12.5%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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18. INCOME FROM FINANCING

	2023 BD'000	2022 BD'000
Income from Murabaha financing	**27,971**	28,667
Income from Ijarah Muntahia Bittamleek	**17,340**	15,229
Income from Musharaka financing	**4,061**	3,922
Income from placements with financial institutions	**2,902**	1,590
	52,274	49,408

19. INCOME FROM INVESTMENT IN SUKUK

	2023 BD'000	2022 BD'000
Profit income on investment in Sukuk	**14,992**	11,931
Gain on sale of Sukuk	**2**	710
	14,994	12,641

20. INCOME FROM INVESTMENT SECURITIES

	2023 BD'000	2022 BD'000
Dividend income	**6**	30
	6	30

21. INCOME FROM INVESTMENT IN REAL ESTATE, NET

	2023 BD'000	2022 BD'000
Rental income	**191**	158
Gain on sale	**80**	19
Impairment charge	**(50)**	(794)
	221	(617)

22. OTHER INCOME, NET

	2023 BD'000	2022 BD'000
Recoveries from previously written-off financing	**1,137**	827
Foreign exchange gain	**1,262**	976
Others	**2,078**	181
	4,477	1,984

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23. OTHER EXPENSES

	2023 BD'000	2022 BD'000
Marketing and advertisement expenses	**2,038**	1,299
Professional services	**1,687**	2,222
Information technology related expenses	**2,371**	1,844
Card Centre expenses	**1,291**	1,252
Premises and equipment expenses	**640**	584
Communication expenses	**1,638**	1,094
Board remuneration	**274**	348
Board of directors sitting fees	**201**	181
Shari'a committee fees & expenses	**73**	73
Others	**3,139**	2,617
	13,352	11,514

24. IMPAIRMENT ALLOWANCE AND OTHER PROVISIONS, NET

	2023 BD'000	2022 BD'000
Financing assets (note 5.3)	**5,368**	9,411
Ijarah Muntahia Bittamleek (note 8)	**252**	871
Investments in Sukuk (note 6)	**(47)**	(32)
Investments at fair value through equity (note 6)	**-**	509
Investment in associates (note 7)	**877**	495
Placements with financial institutions	**(2)**	1
Other assets	**83**	19
Commitments	**(56)**	(1,714)
Impairment allowance, net	**6,475**	9,560
Litigation claims	**160**	1,885
Total impairment allowance and other provisions, net	**6,635**	11,445

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25. LITIGATIONS AND CLAIMS

In the normal course of business, legal cases are filed by the Bank against its customers and against the Bank by its customers, employees or investors. The Group's legal department engages with in-house legal counsel and external legal counsel depending on the nature of the cases. A periodic assessment is carried out to determine the likely outcome of these legal cases and is reported to the senior management and Board of directors. The Group as part of the periodic assessment maintains adequate provisions. No further disclosures regarding contingent liabilities arising from any such claims are being made by the Bank as the directors believe that such disclosures may be prejudicial to the Group's legal position.

26. ZAKAH

The total Zakah payable as of 31 December 2023 amounted to BD 2,442 thousand (2022: BD 2,190 thousand) of which the Bank has BD 289 thousand Zakah payable (2022: BD 170 thousand) based on the statutory reserve, general reserve and retained earning as at 1 January 2024. The Zakah balance amounting to BD 2,153 thousand or 2.0 fils per share (2022: BD 2,020 thousand or 1.9 fils per share) is due and payable by the shareholders.

27. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year attributable to the shareholder of the Bank (adjusted for Profit distribution on AT 1 Capital) by the weighted average number of shares outstanding during the year net of treasury shares. There are no dilutive potential shares that are convertible into shares.

	2023 BD'000	2022 BD'000
Profit for the year attributable to the Shareholders of the Bank	**11,136**	12,568
Less: Profit distribution on AT 1 Capital	**(1,901)**	(1,901)
Profit for the year attributable to the shareholders of the parent for basic and diluted earnings per share computation	**9,235**	10,667
Weighted average number of shares outstanding during the year, net of treasury shares (thousand)	**1,054,098**	1,053,434
Basic and diluted earnings per share (fils)	**8.76**	10.13

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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28. RELATED PARTY TRANSACTIONS

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

During the year, BD 1,901 thousand (2022: BD 1,901 thousand) was paid as profit declarations on AT1 securities.

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

	2023				
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	Total BD'000
Assets					
Cash and balances with banks and Central Bank	1,792	-	-	-	1,792
Placements with financial institutions	16,006	-	-	-	16,006
Financing assets	-	-	490	208	698
Ijarah Muntahia Bittamleek	-	-	207	222	429
Investment in associates	-	8,302	-	-	8,302
Other assets	1,668	-	-	481	2,149
Liabilities and Equity of investment accountholders					
Placements from financial institutions	11,694	-	-	-	11,694
Financing from financial institutions	103,144	-	-	-	103,144
Placements from non-financial institutions and individuals	-	-	2,842	497	3,339
Customers' current accounts	-	975	248	109	1,332
Other liabilities	4,666	-	476	-	5,142
Equity of investment accountholders	-	-	336	1,632	1,968
Off Balance sheet					
Profit rate swap - notional amount	77,360	-	-	-	77,360
Income					
Income from financing	843	-	21	31	895
Income from investment in Sukuk	1,869	-	-	-	1,869
Share of results of associates, net	-	347	-	-	347
Other Income	1,148	-	-	-	1,148
Return on equity of investment accountholders	-	-	(5)	(79)	(84)
Expense on placements from financial institutions	(4)	-	-	-	(4)
Expense on financing from financial institutions	(4,259)	-	-	-	(4,259)
Expense on placements from non-financial institutions and individuals	-	-	(203)	(27)	(230)
Expenses					
Other expenses	-	-	(674)	-	(674)
Staff costs	-	-	-	(2,639)	(2,639)

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28. RELATED PARTY TRANSACTIONS (CONTINUED)

	2022				
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	Total BD'000
Assets					
Cash and balances with banks and Central Bank	689	-	-	-	689
Placements with financial institutions	19,996	-	-	-	19,996
Financing assets	-	-	1,169	348	1,517
Ijarah Muntahia Bittamleek	-	-	207	191	398
Investment in associates	-	8,832	-	-	8,832
Other assets	2,826	-	-	347	3,173
Liabilities and Equity of investment accountholders					
Financing from financial institutions	110,113	-	-	-	110,113
Placements from non-financial institutions and individuals	-	-	1,458	10	1,468
Customers' current accounts	-	1,038	389	115	1,542
Other liabilities	3,308	-	346	-	3,654
Equity of investment accountholders	-	-	719	1,406	2,125
Off Balance sheet					
Profit rate swap - notional amount	97,134	-	-	-	97,134
Income					
Income from financing	351	-	132	20	503
Income from investment in Sukuk	(169)	-	-	-	(169)
Share of results of associates, net	-	13	-	-	13
Other Income	2,200	-	-	-	2,200
Return on equity of investment accountholders	-	-	(2)	(71)	(73)
Expense on financing from financial institutions	(1,271)	-	-	-	(1,271)
Expense on placements from non-financial institutions and individuals	-	-	(7)	-	(7)
Expenses					
Other expenses	-	-	(602)	-	(602)
Staff costs	-	-	-	(1,784)	(1,784)

Compensation of the key management personnel is as follows:

	2023 BD'000	2022 BD'000
Short term employee benefits	**2,060**	1,654
Other long term benefits	**579**	130
	2,639	1,784

Key management personnel includes staff at the grade of assistant general manager or above, part of management committee and other approved persons.

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29. RISK MANAGEMENT

a. Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk 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 risks and the processes to mitigate them have not significantly changed from the previous year.

The Bank is primarily exposed to credit risk, liquidity risk, market risk (including profit rate risk, equity price risk, and foreign exchange risks), operational risk, reputational risk, and Shari'a-compliance risk.

b. Risk management objectives

The risk management philosophy of the Group is to identify, monitor, and manage the various dimensions of risk with the objective of protecting asset values and income streams such that the interest of the Group's shareholders (and others to whom the Group owes a liability) are safeguarded, while maximising the returns intended to optimise the Group's shareholder return while maintaining it's risk exposure within self-imposed parameters.

The Bank's risk appetite is embodied through its risk strategy; BisB reviews and aligns its risk appetite in line with its evolving business plan, and changing economic and market scenarios, in addition to evolving regulatory requirements. The Bank also assesses its tolerance for specific risk categories and its strategy to manage these risks. To monitor and report exposures to these identified risks, the Bank adopted a comprehensive enterprise-wide Risk Management Framework that encompasses the risk limit, monitoring, and reporting structures.

c. Structure and Organization of the Risk Management Function

Risk management structure includes all levels of authorities, organizational structure, people and systems required for the effective functioning of risk management processes in the Group. The responsibilities associated with each level of the risk management structure and authorities include the following:
The Board retains ultimate responsibility and authority for all risk matters, including:

i. Establishing overall policies and procedures; and
ii. Delegating authority to the Board Risk & Compliance Committee, the Executive Committee, the Credit and Investmen Committee, the Chief Executive Officer and further delegation to the management to approve and review.

The Board Risk & Compliance Committee is responsible for overseeing the Bank's risk management governance, specificially in relation to identifying, measuring, monitoring, and reporting the risks critical to the Bank's operations.

The Board Executive Committee comprises of three designated members of the Board of Directors. The Board Executive Committee has delegated authority by the Board to manage the ongoing credit activities of the Group. Decisions are taken by the Board Executive Committee either at periodic meetings or if the need arises, by circulation.

Credit and Investment Committee (CIC): The CIC oversees the Credit & Investment Policy of the bank, identifies possible risk assumed by the bank for different transactions. The CIC has the authority to make final decision on approval or rejection of proposed transactions within its delegated authority as well as to monitor the performance and quailty of the bank's credit and investment portfolio. The purpose of CIC is to assist managment in fulfilling its oversight responsibiliites relating to the credit & investment objectives, policies, controls, procedures and related activities, including but not limited to the review of the bank's investment and credit exposures, and credit, investment, per party, concentration and group limits.

The Credit & Risk Management (C&RM) division – headed by the Chief Risk Officer - has day-to-day responsibility for managing the risks involved across all areas of the Bank. C&RM provides independent identification, measurement, monitoring and control of all risk parameters, while liaising with the business divisions that ultimately own the risks. C&RM comprises a number of specialist units, including Risk Management, Credit Review & Analysis, and Credit Administration.

d. Risk Measurement and Reporting Systems

Based on the risk appetite, the Group has put in place various limits. These limits have been approved by the Board. Any limit breach is reported by the Credit & Risk Management Department (C&RM) to the relevant management/Board-level committee. The limits are reviewed and revised periodically, as required by the relevant policy and regulatory requirements

e. Credit Risk

Credit risk is considered to be the most significant and pervasive risk for the Group. The Group takes on exposure to credit risk, which is the risk that the counter-party to a financial transaction will fail to discharge an obligation causing the Group to incur a financial loss. Credit risk arises principally from financing (credit facilities provided to customers), investment in Sukuk and from cash and deposits held with other banks. Further, there is credit risk in certain off-balance sheet financial instruments, including guarantees relating to purchase and sale of foreign currencies, letters of credit, acceptances and commitments to extend credit.

Credit risk monitoring and control is performed by the Credit and Risk Management Department which sets parameters and thresholds for the Group's financing activities.

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29. RISK MANAGEMENT (CONTINUED)

e. Credit Risk (Continued)

i) ECL – Significant increase in credit risk (SICR)
To determine whether credit risk has significantly increased since initial recognition, the Group will compare the risk of default at the assessment date with the risk of default at initial recognition. This assessment is to be carried out at each assessment date.

For the Corporate portfolio, the Group's assessment for significant increase in credit risk (SICR) is done at a counterparty level by assigning and reviewing the migrations in internal rating.

For the Retail portfolio, the Group's assessment for SICR is done at a facility level using days past due as the primary criteria.

ii) Generating the term structure of Probability of Default (PD)
Internal rating credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading.

The Group employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and macroeconomic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. The macroeconomic factors used in this analysis are shortlisted below:
(i) Gross domestic product, constant prices;
(ii) Total investments;
(iii) Gross national savings;
(iv) Inflation, average consumer prices;
(v) Volume of imports of goods and services;
(vi) Volume of exports of goods and services;
(vii) General government revenue;
(viii) General government total expenditure;
(ix) Unemployment rate;
(x) General government net debt;
(xi) Domestic credit growth (%); and
(xii) Oil price.

Based on consideration of a variety of external actual and forecasted information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (i.e. on incorporation of forward-looking information). The Group then uses these forecasts to adjust its estimates of PDs.

For Corporate portfolio, through the yearly review of the corporate portfolio, the Group observes yearly performances to compute a count based PD over the one year horizon for the past 5 years. These PDs are grouped as per internal risk ratings (i.e. from 1 to 7). An average default rate of the 5 yearly observed default provides the through the cycle PDs.

In relation to the retail portfolio, the portfolio is segmented by product, as demonstrated below:
(i) Auto finance;
(ii) Mortgage finance;
(iii) Tasheel Finance and Others; and
(iv) Credit cards.

PDs for each segment are measured using Observed Default Estimation and thus PD is calculated based on Days Past Due (DPD) bucket level for each segment separately. Under this analysis, the delinquency status of accounts is tracked at an interval of one year with a moving month cycle. A minimum of 5 year DPD data is considered.

iii) Determining whether credit risk has increased significantly
In determining whether credit risk has increased significantly since initial recognition, the Group uses its internal credit risk grading system, external risk ratings, delinquency status of accounts, restructuring, expert credit judgement and, where possible, relevant historical experience.

Using its expert credit judgment and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

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29. RISK MANAGEMENT (CONTINUED)

e. Credit Risk (Continued)

iii) Determining whether credit risk has increased significantly (continued)

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews and validations:

The Group classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below:

Stage 1 (12 months ECL): for exposures subject to credit risk where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Group recognises an allowance based on the 12-month ECL. All accounts at origination would be classified as Stage 1. Only exceptions are Purchased or Originated Credit Impaired (POCI) assets.

Stage 2 (lifetime ECL not credit impaired): for exposures subject to credit risk where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the Group recognises an allowance for the lifetime ECL for all exposures categorized in this stage based on the actual / expected maturity profile including restructuring exposures.

Stage 3 (lifetime ECL credit impaired): for credit-impaired exposures subject to credit risk, the Group recognises the lifetime ECL. Default identification process i.e. DPD of 90 or more is used as stage 3.

iv) Definition of 'Default'

The Group's definition of default is aligned with regulatory guidelines and internal credit risk management practices. Defaulted assets will fall under the Stage 3. In general, a counterparty is considered in default and hence relevant exposure or a group of exposures is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the exposure or group of exposures that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment; rather the combined effect of several events may have caused the impairment losses expected as a result of future events, no matter how likely, are not recognised. Objective evidence that an exposure or group of exposures is impaired includes observable data that comes to the attention of the holder of the exposure.

In general, counterparties with facilities with past dues 90 days and above are considered in default.

v) Incorporation of forward looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an exposure has increased significantly since its initial recognition and its measurement of ECL. The Group annually sources macro economic forecast data from the International Monetary Fund (IMF) database and Economist intelligence unit (EIU) database for Bahrain.

Macroeconomic variables are checked for correlation with the probability of default for the past five years and only those variables for which the movement can be explained are used. Management judgement is exercised when assessing the macroeconomic variables.

(vi) Measurement of ECL

The Group measures an ECL at an individual instrument level taking into account the projected cash flows, PD, LGD, Credit Conversion Factor (CCF) and discount rate. For portfolios wherein instrument level information is not available, the Group carries out ECL estimation on a collective basis.

The key inputs into the measurement of ECL are the term structure of the following variables:

(i) Probability of Default (PD);
(ii) Loss Given Default (LGD); and
(iii) Exposure At Default (EAD).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

29. RISK MANAGEMENT (CONTINUED)

e. Credit Risk (Continued)

(vi) Measurement of ECL (continued)

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

Corporate PD estimates are calculated based on statistical rating models, and assessed using rating tools tailored to various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD.

Retail PD estimates are measured using Observed Default Estimation at the segment level and thus PD will be calculated at DPD bucket level for each segment separately. Under this analysis, the delinquency status of accounts will be tracked at an interval of one year with a moving month cycle.

Debt type instruments portfolio, nostro and interbank placements portfolio is assessed for SICR using external ratings. The Group obtains PD estimates from Moody's / Standard & Poor's (S&P) / Fitch or any other external ratings deemed acceptable to the Bank.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. 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.

The period of exposure limits the period over which possible defaults are considered and thus affects the determination of PDs and measurement of ECLs (especially for Stage 2 accounts with lifetime ECL).

Subject to using a maximum of a 12-month PD for exposures subject to credit risk for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a financing commitment or guarantee.

vii) Modified exposures subject to credit risk

The contractual terms of exposures subject to credit risk may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer.

When the terms of an exposure are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- Its remaining lifetime PD at the reporting date based on the modified terms; with
- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Group renegotiates exposures to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of profit payments, and amending the terms of financing covenants. Both retail and corporate financing exposures are subject to the forbearance policy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

29. RISK MANAGEMENT (CONTINUED)

e. Credit Risk (Continued)

vii) Modified exposures subject to credit risk (continued)

For exposures modified as part of the Group's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect profit and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired / in default. A customer needs to demonstrate consistently good payment behavior over the period of time, in line with the CM module under volume 2 rule book issued by CBB, before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12 month ECL.

viii) Credit Risk Mitigation

Credit risk mitigation refers to the use of a number of techniques, such as obtaining collateral and guarantees to mitigate the credit risks that the Group is exposed to. Credit risk mitigants reduce the credit risk by allowing the Group to protect against counterparty non-performance of credit contracts through collaterals, netting agreements and guarantees.

The Bank extends credit facilities to its obligors after conducting a comprehensive assessment of the credit risk profile of the obligor including, but not limited to, assessment of business risks, financial risks and structural risks.

Credit granting primarily depends on the assessment of the obligor's cash flows and their ability to repay the financing commitments from their core operating activities. However, to lower the credit risk profile, the bank also requests, on case by case basis, collateral supports including tangible securities, assignments, guarantees among other collateral support.

Collateral coverage by type of credit exposure:

2023	**Properties BD'000**	**Others BD'000**	**Total BD'000**
Financing assets	**479,784**	**43,162**	**522,946**
Ijarah Muntahia Bittamleek	**390,440**	**1,864**	**392,304**
	870,224	**45,026**	**915,250**

2022	Properties BD'000	Others BD'000	Total BD'000
Financing assets	473,783	66,034	539,817
Ijarah Muntahia Bittamleek	363,485	2,011	365,496
	837,268	68,045	905,313

The fair value of collateral that the Group holds relating to non performing facilities at 31 December 2023 amounts to BD 79,188 thousand (2022: BD 90,728 thousand). The collateral consists of cash, securities and properties. The utilisation of the above collaterals will be on a customer by customer basis and will be limited to the customer's total exposure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

29. RISK MANAGEMENT (CONTINUED)

e. Credit Risk (Continued)

ix) Gross maximum exposure to credit risk

The market value of tangible collateral security is properly evaluated by the Group approved surveyors (for properties) or based on publicly available quotations. Only the amount of such security equivalent to the exposure is taken into account while considering credit facilities.

The table below shows the gross maximum exposure to credit risk for the components of the consolidated statement of financial position, including credit related commitments. The figures represent gross exposure of any collateral held or other credit enhancements.

	2023 BD'000	2022 BD'000
Balances with banks and Central Bank	**49,001**	53,460
Placements with financial institutions	**51,689**	69,755
Financing assets	**605,503**	620,023
Ijarah Muntahia Bittamleek	**318,837**	289,986
Debt type investment instruments	**257,727**	238,512
	1,282,757	1,271,736
Letters of credit, guarantees and acceptances	**25,165**	25,902

x) Risk concentrations of the maximum exposure to credit risk

Concentrations of credit risk 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 of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The Group seeks to manage its credit risk exposure through diversification of financing activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses.

The distribution of the Group's assets, liabilities, equity of investment accountholders, commitments and contingent liabilities by geographic region and industry sector is as follows:

	Assets		Liabilities and equity of investment accountholders		Commitments and contingent liabilities	
	31 December 2023 BD'000	31 December 2022 BD'000	31 December 2023 BD'000	31 December 2022 BD'000	31 December 2023 BD'000	31 December 2022 BD'000
Geographical region						
Middle East	**1,355,099**	1,344,035	**1,211,224**	1,224,707	**114,695**	114,806
North America	**2,566**	17,421	**1,088**	792	**-**	-
Europe	**391**	327	**1,140**	457	**-**	-
Other	**35**	34	**7**	110	**-**	-
	1,358,091	1,361,817	**1,213,459**	1,226,066	**114,695**	114,806
Industry sector						
Trading and Manufacturing	**73,865**	88,610	**30,227**	49,474	**13,107**	14,075
Aviation	**-**	-	**251**	875	**-**	-
Real Estate	**115,363**	125,445	**46,268**	106,772	**21,239**	14,998
Banks and Financial Institutions	**92,551**	123,827	**306,816**	226,031	**10,415**	10,413
Personal / Consumer Finance	**626,113**	619,732	**630,379**	627,951	**39,746**	40,702
Governmental Organizations	**398,891**	348,703	**63,501**	61,300	**21,958**	24,632
Others	**51,308**	55,500	**136,017**	153,663	**8,230**	9,986
	1,358,091	1,361,817	**1,213,459**	1,226,066	**114,695**	114,806

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

29. RISK MANAGEMENT (CONTINUED)

e. Credit Risk (Continued)

xi) Credit quality of exposures subject to credit risk

The following table sets out information about the credit quality of exposures subject to credit risk, unless specifically indicated:

	31 December 2023			
	Stage 1 BD'000	Stage 2 BD'000	Stage 3* BD'000	Total BD'000
Financing assets (Funded exposure)				
Low risks	**425,289**	**3,643**	**-**	**428,932**
Acceptable risks	**81,106**	**60,910**	**-**	**142,016**
Watch list	**17**	**7,112**	**-**	**7,129**
Non performing	**-**	**201**	**63,844**	**63,844**
Gross exposure	**506,412**	**71,665**	**63,844**	**641,921**
Less: ECL	**(2,533)**	**(8,398)**	**(25,487)**	**(36,418)**
Financing assets carrying amount	**503,879**	**63,267**	**38,357**	**605,503**
Ijarah Muntahia Bittamleek				
Low risks	285,249	1,150	-	286,399
Acceptable risks	21,007	9,275	-	30,282
Watch list	-	945	-	945
Non performing	-	-	4,683	4,683
Gross exposure	306,256	11,370	4,683	322,309
Less: ECL	(1,531)	(214)	(1,727)	(3,472)
Ijarah Muntahia Bittamleek carrying amount	304,725	11,156	2,956	318,837
Investment in Sukuk				
Low risks	257,809	-	-	257,809
Acceptable risks	-	-	-	-
Watch list	-	-	-	-
Non performing	-	-	12,516	12,516
Gross exposure	257,809	-	12,516	270,325
Less: ECL	(82)	-	(12,516)	(12,598)
Investment in Sukuk carrying amount	257,727	-	-	257,727

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

29. RISK MANAGEMENT (CONTINUED)

e. Credit Risk (Continued)

xi) Credit quality of exposures subject to credit risk (Continued)

	31 December 2023			
	Stage 1 BD'000	Stage 2 BD'000	Stage 3* BD'000	Total BD'000
Placements with financial institutions				
Low risks	51,692	-	-	51,692
Acceptable risks	-	-	-	-
Watch list	-	-	-	-
Non performing	-	-	-	-
Gross exposure	51,692	-	-	51,692
Less: ECL	(3)	-	-	(3)
Placements with financial institutions carrying amount	51,689	-	-	51,689
Balances with Banks				
Low risks	11,901	-	-	11,901
Acceptable risks	-	-	-	-
Watch list	-	-	-	-
Non performing	-	-	-	-
Gross exposure	11,901	-	-	11,901
Less: ECL	-	-	-	-
Balances with Banks carrying amount	11,901	-	-	11,901
Other Receivables				
Low risks	-	-	-	-
Acceptable risks	-	-	-	-
Watch list	-	-	-	-
Non performing	-	-	205	205
Gross exposure	-	-	205	205
Less: ECL	-	-	(103)	(103)
Other Receivables carrying amount	-	-	102	102
Total funded exposures subject to credit risk carrying amount	1,129,921	74,423	41,415	1,245,759
Commitments				
Gross exposure	29,824	5,553	2,993	38,370
Less: ECL	(122)	(47)	(1,356)	(1,525)
Commitments carrying amount	29,702	5,506	1,637	36,845

*This includes BD 1,919 thousand of gross on-balance sheet exposures in the cooling off period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

29. RISK MANAGEMENT (CONTINUED)

e. Credit Risk (Continued)

xi) Credit quality of exposures subject to credit risk (Continued)

The following table shows the movement in ECL in various stages:

	31 December 2023			
	Stage 1 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000
At 1 January 2023	**5,054**	**11,630**	**43,693**	**60,377**
Transfer to Stage 1	**513**	**(330)**	**(183)**	**-**
Transfer to Stage 2	**(199)**	**757**	**(558)**	**-**
Transfer to Stage 3	**(17)**	**(2,624)**	**2,641**	**-**
Net movement between stages	**297**	**(2,197)**	**1,900**	**-**
Charge for the year (net)	**(1,080)**	**(774)**	**7,452**	**5,598**
Write-off	**-**	**-**	**(11,845)**	**(11,845)**
Foreign exchange movement	**-**	**-**	**(11)**	**(11)**
At 31 December 2023	**4,271**	**8,659**	**41,189**	**54,119**

The following table sets out information about the credit quality of exposures subject to credit risk, unless specifically indicated:

	31 December 2022			
	Stage 1 BD'000	Stage 2 BD'000	Stage 3* BD'000	Total BD'000
Financing assets (Funded exposure)				
Low risks	440,237	5,774	-	446,011
Acceptable risks	73,862	70,649	-	144,511
Watch list	22	5,002	-	5,024
Non performing	-	-	63,686	63,686
Gross exposure	514,121	81,425	63,686	659,232
Less: ECL	(3,037)	(11,215)	(24,957)	(39,209)
Financing assets carrying amount	511,084	70,210	38,729	620,023
Ijarah Muntahia Bittamleek				
Low risks	259,893	1,256	-	261,149
Acceptable risks	17,184	10,306	-	27,490
Watch list	-	1,101	-	1,101
Non performing	-	-	3,466	3,466
Gross exposure	277,077	12,663	3,466	293,206
Less: ECL	(1,680)	(327)	(1,213)	(3,220)
Ijarah Muntahia Bittamleek carrying amount	275,397	12,336	2,253	289,986

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

29. RISK MANAGEMENT (CONTINUED)

e. Credit Risk (Continued)

xi) Credit quality of exposures subject to credit risk (Continued)

The following table sets out information about the credit quality of exposures subject to credit risk, unless specifically indicated:

	31 December 2022			
	Stage 1 BD'000	Stage 2 BD'000	Stage 3* BD'000	Total BD'000
Investment in Sukuk				
Low risks	238,641	-	-	238,641
Acceptable risks	-	-	-	-
Watch list	-	-	-	-
Non performing	-	-	12,527	12,527
Gross exposure	238,641	-	12,527	251,168
Less: ECL	(129)	-	(12,527)	(12,656)
Investment in Sukuk carrying amount	238,512	-	-	238,512
Placements with financial institutions				
Low risks	69,760	-	-	69,760
Acceptable risks	-	-	-	-
Watch list	-	-	-	-
Non performing	-	-	3,686	3,686
Gross exposure	69,760	-	3,686	73,446
Less: ECL	(5)	-	(3,686)	(3,691)
Placements with financial institutions carrying amount	69,755	-	-	69,755
Balances with Banks				
Low risks	15,420	-	-	15,420
Acceptable risks	-	-	-	-
Watch list	-	-	-	-
Non performing	-	-	-	-
Gross exposure	15,420	-	-	15,420
Less: ECL	-	-	-	-
Balances with Banks carrying amount	15,420	-	-	15,420

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

29. RISK MANAGEMENT (CONTINUED)

e. Credit Risk (Continued)

xi) Credit quality of exposures subject to credit risk (Continued)

	31 December 2022			
	Stage 1 BD'000	Stage 2 BD'000	Stage 3* BD'000	Total BD'000
Other Receivables				
Low risks	-	-	-	-
Acceptable risks	-	205	-	205
Watch list	-	-	-	-
Non performing	-	-	-	-
Gross exposure	-	205	-	205
Less: ECL	-	(19)	-	(19)
Other Receivables carrying amount	-	186	-	186
Total funded exposures subject to credit risk carrying amount	1,110,168	82,732	40,982	1,233,882
Commitments				
Gross exposure	18,426	1,025	1,310	20,761
Less: ECL	(203)	(69)	(1,310)	(1,582)
Commitments carrying amount	18,223	956	-	19,179

*This includes BD 20,799 thousand of gross on-balance sheet exposures in the cooling off period.

The following table shows the movement in ECL in various stages:

	31 December 2022			
	Stage 1 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000
At 1 January 2022	4,190	9,631	38,861	52,682
Transfer to Stage 1	530	(166)	(364)	-
Transfer to Stage 2	(135)	256	(121)	-
Transfer to Stage 3	(77)	(237)	314	-
Net movement between stages	318	(147)	(171)	-
Charge for the year (net)	546	2,146	5,864	8,556
Write-off	-	-	(818)	(818)
Foreign exchange movement	-	-	(43)	(43)
At 31 December 2022	5,054	11,630	43,693	60,377

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For the year ended 31 December 2023

29. RISK MANAGEMENT (CONTINUED)

f. Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its obligations when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to cease immediately. To guard against this risk, the Group has a large customer base and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, commodity Murabaha, Wakala receivables, credit lines and high-quality sukuk.

Maturity profile of Group's assets and liabilities

The table below summarises the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period from the consolidated statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's retention history of its equity of investment accountholders.

The maturity profile of assets, liabilities and equity of investment accountholders at 31 December 2023 was as follows:

	Up to 1 month BD '000	1 to 3 months BD '000	3 to 6 months BD '000	6 months to 1 year BD '000	1 to 3 years BD '000	Over 3 years BD '000	No fixed maturity BD '000	Total BD '000
ASSETS								
Cash and balances with the banks and Central Bank	24,502	-	-	-	-	-	37,100	61,602
Placements with financial institutions	51,689	-	-	-	-	-	-	51,689
Financing assets	24,777	29,311	47,586	55,749	184,423	263,657	-	605,503
Ijarah Muntahia Bittamleek	1,487	3,022	5,718	8,705	43,737	256,168	-	318,837
Investment securities	-	51,444	7,188	20,910	94,174	84,012	20,485	278,213
Investment in associates	-	-	-	-	-	-	8,302	8,302
Investment in real estate	-	-	-	-	-	-	14,725	14,725
Property and equipment	-	-	-	-	-	-	13,692	13,692
Other assets	61	724	3,500	219	272	649	103	5,528
Total assets	**102,516**	**84,501**	**63,992**	**85,583**	**322,606**	**604,486**	**94,407**	**1,358,091**
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS								
Placements from financial institutions	58,307	15,397	304	12,742	9,092	-	-	95,842
Placements from non-financial institutions and individuals	65,100	66,185	74,369	84,942	6,619	-	-	297,215
Financing from financial institutions	-	86,117	27,824	67,561	-	-	-	181,502
Customers' current accounts	202,511	-	-	-	-	-	-	202,511
Other liabilities	24,668	-	-	-	-	-	-	24,668
Equity of investment accountholders	379,511	5,684	6,739	9,346	10,328	113	-	411,721
Total liabilities and equity of investment accountholders	**730,097**	**173,383**	**109,236**	**174,591**	**26,039**	**113**	**-**	**1,213,459**
Liquidity gap	**(627,581)**	**(88,882)**	**(45,244)**	**89,008**	**296,567**	**604,373**	**94,407**	**144,632**
Cumulative liquidity gap	**(627,581)**	**(716,463)**	**(761,707)**	**(850,715)**	**(554,148)**	**50,225**	**144,632**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

29. RISK MANAGEMENT (CONTINUED)

f. Liquidity Risk (Continued)

The maturity profile of assets, liabilities and equity of investment accountholders at 31 December 2022 was as follows:

	Up to 1 month BD '000	1 to 3 months BD '000	3 to 6 months BD '000	6 months to 1 year BD '000	1 to 3 years BD '000	Over 3 years BD '000	No fixed maturity BD '000	Total BD '000
ASSETS								
Cash and balances with the banks and Central Bank	31,997	-	-	-	-	-	38,040	70,037
Placements with financial institutions	69,755	-	-	-	-	-	-	69,755
Financing assets	13,467	23,908	33,001	72,518	201,606	275,523	-	620,023
Ijarah Muntahia Bittamleek	1,469	7,671	4,368	7,063	34,751	234,664	-	289,986
Investment securities	-	-	-	-	141,900	96,612	20,517	259,029
Investment in associates	-	-	-	-	-	-	8,832	8,832
Investment in real estate	-	-	-	-	-	-	16,176	16,176
Property and equipment	-	-	-	-	-	-	14,019	14,019
Other assets	39	712	3,988	243	477	674	7,827	13,960
Total assets	116,727	32,291	41,357	79,824	378,734	607,473	105,411	1,361,817
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS								
Placements from financial institutions	10,685	10,640	35,190	83,188	12,701	-	-	152,404
Placements from non-financial institutions and individuals	81,963	35,947	43,023	73,281	11,228	-	-	245,442
Financing from financial institutions	-	71,047	-	39,066	-	-	-	110,113
Customers' current accounts	231,078	-	-	-	-	-	-	231,078
Other liabilities	36,621	-	-	-	-	-	-	36,621
Equity of investment accountholders	368,138	26,040	14,795	25,782	14,162	1,491	-	450,408
Total liabilities and equity of investment accountholders	728,485	143,674	93,008	221,317	38,091	1,491	-	1,226,066
Liquidity gap	(611,758)	(111,383)	(51,651)	(141,493)	340,643	605,982	105,411	135,751
Cumulative liquidity gap	(611,758)	(723,141)	(774,792)	(916,285)	(575,642)	30,340	135,751	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

29. RISK MANAGEMENT (CONTINUED)

f. Liquidity risk (Continued)

LCR has been developed to promote short-term resilience of a bank's liquidity risk profile. The CBB requires LCR to be 100% or more. As of 31 December 2023, the LCR went below 100%, however, management took appropriate actions and subsequent to year end, the LCR became above 100%. This requirement 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 period. 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.

NSFR is to promote the resilience of banks' liquidity risk profiles and to incentivise a more resilient banking sector over a longer time horizon. The NSFR will require banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. A sustainable funding structure is intended to reduce the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress. 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 as a percentage is calculated as "Available stable funding" divided by "Required stable funding". As of 31 December 2023 the Group had NSFR ratio of 104% (2022: 108%).

The simple average LCR for the year ended 31 December 2023 is 198% (2022: 278%).

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

	Unweighted Values (before applying factors)				
Item	No Specified maturity BD'000	Less than 6 months BD'000	More than 6 months and less than one year BD'000	Over one year BD'000	Total Weighted Value BD'000
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	154,747	-	-	14,251	168,998
Other Capital Instruments	-	-	-	-	-
Retail Deposits and deposits from small business customers:					
Stable Deposits	-	260,744	7,033	66	254,455
Less stable deposits	-	297,098	70,883	16,874	348,056
Wholesale funding:					
Operational deposits	-	-	-	-	-
Other wholesale funding	-	434,595	101,386	113	132,793
Other liabilities:					
NSFR Shari'a-compliant hedging contract liabilities	-	-	-	-	-
All other liabilities not included in the above categories	-	13,062	-	-	-
Total ASF	**154,747**	**1,005,499**	**179,302**	**31,304**	**904,302**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

29. RISK MANAGEMENT (CONTINUED)

f. Liquidity risk (Continued)

Item	Unweighted Values (before applying factors)				Total Weighted Value BD'000
	No Specified maturity BD'000	Less than 6 months BD'000	More than 6 months and less than one year BD'000	Over one year BD'000	
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	240,425	-	72,960	-	45,723
Deposits held at other financial institutions for operational purposes	-	-	-	-	-
Performing financing and sukuk/ securities:					
Performing financing to financial institutions secured by Level 1 HQLA	-	-	-	-	-
Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	59,063	746	9,318	18,550
Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	105,084	63,848	713,679	690,226
- With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	-	-	-	-	-
Performing residential mortgages, of which:					
- With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	-	-
Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	-	-
Other assets:					
Physical traded commodities, including gold	-	-	-	-	-
Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs	-	-	-	-	-
NSFR Shari'a-compliant hedging assets	738	-	-	-	738
NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	-	-	-	-
All other assets not included in the above categories	103,199	-	-	1,792	104,991
OBS items	114,696	-	-	-	5,735
Total RSF	**459,058**	**164,147**	**137,554**	**724,789**	**865,963**
NSFR (%)					**104.4%**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

29. RISK MANAGEMENT (CONTINUED)

f. Liquidity risk (Continued)

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

	Unweighted Values (before applying factors)				
Item	No Specified maturity BD'000	Less than 6 months BD'000	More than 6 months and less than one year BD'000	Over one year BD'000	Total Weighted Value BD'000
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	151,585	-	-	18,006	169,591
Other Capital Instruments	-	-	-	-	-
Retail Deposits and deposits from small business customers:					
Stable Deposits	-	260,755	7,099	1,720	256,182
Less stable deposits	-	284,031	66,364	23,591	338,947
Wholesale funding:					
Operational deposits	-	-	-	-	-
Other wholesale funding	-	393,905	150,152	1,828	165,666
Other liabilities:					
NSFR Shari'a-compliant hedging contract liabilities	-	-	-	-	-
All other liabilities not included in the above categories	-	19,193	-	-	-
Total ASF	151,585	957,884	223,615	45,145	930,386

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

29. RISK MANAGEMENT (CONTINUED)

f. Liquidity risk (Continued)

Item	Unweighted Values (before applying factors)				
	No Specified maturity BD'000	Less than 6 months BD'000	More than 6 months and less than one year BD'000	Over one year BD'000	Total Weighted Value BD'000
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	252,520	-	43,307	-	31,420
Deposits held at other financial institutions for operational purposes	-	-	-	-	-
Performing financing and sukuk/ securities:					
Performing financing to financial institutions secured by Level 1 HQLA	-	-	-	-	-
Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	79,515	4,668	10,733	24,994
Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	85,042	74,501	712,759	683,972
- With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	-	-	-	-	-
Performing residential mortgages, of which:					
- With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	-	-
Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	-	-
Other assets:					
Physical traded commodities, including gold	-	-	-	-	-
Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs	-	-	-	-	-
NSFR Shari'a-compliant hedging assets	1,886	-	-	-	1,886
NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	-	-	-	-
All other assets not included in the above categories	104,980	-	-	8,320	113,299
OBS items	114,804	-	-	-	5,740
Total RSF	474,190	164,557	122,476	731,812	861,311
NSFR (%)					108.0%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

29. RISK MANAGEMENT (CONTINUED)

g. Market Risk

The Group has accepted the definition of market risk as defined by CBB as “the risk of losses in on and off balance sheet positions arising from movements in market prices”.

i) Profit rate risk

Profit rate risk is the sensitivity of financial products to changes in the profit rates. Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The profit distribution to equity of investment accountholders is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

However, the profit sharing agreements will result in displaced commercial risk when the Group›s results do not allow the Group to distribute profits inline with the market rates.

A fundamental review and reform of major profit rate benchmarks is being undertaken globally. The majority of LIBOR and other Interbank Offer Rates are discontinued after 31 December 2022 and replaced with certain Alternative Reference Rates (“ARRs”), with the exception of certain USD LIBOR rates where cessation were delayed until 30 June 2023.

To manage its profit rate risk on the sukuk portfolio, the group entered into a profit rate swaps with its Parent during the period.

ii) Equity price risk

Equity price risk is the sensitivity of financial products to the changes in equity prices. Equity risk arises from holding open positions in equities or equity based instruments, thereby creating exposure to a change in the market price of the equity. In addition to Group performance expectations, equity prices are also susceptible to general economic data and sector performance expectations.

As at the consolidated statement of financial position date, the Group has unquoted (equities and Sukuk) of BD 39 million (2022: BD 40 million). The impact of changes in the value of these unquoted equities and Sukuk and the related impact on equity will only be reflected when the financial instrument is sold or deemed to be impaired.

iii) Foreign exchange risk

Foreign exchange risk is the sensitivity of financial products to changes in spot foreign exchange rates. The value of the Group’s portfolio which is denominated in a number of currencies may be exposed to these risks when converted back to the Group’s base currency.

The Group had the following significant net exposures denominated in foreign currencies as of 31 December:

	Equivalent long / (short) 2023 BD ‘000	Equivalent long / (short) 2022 BD ‘000
Currency		
Pound Sterling	**(12)**	32
Euro	**114**	117
Kuwaiti Dinars	**20**	8

As the Bahraini Dinar is pegged to the US Dollar, positions in US Dollars are not considered to represent significant foreign exchange risk.

Moreover, as the Group does not have significant exposures in other currencies, movement of the currency exchange rates against the Bahraini Dinar with other variables held constant will have an immaterial impact on the consolidated statement of income and owners’ equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

29. RISK MANAGEMENT (CONTINUED)

g. Market Risk (Continued)

iv) Commodity risk

Commodity risk is defined as inherent risk in financial products arising from their sensitivity to changes in commodity prices. Since prices in commodity markets are determined by fundamental factors (i.e. supply and demand of the underlying commodity) these markets may be strongly correlated within a particular sector and less correlated across sectors.

h. Operational Risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

30. SEGMENTAL INFORMATION

For management purposes, the Group is organized into three major business segments;

Corporate	Principally handling equity of corporate investment accountholders', corporate current accounts, and providing Islamic financing facilities to corporate customers.
Retail	Principally handling equity of individual retail customers' investment accountholders', retail current accounts, and providing Islamic financing facilities to individual customers.
Investment	Principally handling equity of banks' and financial institutions' investment accountholders, providing money market, trading and treasury services as well as the management of the Group's investment activities. Investment activities involve handling debt and equity investments in local and international markets and investment in real estate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

30. SEGMENTAL INFORMATION (CONTINUED)

These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at estimated market rates on an arm's length basis. Transfer charges are based on a pool rate which approximates the cost of funds.

Segment information is disclosed as follows:

	31 December 2023			
	Corporate BD'000	**Retail BD'000**	**Investment BD'000**	**Total BD'000**
Total income	**5,166**	**25,433**	**14,731**	**45,330**
Total expenses	**(5,310)**	**(19,590)**	**(2,659)**	**(27,559)**
Provision for impairment	**(3,566)**	**(2,241)**	**(828)**	**(6,635)**
Profit / (Loss) for the year	**(3,710)**	**3,602**	**11,244**	**11,136**
Other information				
Segment assets	**303,460**	**686,073**	**368,558**	**1,358,091**
Segment liabilities and equity	**311,695**	**615,188**	**431,208**	**1,358,091**

	31 December 2022			
	Corporate BD'000	Retail BD'000	Investment BD'000	Total BD'000
Total income	10,935	27,817	11,574	50,326
Total expenses	(5,690)	(18,084)	(2,539)	(26,313)
Provision for impairment	(9,051)	(1,421)	(973)	(11,445)
Profit / (Loss) for the year	(3,806)	8,312	8,062	12,568
Other information				
Segment assets	297,556	682,374	381,887	1,361,817
Segment liabilities and equity	437,693	611,674	312,450	1,361,817

The Group operates solely in the Kingdom of Bahrain and, as such, no geographical segment information is presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

31. FINANCIAL INSTRUMENTS

Fair value hierarchy
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.

Fair values of quoted securities/Sukuk are derived from quoted market prices in active markets, if available. For unquoted securities/Sukuk, fair value is estimated using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

In case of financing assets the average profit rate of the portfolio is in line with current market rates for similar facilities and hence after consideration of adjustment for prepayment risk and impairment charges it is expected that the current value would not be materially different from fair value of these assets. Unquoted shares and unquoted managed funds of BD 20,486 thousand (2022: BD 20,517 thousand) are treated as Level 3 investments. During the year, fair value movement of BD Nil thousand (2022: BD 509 thousand) was charged to income statement and BD 32 thousand fair value loss (2022: BD 41 thousand fair value gain) was charged to the fair value reserve. The estimated fair value of the Bank's other financial instruments are not significantly different from their carrying values due to their short-term nature.

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 which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

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

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy at 31 December:

2023	Level 1 BD'000	Level 2 BD'000	Level 3 BD'000	Total BD'000
Investment securities				
Unquoted shares	-	-	**20,050**	**20,050**
Unquoted managed funds	-	-	**436**	**436**
Other Assets	-	**738**	-	**738**
Total	-	**738**	**20,486**	**21,224**

2022	Level 1 BD'000	Level 2 BD'000	Level 3 BD'000	Total BD'000
Unquoted shares	-	-	20,081	20,081
Unquoted managed funds	-	-	436	436
Other Assets	-	1,886	-	1,886
Total	-	1,886	20,517	22,403

Transfers between Level 1, Level 2 and Level 3

During the years ended 31 December 2023 and 2022, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

32. EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a Qard fund account where the Group uses these funds for various charitable purposes. The movements in these funds is shown in the consolidated statement of sources and uses of good faith Qard fund. The non-Islamic income includes the penalties charged on late repayments for Islamic facilities.

33. SHARI'A SUPERVISORY BOARD

The Group's Shari'a Supervisory Board consists of four Islamic scholars who review the Group's compliance with general Shari'a principles and specific Fatwas, rulings and guidelines issued. Their review includes examination of evidence relating to the documentation and procedures adopted by the Group to ensure that its activities are conducted in accordance with Islamic Shari'a principles.

34. SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through Zakah and charity fund's expenditures and donations to good faith Qard fund for marriage, refurbishment, medical treatments, etc.

35. COMPARATIVE FIGURES

Certain prior year's figures have been regrouped to conform to the presentation adopted in the current year. Such regrouping did not affect previously reported profit for the year or total owners' equity.

13 RISK AND CAPITAL MANAGEMENT DISCLOSURE

Contents

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2023

1. Background

These disclosures have been prepared in accordance with the Public Disclosure Module ("PD"), Section PD-1.3: Disclosures in Annual Reports, CBB Rule Book Volume II for Islamic Banks. To avoid any duplication, information required under PD module but already disclosed in other sections of annual report has not been reproduced. These disclosures are part of the annual report for the year ended 31 December 2023 and should be read in conjunction with the consolidated financial statements for the year ended 31 December 2023 and other sections of the annual report. Rules concerning the disclosures under this section are applicable to Bahrain Islamic Bank B.S.C. (the "Bank") being a locally incorporated Bank with an Islamic retail banking license, and its subsidiaries together known as (the "Group").

The Board of Directors seeks to optimise the Group's performance by enabling the various Group business units to realise the Group's business strategy and meet agreed business performance targets by operating within the agreed capital and risk parameters and the Group risk policy framework.

2. Statement of Financial Position Under the Regulatory Scope of Consolidation

The table below shows the reconciliation between the statement of financial position in the published financial statements (accounting statement of financial position) and the regulatory statement of financial position.

Table – 1. Statement of Financial Position (PD-1.3.14)

	Statement of Financial position as per published financial statements 31 December 2023 BD'000	Statement of Financial position as per Regulatory Reporting 31 December 2023 BD'000	Reference
ASSETS			
Cash and balances with banks and Central Bank	**61,602**	**61,602**	
Gross placements with financial institutions	51,692	51,692	
Less: Expected credit loss (stage 3)	-	-	
Less: Expected credit loss (stage 1 and stage 2)	*(3)*	-	
Net placements with financial institutions	**51,689**	**51,692**	
Gross financing assets	641,921	641,921	
Less: Expected credit loss (stage 3)	*(25,487)*	*(25,487)*	
Less: Expected credit loss (stage 1 and stage 2)	*(10,931)*	-	
Net financing assets	**605,503**	**616,434**	
Gross investment securities	305,089	305,089	
Less: Expected credit loss (stage 3)	*(26,794)*	*(26,794)*	
Less: Expected credit loss (stage 1 and stage 2)	*(82)*	-	
Net investment securities	**278,213**	**278,295**	
Ijarah Muntahia Bittamleek	322,309	322,309	
Less: Expected credit loss (stage 3)	*(1,727)*	*(1,727)*	
Less: Expected credit loss (stage 1 and stage 2)	*(1,745)*	-	
Net Ijarah Muntahia Bittamleek	**318,837**	**320,582**	
Investment in associates	8,302	8,302	
Investment in real estate	14,725	14,725	
Property and equipment	13,692	13,692	
Other assets	5,528	5,528	
TOTAL ASSETS	**1,358,091**	**1,370,852**	

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2023

2. Statement of Financial Position Under the Regulatory Scope of Consolidation (Continued)

Table – 1. Statement of Financial Position (PD- 1.3.14) (Continued)

	Statement of Financial position as per published financial statements 31 December 2023 BD'000	Statement of Financial position as per Regulatory Reporting 31 December 2023 BD'000	Reference
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
Liabilities			
Placements from financial institutions	**95,842**	**95,842**	
Placements from non-financial institutions and individuals	**297,215**	**297,215**	
Financing from financial institutions	**181,502**	**181,502**	
Customers' current accounts	**202,511**	**202,511**	
Other liabilities	**24,668**	**24,499**	
of which: Expected credit loss - Off balance sheet exposures (stage 3)	*1,357*	*1,357*	
of which: Expected credit loss - Off balance sheet exposures (stage 1 and stage 2)	*169*	-	
of which: Other liabilities	*23,142*	*23,142*	
Total Liabilities	**801,738**	**801,569**	
Total Equity of Investment Accountholders	**411,721**	**411,721**	
Owners' Equity			
Share capital	**106,406**	**106,406**	a
Treasury shares	**(892)**	**(892)**	b
Shares under employee share incentive scheme	**(195)**	**(195)**	c
Share premium	**206**	**206**	d
Statutory reserve	**7,720**	**7,720**	e
Real estate fair value reserve	**1,320**	**1,320**	f
Investment securities fair value reserve	**1,583**	**1,583**	g
Expected credit loss	**-**	**12,930**	h
of which: amount eligible for Tier 2 capital subject to a maximum of 1.25% of credit risk weighted assets	-	*10,870*	i
of which: amount ineligible for Tier 2 capital	-	*2,060*	j
Profit for the year	**11,136**	**11,136**	k
Retained earnings brought forward	**(7,652)**	**(7,652)**	l
of which: Retained earnings as of 1 January 2023	*(4,217)*	*(4,217)*	
of which: Zakah and donations approved	*(420)*	*(420)*	
of which: Profit distribution on AT1 Capital	*(1,901)*	*(1,901)*	
of which: Transfer to statutory reserve	*(1,114)*	*(1,114)*	
Equity Attributable to Shareholders of the Bank	**119,632**	**132,562**	
Subordinated Mudaraba (AT1)	**25,000**	**25,000**	m
Total Owners' Equity	**144,632**	**157,562**	
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY	**1,358,091**	**1,370,852**	

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2023

3. Capital Adequacy

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and the Group maintains healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders, issue sukuk etc.

The Group's capital structure is primarily made up of its paid-up capital, AT1 instruments and reserves. From a regulatory perspective, the significant amount of the Group's capital is in Tier 1 form as defined by the CBB, i.e., most of the capital is of a permanent nature.

The Group's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of financing facilities growth expectations for each business group, expected growth in off-balance sheet facilities, and future sources and uses of funds. To assess its capital adequacy requirements in accordance with CBB requirements, the Group follows the Standardised Approach for its Credit Risk, Basic Indicator Approach for its Operational Risk, and Standardised Approach for its Market Risk. Allocation of assets between equity shareholders and profit sharing investment accounts are based on the profit distribution on equity investment accountholders policy approved by the Board.

All transfer of funds or regulatory capital within the Group is carried out after proper approval process.

For the purposes of guidance, every table was cross referenced with the relevant paragraph number of the Central Bank of Bahrain's Public Disclosures Module.

Table – 2. Capital Structure (PD-1.3.13, and 1.3.14)

The following table summarises the eligible capital as of 31 December 2023 after deductions for Capital Adequacy Ratio (CAR) calculation:

	CET 1 BD'000	AT1 & T2 BD'000	Source based on reference letters of the statement of financial position under the regulatory scope of consolidation
Components of capital			
Issued and fully paid ordinary shares	106,406	-	a
General reserves	-	-	
Statutory reserves	7,720	-	e
Share premium	206	-	d
Retained earnings brought forward	(7,652)	-	l
COVID-19 concessionary measures adjustments*:			
Modification loss and Government subsidy, net	12,897		
Aggregate ECL provision relating to stage 1 and 2 exposures	4,258		
Less: amortization of modification loss and government subsidy	(5,718)		
Current year profits	11,136		k
Unrealized gains and losses on available for sale financial instruments	1,583	-	g
Less:			
Employee stock incentive program funded by the bank (outstanding)	195	-	c
Treasury shares	892	-	b
Total Common Equity Tier 1 capital after the regulatory adjustments above (CET1)	129,749	-	
Instruments issued by parent company (AT1 Subordinated Mudaraba)		25,000	m
Assets revaluation reserve - property, plant, and equipment		1,320	f
Expected credit loss (ECL) - stages 1 & 2		10,870	i
Total Available AT1 & T2 Capital		37,190	
Total Capital		166,939	

*As per the CBB circular OG/226/2020 the aggregate of modification loss and ECL provision, amount must be deducted on an annual basis from CET 1 in equal proportions over a three-year period from 1 January 2022 to 31 December 2024. Further, as per the CBB circular OG/417 /2021 the benefit of amortization of modification loss was extended until 30 June 2022. Further, CBB in its circular ODG/28/2022, communicated that the amortization of modification loss and 2020 ECL (management overlay) must be amortized starting from 1 January 2023. During the year, out of the modification loss of BD 17,155, an amount BD 5,718 thousand representing modification loss net of government subsidy was deducted from CET 1 for the period ended 31 December 2023.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2023

3. Capital Adequacy (Continued)

Table – 2. Capital Structure (PD-1.3.13, and 1.3.14) (Continued)

	Amount of exposures BD'000
Total Credit Risk Weighted Assets	869,590
Total Market Risk Weighted Assets	163
Total Operational Risk Weighted Assets	119,149
Total Regulatory Risk Weighted Assets	**988,902**
Investment risk reserve (30% only)	-
Profit equalization reserve (30% only)	34
Total Adjusted Risk Weighted Exposures	**988,868**
TOTAL CAPITAL ADEQUACY RATIO	**16.88%**
Minimum requirement:	12.5%
CET 1 ratio	9.0%
Tier 1 ratio	10.5%
Total Capital ratio	12.5%

AT1 Subordinated Mudaraba

The Subordinated Mudaraba is recognized under the consolidated statement of changes in owners' equity and the profits paid to rab al-maal (security holder) will be accounted for as appropriation of profits.

During 2023, an amount of BD 1,901 thousand (2022: BD 1,901 thousand) were paid to AT1 holders as profit distributions.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2023

3. Capital Adequacy (Continued)

Table – 3. Capital requirements by type of Islamic financing contracts (PD-1.3.17)

The following table summarises the amount of exposures as of 31 December 2023 subject to standardised approach of credit risk and related capital requirements by type of Islamic financing contracts:

	Exposure			Risk Weighted Assets*			Capital Requirements		
	Self-Financed BD'000	IAH BD'000	Total BD'000	Self-Financed BD'000	IAH[3] BD'000	Total BD'000	Self-Financed BD'000	IAH BD'000	Total BD'000
Credit Risk Weighted Assets									
Funded									
Cash and balances with banks and Central Bank	47,929	13,673	61,602	16,506	-	16,506	2,063	-	2,063
Murabaha and Wakala receivables - interbank	51,692	-	51,692	139,572	-	139,572	17,447	-	17,447
Murabaha receivables*	351,952	178,685	530,637	267,021	40,670	307,691	33,378	5,084	38,462
Musharaka receivables*	56,905	28,892	85,797	47,359	7,213	54,572	5,920	902	6,822
Investment in Sukuk	170,995	86,814	257,809	-	-	-	-	-	-
Investment in equity and funds	20,486	-	20,486	80,380	-	80,380	10,048	-	10,048
Ijarah Muntahia Bittamleek*	212,630	107,952	320,582	131,271	19,994	151,265	16,409	2,499	18,908
Investment in associates	8,302	-	8,302	26,572	-	26,572	3,322	-	3,322
Investment in real estate	14,725	-	14,725	29,450	-	29,450	3,681	-	3,681
Property and equipment	13,692	-	13,692	13,692	-	13,692	1,712	-	1,712
Other assets	5,528	-	5,528	17,206	-	17,206	2,151	-	2,151
	954,836	416,016	1,370,852	769,029	67,877	836,906	96,131	8,485	104,616
Unfunded									
Commitments and contingent liabilities	114,695	-	114,695	32,684	-	32,684	4,086	-	4,086
Total Credit Risk Weighted Assets	1,069,531	416,016	1,485,547	801,713	67,877	869,590	100,217	8,485	108,702
Total Market Risk Weighted Assets	163	-	163	163	-	163	20	-	20
Total Operational Risk Weighted Assets	119,149	-	119,149	119,149	-	119,149	14,894	-	14,894
Total Risk Weighted Assets	1,188,843[1]	416,016[2]	1,604,859	921,025	67,877	988,902	115,131	8,485	123,616

* The risk weighted assets are net of credit risk mitigant of BD 41,761 thousand and for unfunded exposures the appropriate credit conversion factors are applied.

[1] The exposure is gross of expected credit loss Stages 1 & 2 of BD 8,634 thousand and net of expected credit loss Stage 3 of BD 27,811 thousand.
[2] The exposure is gross of expected credit loss Stages 1 & 2 of BD 4,295 thousand and net of expected credit loss Stage 3 of BD 13,379 thousand.
[3] For assets funded through IAH only 30% of exposure is considered. (CA-1.1.12)

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2023

3. Capital Adequacy (Continued)

Table – 4. Capital requirements for market risk (PD-1.3.18)

The following table summarises the amount of exposures as of 31 December 2023 subject to standardised approach of market risk and related capital requirements:

Market Risk - Standardised Approach	
Foreign exchange risk (BD'000)	**13**
Total of Market Risk - Standardised Approach	**13**
Multiplier	**12.5**
Risk Weighted Exposures for CAR Calculation (BD'000)	**163**
Total Market Risk Exposures (BD'000)	**163**
Total Market Risk Exposures - Capital Requirement (BD'000)	**20**

Table – 5. Capital requirements for operational risk (PD-1.3.30 (a & b) and PD-1.3.19)

The following table summarises the amount of exposures as of 31 December 2023 subject to basic indicator approach of operational risk and related capital requirements:

Indicators of operational risk	
Average Gross income (BD'000)	**63,546**
Multiplier	**12.5**
	794,325
Eligible Portion for the purpose of the calculation	**15%**
Total Operational Risk Exposure (BD'000)	**119,149**

Table – 6. Capital Adequacy Ratios (PD-1.3.20)

The following are Capital Adequacy Ratios as of 31 December 2023 for total capital and CET 1 capital:

	Total capital ratio	T1 Capital ratio	CET 1 capital ratio
Top consolidated level	**16.88%**	**15.65%**	**13.12%**

ICAAP

The Group's capital management aims to maintain an optimum level of capital to enable it to pursue strategies that build long term shareholder value, whilst always maintaining minimum regulatory ratio requirements and for Pillar II risks.

The key principles of capital management comprise of:

(i) Adequate capital is maintained as buffer for unexpected losses to protect shareholders and depositors.
(ii) Optimize risk adjusted return on capital and maintain sustainable return above the cost of capital.

The adequacy of the Group's capital is monitored using, primarily, the rules and ratios established by the CBB. The primary objective of the Group's capital management is to be in compliance with externally imposed capital requirements. The Group is in compliance with all externally imposed capital requirements during the year ended 31 December 2023.

RISK AND CAPITAL MANAGEMENT DISCLOSURE
For the year ended 31 December 2023

4 Risk Management

4.1 Group-wide Risk Management Objectives

The risk management philosophy of the Group is to identify, capture, monitor, and manage the various dimensions of risk with the objective of protecting asset values and income streams such that the interest of the Group's shareholders (and others to whom the Group owes a liability) are safeguarded, while maximising the returns intended to optimise the Group's shareholder return and maintaining it's risk exposure within self-imposed parameters.

In addition to satisfying the minimum regulatory capital requirements of CBB, the Group seeks to constantly identify and quantify, to the extent possible, the various risks that are inherent in the normal course of its business.

The Group reviews and aligns its risk appetite in line with its evolving business plan, and changing economic and market scenarios, in addition to evolving regulatory requirements. The Group also assesses its tolerance for specific risk categories and its strategy to manage these risks. To monitor and report exposures to these identified risks, the Group adopted a comprehensive enterprise-wide Risk Management Framework that encompasses the risk limit, monitoring, and reporting structures.

4.2 Strategies, Processes and Internal Controls

4.2.1 Group's risk strategy

The Group maintains a risk appetite and strategy document that is reviewed on an annual basis by the Board Risk and Compliance Commitee and is approved by the Board. It also maintains a comprehensive Risk Management Framework that is approved by the Board. These are also supported by appropriate limit structures. These policies provide an enterprise-wide integrated risk management framework for the Group.

The Risk Management Framework identifies risk objectives, policies, strategies, and risk governance both at the Board and management level.

Limit structures serve as key components in articulating risk strategy in quantifiable risk appetite. They are further supported by a comprehensive framework for various risk silos with its own policies and methodology documents.

There are appropriate internal controls in place to ensure that the integrity of the risk management identification, monitoring and reporting systems. This is conducted through periodic internal audit, in addition to external validation, when required.

4.2.2 Credit risk

The Group manages its credit risk exposure by evaluating each new product/activity with respect to the credit risk introduced by it, in addition to ongoing review of existing credit risk exposures. The Group has established a limit structure to avoid concentration of risks for counterparty, sector, and geography.

4.2.3 Market risk

The Group proactively measures and monitors the market risk in its portfolio using appropriate measurement techniques such as limits on its foreign exchange open positions. The Group periodically carries out stress testing to assess the impact of adverse market conditions on its market risk sensitive portfolio.

The Group has established a limit structure to monitor and control the market risk in its trading portfolio. These limits include maximum Stop-loss limits and position limits. As at 31 December 2023, the group does not maintain any trading portfolio.

4.2.4 Operational risk

The Group carries out Risk Control Self-Assessment ("RCSA") exercises on a regular basis to record potential risks, controls and events on a continuous basis across different business and support functions. Key operational risk reports are delivered to all relevant stakeholders in the Bank on a periodic basis.

The Group has a mechanism to review the policies and procedures in effect.

4.2.5 Equity price risk

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the investment portfolio. Currently, acquiring additional equity investments are off-strategy.

4.2.6 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The profit distribution to investment accountholders is based on profit sharing agreements.

However, the profit sharing agreements will result in displaced commercial risk when the Group's results do not allow the Group to distribute profits in line with market rates. The Group uses profit rate swaps as a means to manage this risk.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2023

4 Risk Management (Continued)

4.2.7 Displaced Commercial Risk

Displaced Commercial Risk ("DCR") refers to the market pressure to pay returns that exceed the rate that has been earned on the assets financed by the liabilities, when the return on assets is underperforming as compared with competitors rates.

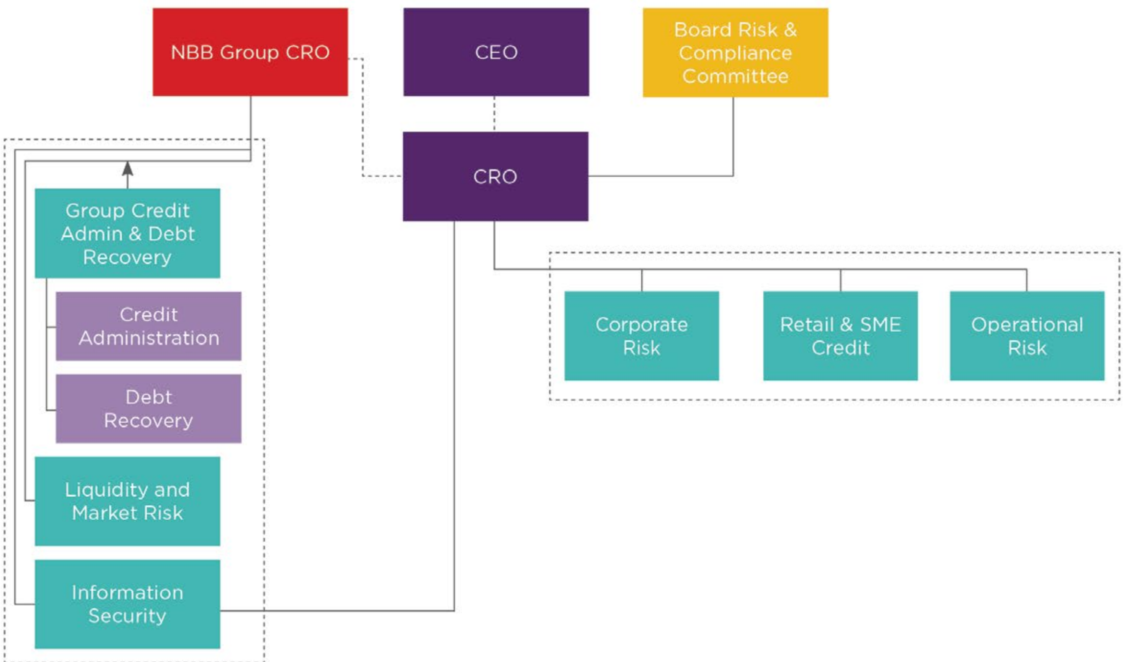
The Group manages its Displaced Commercial Risk by placing gap limits between the returns paid to investors and market returns.

The Group manages its DCR as outlined in the Group's Profit Distribution On Equity of Investment Accountholders Policy. The Group may forego its mudarib fee in case displaced commercial risk arises. The Group benchmarks its rates with other leading banks in the market.

All the above strategies used have been effective throughout the reporting year.

4.3 Structure and Organisation of Risk Management Function

Risk Management Structure includes all levels of authorities (including Board level Risk & Compliance Committee, in addition to the NBB Group reporting), organisational structure, people, and systems required for the smooth functioning of risk management processes in the Group. The responsibilities associated with each level of risk management structure and authorities include the following:



The board retains ultimate responsibility and authority for all risk matters, including:

a. Establishing overall policies and procedures; and
b. Delegating authority to Board Risk and Compliance Committee, Board Executive Committee, Credit Committee, Investment Committee, the Chief Executive Officer and further delegation to management to approve and review.

4.4 Risk Measurement and Reporting Systems

Based on risk appetite of the Group, the Group has put in place various limits. These limits have been approved by the Board of Directors. Any limit breaches are reported to the respective senior management committees and the Board by the Credit and Risk Management Department ("CRMD"). The limits are reviewed and revised at least on an annual basis or when is deemed required.

The Group has developed a risk measurement and reporting system that generates various types of reports which has enhanced the monitoring process of the Group.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2023

4. Risk Management (Continued)

4.5 Credit Risk

4.5.1 Introduction

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from lending and debt-type investment activities. The Group controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are secured by suitable tangible collateral whereever deemed necessary.

The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept in terms of counterparties, product types, geographical area, and industry sector. The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Corporate counterparties are regularly assesed by the use of a credit risk classification system. Counterparty limits are established after a comprehensive credit assessment and after factoring in a counterparty risk rating generated by the Credit Risk Rating System. Risk ratings are subject to regular revision by the Credit Review Unit ("CRU"). Any changes to the Credit Risk Policy will be approved by the Board.

All credit proposals undergo a comprehensive risk assessment examining the customer's financial condition, operating performance, nature of the business, quality of management, and market position, etc. The credit approval decision is made based on such risk assessment.

Retail credit is assessed by the Retail Credit Unit prior to booking as against the Bank's approved retail financing credit criteria

Exposure limits are based on the aggregate exposure to counterparty and any connected entities across the Group. Corporate facilities are reviewed on an annual basis by CRU, or more frequently based on the client's credit condition.

4.5.2 Types of credit risk

Exposures subject to credit risk comprise of due from banks and financial institutions, murabaha receivables, musharaka, sukuk, commitments to finance and financial instruments resulting in contingencies (guarantees and letter of credit) and other assets.

Due from banks and financial institutions

Due from banks and financial institutions comprise commodity murabaha receivables and wakala receivables.

Murabaha receivables

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

Musharaka investments

Musharaka is a form of partnership between the Group and its clients whereby each party contributes to the capital of partnership in equal or varying degrees to establish a new project or share in an existing one, whereby each of the parties becomes an owner of the capital on a permanent or declining basis. Profits are shared in an agreed ratio, but losses are shared in proportion to the amount of capital contributed.

Ijarah Muntahia Bittamleek

The legal title of the assets under Ijarah muntahia bittamleek only passes to the lessee at the end of the Ijarah term, through gift, consideration, or gradual sale, provided that all Ijarah installments are settled.

4.5.3 Credit impaired exposures

The Group defines facilities as credit impaired facilities which are overdue for a period of 90 days or more, any exposure against which specific impairment provision is held irrespective of whether the customer is currently in arrears or not, and customers which are classified in stage 3 and are in cooling off period in line with CBB guidelines. It is a Group policy to classify all facilities of a corporate counterparty as credit impaired if one or more facilities meets the conditions for credit impaired facilities.

As a policy, the Group places any facility where there is reasonable doubt about the collectability of the receivable on a non-accrual basis, irrespective of whether the customer concerned is currently in arrears or not. In such cases, income is recognised to the extent that it is actually received.

For general and specific impairment assessments, the Group classifies its credit exposures into Stage 1, Stage 2 and Stage 3, based on impairment methodology followed, as described below:-

Stage 1 (12 months ECL): for exposures subject to credit risk where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the group recognises an allowance based on the 12-month ECL. All accounts at origination would be classified as Stage 1 with the exception of Purchased or Originated Credit Impaired (POCI) assets.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2023

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

4.5.3 Credit impaired exposures (Continued)

Stage 2 (lifetime ECL not credit impaired): for exposures subject to credit risk where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the group recognises an allowance for the lifetime ECL for all exposures classified in this stage based on the actual / expected maturity profile including restructured or reschedule exposures.

Stage 3 (lifetime ECL credit impaired): for credit-impaired exposures, the group recognises the lifetime ECL. Default identification process i.e. DPD of 90 more is used as Stage 3.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

(i) Probability of Default (PD);

(ii) Loss Given Default (LGD); and

(iii) Exposure At Default (EAD).

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

Corporate PD estimates are calculated based on statistical rating models, and assessed using rating tools tailored to various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD.

Retail PD estimates are measured using Observed Default Estimation at the segment level and thus PD is calculated based at DPD bucket level for each segment separately. Under this analysis, the delinquency status of accounts will be tracked at an interval of one year with a moving month cycle.

Debt type instruments Portfolio, Nostro and Interbank Placements portfolio is assessed for SICR using external ratings, the group obtains PD estimates from Moody's / Standard & Poor's (S&P) / Fitch or any other external ratings.

LGD is the magnitude of the likely loss if there is a default. The group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties.

EAD represents the expected exposure in the event of a default. The group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of funded exposures is the gross carrying amount. For financing commitments and financial guarantees, the EAD includes the potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

4.5.4 External credit assessment institutions

The Group relies on external ratings for rated corporate customers and counterparties. The Group uses Standard & Poor's, Fitch, Moody's and Capital Intelligence to provide ratings for such counterparties. In case of unrated counterparties, the Group will assess the credit risk on the basis of defined parameters. These ratings are used for risk assessment and calculation of risk weighted equivalents. The Group's policy has the mapping of the external ratings with the internal ratings used by the Group and the corresponding internal rating is allocated to the exposure accordingly to transfer it in the Group's

4.5.5 Definition of Geographical distribution

The geographic distribution of the credit exposures is monitored on an ongoing basis by the Group's Risk Management Department and reported to the Board on a quarterly basis. The Group's classification of geographical area is according to its business needs and the distribution of its portfolios.

4.5.6 Concentration risk

Concentration risk is the credit risk stemming from not having a well diversified credit portfolio, i.e. being overexposed to a single customer, industry sector, or geographic region. As per CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's prior approval for any planned exposure to a single unconnected counterparty, or group of closely related counterparties, exceeding 15% of the bank's consolidated total capital. Also, banks are required to obtain the CBB's prior approval for any planned exposure to connected counterparties exceeding 25% of their consolidated total capital at an aggregate level.

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.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2023

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

4.5.7 Credit risk mitigation

Credit risk mitigation refers to the use of a number of techniques, like collaterals and guarantees to mitigate the credit risks that the Group is exposed to. Credit risk mitigants reduce the credit risk by allowing the Group to protect against counterparty non-compliance with credit contracts, through sale of collaterals, netting agreements, and guarantees. The Group uses on-balance sheet netting as a credit risk mitigation technique only if there is a well-founded legal basis for concluding that the netting or offsetting agreement is enforceable, and is able to determine at any time those assets and liabilities with the same counterparty that are subject to the netting agreement.

Generally, the Group extends credit facilities only where supported by audited financial statement and/or adequate tangible collateral security. Facilities may be considered without adequate tangible collateral security, when audited financial statements reveal satisfactory financial position/repayment ability and the facilities are properly structured and supported by assignments, guarantees, etc. as appropriate.

In general, personal guarantees of the partners/promoters/directors of the borrowing entity are obtained in support of credit facilities. In all cases, a statement of net worth of such personal guarantor is to be compiled/estimated by the Account Officer, so that adequate information is available at a future date in case the guarantees need to be enforced.

The market value of tangible collateral security is properly evaluated by the Group's approved valuers (for properties) or as per the suitable valuation methodology as outlined in the Bank's Credit Risk Mitigation Policy.
Financing to value percentage of securities and list of acceptable securities to the bank are governed through Board approved policies.

4.5.7.1. General policy guidelines of collateral management

Acceptable Collateral: The Group has developed guidelines for acceptable collateral. Assets offered by customers must meet the following criteria to qualify as acceptable collateral:

a. Assets must be maintaining their value, at the level prevalent at inception, until maturity date of the facility granted;
b. Such assets should be easily convertible into cash, if required (liquidity);
c. There should be a reasonable market for the assets (marketability); and
d. The Group should be able to enforce its rights over the asset if necessary (enforceability).

Ownership: Prior to valuation or further follow up on the offered collateral, Credit Administration ensures satisfactory evidence of the borrower's ownership of the assets.

Valuation: All assets offered as collateral are valued by an appropriate source either in-house or by an external appraiser (in the case of real estate related collateral). The Group maintains a list of independent appraisers, approved by management.

a. Valuation of shares and financial securities: The Group performs in-house valuation on the following types of securities:

- For shares and securities listed in active markets, quoted bid prices are utilized;
- For unquoted shares and stakes in collective investment undertakings (CIUs), valuation is determined based on (i) present value of future cashflows and/or (ii) net asset value as and when financials are available; and
- For sukuk, collateral value is based on net realizable value.

b. Valuation of real estate and others: Besides assets mentioned above, the valuation of following securities are also conducted with the help of external valuers and/or independent reports:

- Real Estate;
- Equipment and machinery;

The Credit Administration requests the concerned department to arrange for the valuation from approved valuators. In the case of real estate, re-evaluations are conducted at least annually by Bank approved evaluators.

The following additional guidelines are also followed by the Group:

a. No facility should be disbursed until credit documentation is properly signed and security/guarantees required have been signed and registered, where required. Exceptional cases can be considered by sanctioning authorities; and

b. All documents received as security or support for credit facilities should be lodged in the safe custody through the Credit Administration and should be kept under dual control. The Group must ascertain that collateral providers are authorised and acting within their capacity.

RISK AND CAPITAL MANAGEMENT DISCLOSURE
For the year ended 31 December 2023

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

4.5.7 Credit risk mitigation (Continued)

4.5.7.2 Guarantees
In cases where a letter of guarantee from a parent company or a third party is accepted as a credit risk mitigant, the Group ensures that all guarantees are irrevocable, and should be in line with internal policies. Also no maturity (negative) mismatch is permissible between the guarantee and exposure.

4.5.7.3. Custody / collateral management
The assets, or title to the asset, will be maintained in the Group's custody or with custodians approved by the Group. Adequate systems and controls exist to confirm the assets held with each custodian.

The release of collateral without full repayment of all related financial obligations can be done only if the approved level of security coverage is maintained post the release otherwise it requires authorisation of the same level that originally approved and sanctioned the facility. Substitution of collateral is permitted if the new collateral would further minimise the Group's risk exposure.

When collateral is released to the customer, the Head of Credit Administration obtains and maintains in his records acknowledgement of receipt from the customer or his/her authorised representative.

4.5.8 Counterparty credit risk
The Group has adopted the Standardised Approach to allocate capital for counterparty credit risk. The Group has put in place an internal counterparty limit structure which is based on internal / external ratings for different types of counterparties. The Group has also set concentration limits as a percentage of its capital based on internal and external grades. In case of a counterparty rating downgrade / deterioration, the Group may require further collateral or advise the counterparty to reduce its exposure on a case by case basis.

4.5.8.1 Exposure
The measure of exposure reflects the maximum loss that the Group may suffer in case a counterparty fails to fulfill its commitments, or loss that may arise due to exposures relating to concentration per product, asset classes, collateral, segments, country, region, currencies, market, etc. Exposure shall always be calculated on the basis of approved limits or actual outstanding exposure (financing facilities, investments or others), whichever is higher.

4.5.8.2 Counterparty
A counterparty is defined as an obligor (individual/company/other legal entity), a guarantor of an obligor, or a person receiving funds from the Group, the issuer of a security in case of a security held by the Group, or a party with whom a contract is made by the Group for financial transactions.

4.5.8.3 Group exposure
Group exposure is defined as the total exposure to all counterparties closely related or connected to each other. For this purpose, a Group is two or more counterparties that are related (both directly or indirectly) either through the existence of a control relationship or economic interdependence.

4.5.8.4 Connected counterparties
Connected counterparties' includes companies or persons connected with the Group, including, in particular; controllers of the Group (and their appointed board representatives); subsidiaries, associates and related parties of the Group; holders of controlled functions in the Group and their close family members; members of the Shari'a Supervisory Board.

4.5.8.5 Large exposure
Large exposure is any exposure whether direct, indirect, or funded by equity of investment accountholders to a counterparty or a group of closely related counterparties which is greater than or equal to 10% of the Group's capital base.

Prior written approval from the CBB is required in the following cases:

a. If any unconnected counterparty (single/group) exposure exceeds 15% of Group's Capital Base;
b. If any facility (new/extended) to any connected counterparty exceeds 25% of the consolidated total capital at an aggregate level

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2023

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

4.5.8 Counterparty credit risk (Continued)

4.5.8.6 Maximum exposure

The Group has set an internal maximum exposure limit in the light of CBB guidelines.

4.5.8.7 Reporting

The Group reports large counterparty exposures (as defined above) to CBB on a periodic basis. The Group reports the exposures on a gross basis without any set-off. However, debit balances on accounts may be offset against credit balances where both are related to the same counterparty, provided the Group has a legally enforceable right to do so.

4.5.8.8 Other matters

As a Group's strategy, exposure to connected counterparties may be undertaken only when negotiated and agreed based on commercial terms.

The Group shall not assume any exposure to its external auditors.

4.5.9 Related party transactions

The disclosure relating to related party transactions has been made in the reviewed condensed financial information for the year ended 31 December 2023. All related party transactions have been made on commercial terms.

Table – 7. Credit Risk Exposure (PD-1.3.23(a))

The following table summarises the amount of gross funded and unfunded credit exposure (before deducting credit risk mitigant) as of 31 December 2023 and average gross funded and unfunded exposures over the year ended 31 December 2023:

	Total gross credit exposure BD'000	*Average gross credit exposure over the year BD'000
Funded		
Cash and balances with banks and Central Bank	61,602	59,334
Placements with financial institutions	51,689	64,553
Financing assets	605,503	621,599
Investment in Sukuk	257,727	252,247
Investment in equity and funds	20,486	20,498
Ijarah Muntahia Bittamleek	318,837	313,531
Investment in associates	8,302	8,412
Investment in real estate	14,725	14,834
Property and equipment	13,692	13,730
Other assets	5,528	11,172
Total	1,358,091	1,379,910
Unfunded		
Commitments and contingent liabilities	114,695	102,950
Total	1,472,786	1,482,860

*Average balances are computed based on quarter end balances.

RISK AND CAPITAL MANAGEMENT DISCLOSURE
For the year ended 31 December 2023

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

Table – 8. Credit Risk – Geographic Breakdown (PD-1.3.23(b))

The following table summarises the geographic distribution of exposures as of 31 December 2023, broken down into significant areas by major types of credit exposure:

	North America BD'000	Europe BD'000	Middle East BD'000	Other BD'000	Total BD'000
Cash and balances with banks and Central Bank	2,543	391	58,634	34	61,602
Placements with financial institutions	-	-	51,688	1	51,689
Financing assets	-	-	605,503	-	605,503
Investment in Sukuk	-	-	257,727	-	257,727
Investment in equity and funds	-	-	20,486	-	20,486
Ijarah Muntahia Bittamleek	-	-	318,837	-	318,837
Investment in associates	-	-	8,302	-	8,302
Investment in real estate	-	-	14,725	-	14,725
Property and equipment	-	-	13,692	-	13,692
Other assets	23	-	5,505	-	5,528
Total	2,566	391	1,355,099	35	1,358,091
Unfunded					
Commitments and contingent liabilities	-	-	114,695	-	114,695
Total	2,566	391	1,469,794	35	1,472,786

*Geographical distribution of exposure into significant areas by major type of credit exposure is based on counterparty's country of incorporation.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2023

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

Table – 9. Credit Risk – Industry Sector Breakdown (PD-1.3.23(c))

The following table summarises the distribution of funded and unfunded exposures as of 31 December 2023 by industry, broken down into major types of credit exposure:

	Trading and Manufacturing BD'000	Banks and Financial Institutions BD'000	Real Estate and Construction BD'000	Personal & Consumer Finance BD'000	Governmental Organisation BD'000	Others BD'000	Total BD'000
Funded							
Cash and balances with banks and Central Bank	-	18,627	-	-	42,975	-	61,602
Placements with financial institutions	-	51,689	-	-	-	-	51,689
Financing assets	73,841	13,153	68,641	372,462	42,825	34,581	605,503
Investment in Sukuk	-	-	-	-	257,727	-	257,727
Investment in equity and funds	-	2,505	16,805	-	-	1,176	20,486
Ijarah Muntahia Bittamleek	24	-	11,314	252,079	55,363	57	318,837
Investment in associates	-	4,424	3,878	-	-	-	8,302
Investment in real estate	-	-	14,725	-	-	-	14,725
Property and equipment	-	-	-	-	-	13,692	13,692
Other assets	-	2,153	-	1,573	-	1,802	5,528
Total	73,865	92,551	115,363	626,114	398,890	51,308	1,358,091
Unfunded							
Commitments and contingent liabilities	13,107	10,415	21,239	39,746	21,958	8,230	114,695
Total	86,972	102,966	136,602	665,860	420,848	59,538	1,472,786

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2023

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

Table – 10. Credit Risk – Financing Facilities to Highly Leveraged or Other High Risk Counterparties (PD-1.3.23(e))

The following balances represent the financing facilities to highly leveraged or other high risk counterparties as of 31 December 2023:

	Gross BD'000	Stage 3 ECL BD'000	Net* BD'000
Counterparties			
Counterparty # 1	7,217	551	6,666
Counterparty # 2	8,635	-	8,635
Counterparty # 3	3,880	-	3,880
Counterparty # 4	3,651	2,191	1,460
	23,383	2,742	20,641

*Gross of expected credit loss stage 1 and 2 of BD 233 thousand.

Table – 11. Credit Risk – Concentration of Risk (PD-1.3.23(f))

The Bank has the following exposures that are in excess of the individual obligor limit of 15% of the Bank's capital as of 31 December 2023:

	Gross BD'000	Stage 3 ECL BD'000	Net** BD'000
Counterparties			
Counterparty # 1*	229,011	-	229,011
Counterparty # 2*	44,709	-	44,709
Counterparty # 3*	28,517	-	28,517
	302,237	-	302,237

*Represents exempted large exposures.
**Gross of expected credit loss stage 1 and 2 of BD 220 thousand.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2023

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

Table – 12. Credit Risk – Residual Contractual Maturity Breakdown (PD-1.3.23(g) PD-1.3.38)

The following table summarises the maturity profile of the total assets based on contractual maturities as at 31 December 2023. All the assets with no fixed contractual maturities are disclosed under no fixed maturity:

	Up to One month BD'000	1-3 months BD'000	3-6 months BD'000	6-12 months BD'000	1-3 years BD'000	3-5 years BD'000	5-10 years BD'000	10-20 years BD'000	Over 20 years BD'000	No fixed maturity BD'000	Total BD'000
Assets											
Cash and balances with banks and Central Bank	24,502	-	-	-	-	-	-	-	-	37,100	61,602
Placements with financial institutions	51,689	-	-	-	-	-	-	-	-	-	51,689
Financing assets	24,777	29,311	47,586	55,749	184,423	151,706	74,540	30,529	6,882	-	605,503
Investment in Sukuk	-	51,444	7,188	20,910	94,173	27,812	56,200	-	-	-	257,727
Investment in equity and funds	-	-	-	-	-	-	-	-	-	20,486	20,486
Ijarah Muntahia Bittamleek	1,487	3,022	5,718	8,705	43,737	45,666	86,353	102,993	21,156	-	318,837
Investment in associates	-	-	-	-	-	-	-	-	-	8,302	8,302
Investment in real estate	-	-	-	-	-	-	-	-	-	14,725	14,725
Property and equipment	-	-	-	-	-	-	-	-	-	13,692	13,692
Other assets	61	724	3,501	219	272	317	190	115	26	103	5,528
Total Assets	102,516	84,501	63,993	85,583	322,605	225,501	217,283	133,637	28,064	94,408	1,358,091

Table – 13. Credit Risk – Credit Impaired Exposures, Past Due Exposures, and Impariment Allowances by industry sector (PD-1.3.23(h) PD-1.3.24(b) PD-1.3.24(d))

The following table summarises the credit impaired facilities, past due facilities, and impairment allowances disclosed by major industry sector as of 31 December 2023:

		Aging of credit impaired or past due Islamic financing contracts				Stage 3 ECL				Stage 1 & 2 ECL		
	Credit impaired or past due Islamic financing contracts* BD'000	Less than 3 months BD'000	3 months to 1 year BD'000	1 to 3 years BD'000	Over 3 years BD'000	Balance at the beginning of the year BD'000	Charge for the year (net)** BD'000	Write-offs during the year BD'000	Balance at the end of the year BD'000	Balance at the beginning of the year BD'000	Charge for the year (net)** BD'000	Balance at the end of the year BD'000
Trading and Manufacturing	49,184	24,687	16,276	5,292	2,929	14,994	5,270	6,395	13,869	6,200	(3,017)	3,183
Real Estate	24,765	18,940	5,485	340	-	1,920	1,667	1,679	1,908	2,200	(34)	2,166
Banks and Financial Institutions	-	-	-	-	-	33	(33)	-	-	278	(36)	242
Personal /Consumer Finance	47,574	33,915	5,343	5,410	2,906	8,527	2,229	78	10,678	2,867	(336)	2,531
Others	12,518	11,258	744	516	-	694	72	7	759	4,716	(162)	4,554
Total	134,041	88,800	27,848	11,558	5,835	26,168	9,205	8,159	27,214	16,261	(3,585)	12,676

*Gross of expected credit loss of BD 33,958 thousand.
**Net of transfers between stages.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2023

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

Table – 14. Credit Risk – Credit Impaired Exposures, Past Due Exposures, and Impariment Allowances (by geographic area) (PD-1.3.23(i) PD-1.3.24(c))

The following table summarises the credit impaired facilities, past due facilities, and impairment allowances by geographical area as of 31 December 2023:

	Credit impaired or past due or impaired Islamic financing contracts BD'000	Stage 3 ECL BD'000	Stage 1 & 2 ECL BD'000
Middle East	134,041	27,214	12,676

Table – 15. Credit Risk – Restructured Financing Facilities (PD-1.3.23(j))

The following table summarises the aggregate amount of restructured corporate financing facilities during the year as of 31 December 2023:

	Gross Outstanding BD'000	Stage 3 ECL BD'000	Net BD'000
Total Islamic financing (1)	964,230	27,214	937,016
Restructured financing facilities* (2)	10,790	-	10,790
Percentage	1.12%	0.00%	1.15%

*Excludes facilities restructured during the year amounting to BD 16,955 thousand which are past due as of 31 December 2023.
The nature of the concessions include alignment of the payment terms with the clients' expected cash flows.

(1) Gross of expected credit loss Stages 1 and 2 of BD 12,675 thousand.

(2) Gross of expected credit loss Stage 2 of BD 706 thousand.

Table – 16. Credit Risk Mitigation (PD-1.3.25 (b) and (c))

The following table summarises the exposure as of 31 December 2023 by type of Islamic financing contract covered by Shari'a-compliant collateral eligible as per CA module of volume 2 of the CBB Rule Book:

	Total exposure covered by	
	Tamkeen Guarantee BD'000	Others BD'000
Financing assets	945	85,021
Ijarah Muntahia Bittamleek	-	24,047
Total	945	109,068

RISK AND CAPITAL MANAGEMENT DISCLOSURE
For the year ended 31 December 2023

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

Table – 17. Counterparty Credit (PD-1.3.26 (b))
The following table summarises the counterparty credit risk exposure covered by collateral after the application of haircuts as of 31 December 2023:

	Financing assets BD'000	Ijarah Muntahia Bittamleek BD'000	Total BD'000
Exposures:			
Secured*	85,966	24,047	110,013
Unsecured*	519,537	294,790	814,327
Total	**605,503**	**318,837**	**924,340**
Collateral held:			
- Cash	19,579	236	19,815
- Guarantees	2,093	-	2,093
- Real Estate**	3,397	16,472	19,869
Total	**25,069**	**16,708**	**41,777**
Collateral as a percentage of secured exposure	**29.16%**	**69.48%**	**37.97%**

* The financing assets and Ijarah Muntahia Bittamleek exposures are net of ECL.
** A haircut of 30% is applied on the Real Estate collateral.

4.6 Market Risk

4.6.1 Introduction
The Group has accepted the definition of market risk as defined by CBB as the risk of losses in on- and off-balance sheet positions arising from movements in market prices.

4.6.2 Sources of market risk
For the Group, market risk may arise from movements in profit rates, foreign exchange markets, equity markets, or commodity markets. A single transaction or financial product may be subject to any number of these risks.

Profit rate risk is the sensitivity of financial products to changes in the profit rates. Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The profit distribution to equity of investment accountholders is based on profit sharing agreements. One of the methods the Bank uses to manage profit rate risk is through the use of profit rate swaps. For further detail on profit rate swaps, please refer to the consolidated financial statements for the year ended 31 December 2023.

Foreign exchange risk is the sensitivity of financial products to changes in spot foreign exchange rates. The value of the Group's portfolio which is denominated in a number of currencies may be exposed to these risks when converted back to the Group's base currency. The Group enters into foreign exchange swap contracts (Waad) to manage against foreign exchange fluctuations.

Equity price risk is the sensitivity of financial products to the changes in equity prices. Equity risk arises from holding open positions in equities or equity based instruments, thereby creating exposure to a change in the market price of the equity. The Group has established a limit structure to monitor and control the market risk in its equity type instruments portfolio. These limits include maximum Stop-loss limits and position limits. As at 31 December 2023, the group did not have any trading portfolio. Currently, any new equity investments are off-strategy.

Commodity risk is defined as inherent risk in financial product arising from their sensitivity to changes in commodity prices. Since prices in commodity markets are determined by fundamental factors (i.e. supply and demand of the underlying commodity) these markets may be strongly correlated within particular sector and less correlated across sectors.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2023

4. Risk Management (Continued)

4.6 Market Risk (Continued)

4.6.3 Market risk strategy

The Group's Board is responsible for approving and reviewing the risk strategy and significant amendments to the risk policies. The Group's senior management is responsible for implementing the risk strategy approved by the Board, and continually enhancing the policies and procedures for identifying, measuring, monitoring, and controlling risks.

In line with the Group's risk management objectives and risk tolerance levels, the specific strategies for market risk management include:

a. The Group proactively measures and continually monitors the market risk in its portfolio;
b. The Group at all times holds sufficient capital in line with the CBB Pillar 1 regulatory capital requirements;
c. The Group establishes a limit structure to monitor and control the market risk in its portfolio. These limits includes position limits, and maximum/stop loss limits;
d. The Group carries out stress testing periodically using the worst case scenarios to assess the effects of changes in the market value due to changing market conditions; and
e. The Group clearly identifies the foreign currencies in which it wishes to deal in and actively manages its market risk in all foreign currencies in which it has significant exposure.

4.6.4 Market risk measurement methodology

Market risk measurement techniques include the use of a number of techniques for market risk measurement. The risk measurement techniques mentioned in this section are used for measuring market risk in both trading book as well as banking book.

The various techniques which are used by the Group for the measurement, monitoring and control of market risk are as follows:

a. Overnight open positions;
b. Stop loss limits;
c. Stress Testing; and
d. Profit rate risk gap analysis.

4.6.5 Market risk monitoring and limits structure

The CRMD proposes through the Board Risk and Compliance Committee (BRCC) and Board the tolerance for market risk. Based on these tolerances, Risk Unit and Treasury have established appropriate risk limits that maintain the Group's exposure within the strategic risk tolerances over a range of possible changes in market prices and rates.

4.6.6 Limits monitoring

The Treasury Department and Risk Unit monitor the risk limits for each transaction, ensure that the limits are well within set parameters, and report periodically to top management.

4.6.7 Breach of limits

In case a limit is breached, the escalation and approval process will follow the Board-approved delegated authority limits. The limits are revised at least annually or when deemed required.

4.6.8 Portfolio review process

On a monthly basis, Risk Unit reviews the Group's assets and liabilities portfolio to evaluate the overall corporate exposure to market risk. As part of the review, Risk Unit also monitors the Group's overall market exposure against the risk tolerance limits set by the Board. Risk Unit also reviews the adherence to approved limits to control the market risk. Changes, if any, in market risk limits are communicated to business units after review by the CRO/CEO and approval by the ALCO and BRCC, as per the delegated authorities approved by the Board.

4.6.9 Reporting

Risk Unit generates at regular periodic intervals market risk management reports. These reports aim to provide the Group's senior management with an up-to-date view of its market risk exposure.

RISK AND CAPITAL MANAGEMENT DISCLOSURE
For the year ended 31 December 2023

4. Risk Management (Continued)

4.6 Market Risk (Continued)

4.6.10 Stress testing
Stress tests produce information summarising the Group's exposure to extreme, but possible, circumstances and offer a way of measuring and monitoring the portfolio against extreme price movements of this type. The Group's Risk Unit employs different stress categories: profit rates and foreign exchange rates. For each stress category, the worst possible stress shocks that might realistically occur in the market are defined.

4.6.11 Foreign subsidiary
The Group does not have any foreign subsidiary.

Table – 18. Market Risk Capital Requirements (PD-1.3.27 (b))
The following table summarises the maximum and minimum capital requirement for foreign exchange risk for the year:

	Foreign exchange risk BD'000
Maximum value capital requirement	20
Maximum value capital requirement	13

4.7 Operational Risk

4.7.1 Introduction
Operational risk is the risk of loss arising from system failure, human error, fraud, or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit. Insurance risk transfer is also a tool through which certain operational risks are mitigated. With respect to the management oversight process, operational risk appetite thresholds are set to control and monitor enterprise-wide operational loss.

4.7.2 Sources of operational risk
The different sources of operational risks faced by the Group can be classified broadly into the following categories:

a. People risk which arises due to staffing inadequacy, unattractive remuneration structure, lack in staff development policies, lack in procedures for appointment, unhealthy professional working relationship, and unethical environment;

b. Processes risk which arises due to inadequate general controls, inadequate application controls, improper business and market practices and procedures, inappropriate/inadequate monitoring and reporting;

c. Systems (Technology) risk which arises due to integrity of information - lacking in timeliness of information, omis sion and duplication of data, hardware failures due to power surge, cyber-attacks, obsolescence or low quality;

d. External risk which arises due to natural or non-natural (man made) disaster; and

e. Legal risk which arises due to contractual obligations.

4.7.3 Operational risk management strategy
As a strategy, the Group will identify the sources of operational risks in coordination with each business unit. The Group carried out Risk Control Self-Assessments ("RCSA"), and plans to do a continuous and on-going exercise to identify the operational risks it is exposed to.

The Group on a continuous basis will:

a. assess the effectiveness of controls associated with identified risks;

b. regularly monitor operational risk profiles and material exposures to losses / loss events;

c. identify stress events and scenarios to which it is vulnerable and assess their potential impact, and the probability of aggregated losses from a single event leading to other risks;

d. monitor and report operational risk through the Operational Risk Committee (ORC), a management-level committee responsible for monitoring and discussing the operational risks emanating from the group's activities; and

e. effect appropriate contingency and business continuity planning that takes into account the operational risks facing the Group, and providing BCP and operational risk training at a Bank-wide level on the same to ensure that this is fostered across the organization.

RISK AND CAPITAL MANAGEMENT DISCLOSURE
For the year ended 31 December 2023

4. Risk Management (Continued)

4.7 Operational Risk (Continued)

4.7.4 Operational risk monitoring and reporting
The internal monitoring and reporting process ensures a consistent approach for providing pertinent information to senior management to highlight operational risks through ongoing, periodic reviews.

The objective of the reporting process is to ensure relevant information is provided to senior management and the Board to enable the proactive management of operational risk. The process ensures a consistent approach for providing information that enables appropriate decision making and action taking.

The group has a legal department dedicated to monitor any legal risk arising out of contracts / agreements entered into by the group on a day to day basis. The department also liaises with external lawyers for legal cases filed by the group against delinquent accounts for recovery or any legal cases filed against the group.

4.7.5 Operational risk mitigation and control
For those risks that cannot be controlled, the business units in conjunction with Risk Unit will decide whether to accept the risks, reduce the level of business activity involved, transfer the risk outside the Group, or withdraw from the associated activity completely. Risk Unit facilitates the business units in co-developing the mitigation plans. The group deals with the pending legal cases through internal and external lawyers depending upon the severity of the cases.

Table – 19. Operational Risk Exposure (PD-1.3.30 (a) & (b))

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

	Gross income		
	2022 BD'000	2021 BD'000	2020 BD'000
Total Gross Income	**70,552**	**66,109**	**53,977**
Indicators of operational risk			
Average Gross income (BD'000)			**63,546**
Multiplier			**12.5**
			794,325
Eligible Portion for the purpose of the calculation			**15%**
TOTAL OPERATIONAL RISK WEIGHTED EXPOSURE (BD'000)			**119,149**

4.8 Equity Position in the Banking Book

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment portfolio. To date, the Bank does not carry significant equity position risk in its banking book.

The accounting policies, including valuation methodologies and their related key assumptions, are consistent with those disclosed in the consolidated financial statements for the year ended ended 31 December 2023. Equity type instruments carried at fair value through equity and investment properties are kept for capital gain purposes, all other investments including investments in associates are kept for strategic long term holdings.

RISK AND CAPITAL MANAGEMENT DISCLOSURE
For the year ended 31 December 2023

4. Risk Management (Continued)

4.8 Equity Position in the Banking Book (Continued)

Table – 20. Equity Position Risk in Banking Book (PD-1.3.31 (b), (c) & (g))
The following table summarises the amount of total and average gross exposure of equity investments and funds as of 31 December 2023:

	Total gross exposure[1] BD'000	Average gross exposure[2] BD'000	Publicly traded BD'000	Privately held BD'000	Risk weighted assets BD'000	Capital Requirements BD'000
Equity investments	**34,328**	**34,341**	**-**	**34,328**	**79,726**	**9,966**
Funds	**436**	**436**	**-**	**436**	**654**	**82**
Total	**34,764**	**34,777**	**-**	**34,764**	**80,380**	**10,048**

[1] Balances are gross of impairment allowance of BD 14,278 thousand.
[2] Average balances are computed based on quarter end balances.

Table – 21. Equity Gains or Losses in Banking Book (PD-1.3.31 (d), (e) & (f))

The following table summarises the cumulative realised and unrealised gains during the year ended 31 December 2023:

	BD'000
Cumulative realised gain arising from sales or liquidations in the reporting year	**-**
Total unrealised losses recognised in the consolidated statement of financial position but not through consolidated statement of income	**-**
Unrealised gains included in CET 1 Capital	**1,583**
Unrealised gains included in Tier 2 Capital	**-**

4.9 Equity of Investment Accountholders ("IAH")

The Group may require to decrease or increase losses or profit on certain IAH accounts for the purpose of income smoothing. Thus the Group is exposed to some of the price risk on assets funded by equity of Investment Accountholders ("IAH"). The CBB requires the Group to maintain capital to cover the price risk arising from 30% of assets funded by IAH on a pro-rata basis.

The Group is authorised by the IAH to invest the account holder's funds on the basis of Mudaraba contract in a manner which the Group deems appropriate without laying down any restrictions as to where, how, and for what purpose the funds should be invested. Under this arrangement the Group can commingle the equity of investment accountholders investment funds with its own funds (owner's equity) or with other funds the Group has the right to use (e.g. current accounts or any other funds which the Group does not receive on the basis of Mudaraba contract). The IAH and the Group generally participate in the returns on the invested funds; however, the Group does not share profits with IAH resulting from investing current accounts and other funds received on the basis other than mudaraba contracts. In such type of contract, the Group is not liable for any losses incurred on the joint pool other than the loss resulting from gross negligence or wilful misconduct on the part of the Group or due to the Group's violation of the terms and conditions as agreed between the Group and the IAH. During the year, the Group waived 18% of profit from mudarib fees in order to maintain a competitive profit distribution to IAH.

All new funds raised using wakala structure, together called "wakala pool" are comingled with the Bank's pool of funds based on an underlying mudaraba agreement. This comingled pool of funds is invested in a common pool of assets in the manner which the Group deems appropriate without laying down restrictions as to where, how and what purpose the funds should be invested.

The amount received from the customer on account of equity of investment accountholders is not invested completely in the portfolio of selected investments as the Group is required to maintain a cash reserve with CBB. In addition, the Group requires to set aside certain amount to meet operational requirements. The income allocated to the equity of investment accountholders deposits being received is in accordance with the utilisation of such funds. The utilisation rate is determined by the ALCO with the approval of Shari'a Supervisory Board.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2023

4. Risk Management (Continued)

4.9 Equity of Investment Accountholders ("IAH") (Continued)

Proposal for new products is initiated by the business lines within the Group and ALCO review such proposal to ensure that the new product is in line with the Group's business and risk strategy. All new products require the approval of the Shari'a Supervisory Board of the Bank. The business lines of the Group have expertise in creating high end value added products offering a wide range of products, expected return, tenors, and risk profile. Information on new products or any change in the existing products will be placed on the Group's website or published in the media.

These accounts are made available to customers through Retail Banking (to include the Thuraya Banking segment), in addition to the Group's Corporate and Institutional Banking division. The Group has designed a Customer Experience and Process Governance Unit to address customer dissatisfaction which reports to Chief Retail Banking. The complaints are investigated by personnel not directly related to the subject matter of the complaints.

The Group offers equity of investment accountholders in different currencies for maturity periods ranging from 1 month, 3 months, 6 months, 9 months, 12 months, and 36 months. The customer signs a written contract covering all terms and conditions of the investment, including tenor, basis of profit allocation, and early withdrawal. This is made available to both retail and corporate customers.

Because equity of investment accountholders is a significant funding source for the Group, the Group regularly monitors rate of return offered by competitors to evaluate the expectation of its IAH. The Group's policy provide whole or partial waiver of the mudarib share of income from investment in order to provide a reasonable return to its investors.

The Group has written policies and procedures applicable to its portfolio of Equity of investment accountholders. Equity of investment accountholders funds are invested and managed in accordance with Shari'a requirements.

Profits of an investment jointly financed by the Group and the equity of investment accountholders shall be allocated between them according to the contribution of each of the Group and the IAH in the jointly financed investment. Operating expenses incurred by the Group are not charged to investment account. In case of the loss resulting from the transactions in a jointly financed investment, such loss shall first be deducted from undistributed profits, if any. Any excess of such loss shall be deducted from Investment Risk Reserve (IRR). Any remaining of such loss shall be deducted from the total balance of fund available in the Joint pool, as at that date, in the respective ratio of the Group's and IAH's respective contribution to the comingled pool. The Bank proportionately allocates non-performing assets to the IAH pool of assets. The ECL charge is also allocated to the IAH pool, in proportion of the non-performing assets financed by IAH to the total non-performing assets. Amounts recovered from these non-performing assets shall be subject to allocation between IAH and owners' equity.

In case of early withdrawal of IAH fund before completion of the term, the effective utilisation method will be applied.

In case of term deposits, the IAH account holders can withdraw funds on a premature basis by paying a nominal amount of fees / penalty; such penalties are offered for charity.

Additional disclosures such as the below are disclosed in the Bank's website:

a. Characteristics of investors for whom investment account may be appropriate
b. Purchase redemption and distribution procedures
c. Product information and the manner in which the products are made available to investors

Governance of IAH

a. Shariah review of allocation of assets and resultant income;
b. Disclosure of profit rates on deposit products and mudaraba fees either in the branch or website;
c. ALCO discusses the profit rate to be offered to URIA accounts. Any exceptional profit rates offered to customers are subject to approval by the relevant authority.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2023

4. Risk Management (Continued)

4.9 Equity of Investment Accountholders ("IAH") (Continued)

Table – 22. Equity of Investment Accountholders by Type (PD-1.3.33 (a))

The following table summarises the breakdown of equity of investment accountholders accounts as of 31 December 2023:

	BD'000
Banks and financial institutions	39,865
Individuals and non-financial institutions	371,856
Total	411,721

Table – 23. Equity of Investment Accountholders Ratios (PD-1.3.33 (d) & (f))

The following table summarises the return on average assets and mudarib share as a percentage of the total investment profit for the year ended 31 December 2023:

	BD'000
Profit Paid on Average IAH Assets*	0.61%
Mudarib Fee to Total income from jointly financed assets	26.88%

*Average assets funded by IAH have been calculated using month end balances.

Table – 24. Equity of Investment Accountholders Ratios (PD-1.3.33 (e) & (g))

The following table summarises the profit distributed to IAH and financing ratios to the total of IAH by type of investment for the year ended 31 December 2023:

	Average declared rateof return	Proportion of total profit distributed by type of IAH	Proportion of IAH investments to total IAH
Saving accounts (including VEVO)	0.05%	2.26%	36.86%
Defined accounts - 1 month	1.08%	0.69%	0.57%
Defined accounts - 3 months	1.08%	0.27%	0.23%
Defined accounts - 6 months	1.13%	0.42%	0.33%
Defined accounts - 9 months	1.23%	0.01%	0.01%
Defined accounts - 1 year	1.53%	3.53%	2.14%
Investment certificates	2.75%	0.00%	0.00%
IQRA	2.00%	2.59%	1.18%
Tejoori	0.03%	1.34%	41.22%
Customer special deposits	3.52%	38.13%	9.57%
Wakala - Financial institutions	5.43%	44.48%	2.92%
Wakala - Non-financial institutions and individuals	3.63%	6.28%	4.97%
		100%	100%

The calculation and distribution of profits was based on quarterly average balances.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2023

4. Risk Management (Continued)

4.9 Equity of Investment Accountholders ("IAH") (Continued)

Table – 25. Equity of Investment Accountholders to Total Financing (PD-1.3.33 (h) & (i))

The following table summarises the percentage of counterparty type to total financing for each type of Shari'a-compliant contract to total financing as of 31 December 2023:

	Percentage of Counterparty Type to Total Financing					
	Self Financed		IAH		Total	
	BD'000	%	BD'000	%	BD'000	%
Gross financing assets*						
Murabaha	**351,952**	**66.33%**	**178,685**	**33.67%**	**530,637**	**100.00%**
Corporate	161,008	66.33%	81,744	33.67%	242,752	100.00%
Retail	190,944	66.33%	96,941	33.67%	287,885	100.00%
Musharakah	**56,905**	**66.33%**	**28,892**	**33.67%**	**85,797**	**100.00%**
Corporate	685	66.33%	348	33.67%	1,033	100.00%
Retail	56,220	66.33%	28,544	33.67%	84,764	100.00%
Total	**408,857**	**66.33%**	**207,577**	**33.67%**	**616,434**	**100.00%**
Gross Ijarah Muntahia Bittamleek**						
Corporate	44,418	66.33%	22,551	33.67%	66,969	100.00%
Retail	168,212	66.33%	85,401	33.67%	253,613	100.00%
Total	**212,630**	**66.33%**	**107,952**	**33.67%**	**320,582**	**100.00%**
ECL Stage 1 and 2	**(8,408)**	**66.33%**	**(4,268)**	**33.67%**	**(12,676)**	**100.00%**
Total	**613,079**	**66.33%**	**311,261**	**33.67%**	**924,340**	**100.00%**

*Net of expected credit loss (Stage 3) of BD 25,487 thousands.
**Net of expected credit loss (Stage 3) of BD 1,727 thousands.

Table – 26. Equity of Investment Accountholders Share of Profit by account type (PD-1.3.33 (d) (l) (m) & (n))

	Gross return on equity of IAH BD'000	Transfer to equalization reserve BD'000	Average mudaraba %	Mudarib fees BD'000	Release from IRR BD'000	Profit paid to IAH BD'000	Ratio of PER to IAH %
Account Type	A	B		C	D	(A-B-C+D)	
Tejoori	**8,281**	**88**	**98%**	**8,054**	**-**	**139**	**0.07%**
Saving	**6,515**	**32**	**98%**	**6,396**	**-**	**87**	**0.09%**
Vevo	**955**	**7**	**98%**	**932**	**-**	**16**	**0.65%**
IQRA Deposits	**269**	**-**	**63%**	**207**	**-**	**62**	**2.27%**
Defined deposit	**2,564**	**-**	**34%**	**1,543**	**-**	**1,021**	**0.24%**
Wakala	**2,156**	**-**	**8%**	**951**	**-**	**1,205**	**0.28%**
	20,740	127		18,083	-	2,530	

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2023

4. Risk Management (Continued)

4.9 Equity of Investment Accountholders (“IAH”) (Continued)

Table – 27. Equity of Investment Accountholders Share of Profit (PD-1.3.33 (l) (m) & (n))

The following table summarises the share of profits earned by and paid out to profit sharing investment accounts and the Group as Mudarib for the year ended 31 December 2023

Share of profit allocated to IAH before transfer to/from reserves* - BD'000	20,740
Percentage share of profit earned by IAH before transfer to/from reserves	5.04%
Net return on equity of IAH - BD'000	2,657
Release of IRR - BD'000	-
Transfer to equalization reserve - BD'000	127
Share of profit paid to IAH after transfer to/from reserves - BD'000	2,530
Percentage share of profit paid to IAH after transfer to/from reserves	0.61%

*Represents the share of profit allocated to IAH after inclusion of transfer of BD 1,500 thousand from the equalization reserve.

Table – 28. Equity of Investment Accountholders Percentage Return to Profit Rate of Return (PD-1.3.33 (q))

The following table summarises the average distributed rate of return or profit rate on profit sharing investment accounts for the year ended 31 December 2023:

	3 months	6 months	12 months	36 months
Percentage of average distributed rate of return to IAH	1.91%	2.41%	3.45%	0.00%

Table – 29. Equity of Investment Accountholders Type of Assets (PD-1.3.33 (r) & (s))

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

	As of 31-Dec-22 BD’000	Movement during the year BD’000	As of 31-Dec-23 BD’000
Cash and balances with banks and Central Bank	18,543	(4,870)	13,673
Gross financing assets*	238,500	(30,923)	207,577
Gross Ijarah Muntahia Bittamleek*	109,795	(1,843)	107,952
Investment securities	89,733	(2,919)	86,814
Expected credit loss (Stage 1 and 2)	(6,163)	1,868	(4,295)
Total	**450,408**	**(38,687)**	**411,721**

* Net of ECL stage 3.

RISK AND CAPITAL MANAGEMENT DISCLOSURE
For the year ended 31 December 2023

4. Risk Management (Continued)

4.9 Equity of Investment Accountholders ("IAH") (Continued)

Table – 30. Equity of Investment Accountholders Profit Earned and Paid (PD-1.3.33 (w))

The following table summarises the amount and rate of return of profits earned by the Group and paid out to equity of investment accountholders over the past five years:

	Profit Earned (jointly financed)		Profit Paid to (IAH)	
	BD'000	%	BD'000	%
2023	**67,268**	**5.45%**	**3,903**	**0.95%**
2022	62,049	5.09%	3,970	0.88%
2021	55,834	4.62%	3,501	0.68%
2020	53,169	4.92%	4,009	0.81%
2019	57,396	5.37%	12,685	2.97%

Table – 31. Treatment of assets financed by IAH (PD-1.3.33 (v))

	Assets BD'000	RWA BD'000	RWA for Capital Adequacy Purposes BD'000	Capital Requirements BD'000
Cash and balances with banks and Central Bank	13,673	-	-	-
Financing assets [(1)]	207,577	159,610	47,883	5,985
Investment in Sukuk [(2)]	86,814	-	-	-
Ijarah Muntahia Bittamleek [(1)]	107,952	66,647	19,994	2,499
	416,016	226,257	67,877	8,484

[(1)] The exposure is gross of ECL stage 1 and 2 of BD 4,268 thousand.

[(2)] The exposure is gross of ECL stage 1 and 2 of BD 28 thousand.

4.10 Liquidity Risk

4.10.1 Introduction

Liquidity risk is defined as "the risk that the Group will be unable to meet its obligations as they come due because of an inability to obtain adequate funding or to liquidate assets".

4.10.2 Sources of liquidity risk

The sources of liquidity risk can broadly be categorised in the following:

a. Funding risk is the risk of not being able to fund net outflows due to unanticipated withdrawal of capital or deposits;
b. Call risk is the risk of crystallisation of a contingent liability; and
c. Event risk is the risk of rating downgrades or other negative public news leading to a loss of market confidence in the Group.

4.10.3 Bank's funding strategy

The Board reviews the funding strategy on an annual basis and amends the existing strategy, as deemed necessary. For this purpose, all business units advise the Treasurer of their projected liquidity requirements and contributions at the start of each year as part of annual budgeting process.

The funding strategy highlights any anticipated liquidity shortfalls, the funding requirements to finance these shortfalls and their impact on the statement of financial position. The Group's Liquidity Risk Management Policy address liquidity contingency plan to deal with stressed scenarios and outline an action plan that can be taken in the event of liquidity stress situation.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2023

4. Risk Management (Continued)

4.10 Liquidity Risk (Continued)

4.10.4 Liquidity risk strategy
The Group monitors the liquidity position by comparing maturing assets and liabilities over various time buckets to include short term, medium term, and long-term buckets. The Group carries out stress testing periodically using the worst case scenarios to assess the effects of changes in market conditions on the liquidity of the Group. As a strategy the Group maintains a large customer base and good customer relationships.

The Group manages funding requirements through the following sources: Current accounts, savings accounts, other URIA accounts, interbank lines, and borrowing by leverage of Sukuk portfolio. The Group ensures appropriate monitoring of the funding portfolio and the sources of funding.

In fulfilment of Basel III and regulatory requirements, the Group reports the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR") on a monthly and quarterly basis, respectively. In efforts to maintain both metrics above the regulatory and internal limits, the Bank adopts the following strategies:

LCR: The Bank intends on maintaining its LCR within the prescribed regulatory and internal limits through the gradual build up of its customer deposit base and uncumbered High Quality Liquid Assets ("HQLA"), predominantly through sovereign bonds and high grade fixed income assets.

NSFR: The Bank intends on building a stable funding profile by maintaining a balanced trade-off between available and required stable funding, specifically focusing on building its retail deposit base and build up of capital, with particular focus on stable funding to build its longer-term liquidity.

4.10.5 Liquidity risk measurement tools
The Group is monitoring the liquidity risk through ALCO.

4.10.6 Liquidity risk monitoring
The Group has set the tolerance for liquidity risk which are communicated to the Risk Unit and Treasury Department. Based on these tolerances, Risk Unit and Treasury have established appropriate risk limits that maintain the Group's exposure within the strategic risk tolerances over a range of possible changes in liquidity situations due to cash flows in current accounts, and IAH accounts.

4.10.7 Liquidity limits structure
The Group uses a combination of different limits to ensure that liquidity is managed and controlled in an optimal manner. The Group has set the following limits for monitoring liquidity risks:

a. Liquidity Gap limits; and
b. Liquidity Ratio limits.

4.10.8 Liquidity risk stress testing
To evaluate whether the Group is sufficiently liquid, behavior of the Group's cash flows under different conditions are observed.

4.10.9 Contingency funding plan
The Group does contingency funding exercises which details procedures to be followed by the Group, in the event of a liquidity crisis or a situation where the Group faces stressed liquidity conditions. The contingency funding plan will be an extension of day to day liquidity management and involves maintenance of an adequate amount of liquid assets and management of access to funding resources. The ALCO members discuss and monitor the situation over regular time-intervals to ensure sufficient liquidity in the Group.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2023

4. Risk Management (Continued)

4.10 Liquidity Risk (Continued)

Table – 32. Liquidity Ratios (PD-1.3.37)

The following table summarises the liquidity ratios for the past five years:

	2023	2022	2021	2020	2019
Due from banks and financial institutions / Total Assets	**3.81%**	5.12%	6.56%	3.67%	6.22%
Islamic Financing / Customer Deposits(1)	**101.42%**	89.06%	82.63%	75.81%	80.92%
Customer Deposits(1) / Total Assets	**67.11%**	75.02%	79.19%	85.30%	78.71%
Short term assets(2) / Short term liabilities(3)	**9.54%**	11.78%	11.44%	8.94%	16.59%
Liquid Assets(4) / Total Assets	**5.60%**	7.46%	8.08%	5.66%	8.15%
Growth in Customer Deposits	**(10.89%)**	(2.58%)	1.47%	7.29%	3.00%
Leverage ratio	**13.87%**	13.88%	13.88%	12.02%	12.00%

(1) Customer deposits include customer current accounts, commodity murabaha deposits from financial institutions, placements from non-financial institutions and individuals and IAH.

(2) Short term assets includes cash and balances with banks and placements with financial institutions (maturing in a year).

(3) Short term liabilities includes customer current accounts, other liabilities, placements from financial institutions (maturing within one year) and IAH (maturing within one year).

(4) Liquid assets includes cash and balances with banks and Central Bank (excluding CBB reserve) and placements with financial institutions (maturing in a year).

Table – 33. Maturity Analysis (PD-1.3.37, PD-1.3.38)

The following table summarises the maturity profile of the total assets, total liabilities and equity of investment accountholders based on contractual maturities as at 31 December 2023. All the assets with no fixed contractual maturities are disclosed under no fixed maturity:

	Up to 3 months BD'000	3-6 months BD'000	6-12 months BD'000	1-3 years BD'000	Over 3 years BD'000	No fixed maturity BD'000	Total BD'000
Assets							
Cash and balances with banks and Central Bank	24,502	-	-	-	-	37,100	61,602
Placements with financial institutions	51,689	-	-	-	-	-	51,689
Financing assets	54,088	47,586	55,749	184,423	263,657	-	605,503
Investment in Sukuk	51,444	7,188	20,910	94,173	84,012	-	257,727
Investment in equity and funds	-	-	-	-	-	20,486	20,486
Ijarah Muntahia Bittamleek	4,509	5,718	8,705	43,737	256,168	-	318,837
Investment in associates	-	-	-	-	-	8,302	8,302
Investment in real estate	-	-	-	-	-	14,725	14,725
Property and equipment	-	-	-	-	-	13,692	13,692
Other assets	785	3,501	219	272	648	103	5,528
Total Assets	187,017	63,993	85,583	322,605	604,485	94,408	1,358,091
Liabilities And Equity Of Investment Accountholders							
Placements with financial institutions	73,704	304	12,742	9,092	-	-	95,842
Placements from non-financial institutions and individuals	131,285	74,369	84,942	6,619	-	-	297,215
Financing from financial institutions	86,117	27,824	67,561	-	-	-	181,502
Customers' current accounts	202,511	-	-	-	-	-	202,511
Other liabilities	24,669	-	-	-	-	-	24,669
Equity of investment accountholders	385,195	6,739	9,346	10,328	113	-	411,721
Total Liabilities And IAH	903,481	109,236	174,591	26,039	113	-	1,213,460

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2023

4. Risk Management (Continued)

4.11 Profit Rate Risk

Profit rate risk is the sensitivity of financial products to changes in the profit rates. Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The profit distribution to equity of investment accountholders is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

However, the profit sharing agreements will result in displaced commercial risk when the Group's results do not allow the Group to distribute profits inline with the market rates.

A fundamental review and reform of major profit rate benchmarks is being undertaken globally. The majority of LIBOR and other Interbank Offer Rates are discontinued after 31 December 2022 and replaced with certain Alternative Reference Rates ("ARRs"), with the exception of certain USD LIBOR rates where cessation were delayed until 30 June 2023.

To manage its profit rate risk on the sukuk portfolio, the group entered into a profit rate swaps with its Parent during the period.

Senior management identifies the sources of profit rate risk exposures based upon the current as well as forecasted balance sheet structure of the Group. The profit rate risk in the Group may arise due to the following transactions:

a. Murabaha transactions;
b. Wakala transactions;
c. Ijarah Muntahia Bittamleek;
d. Sukuk; and
e.Musharaka investments.

The profit distribution to equity of investment accountholders is based on profit sharing agreements.

4.11.1 Sources of Profit Rate Risk
The different profit rate risks faced by the Group can be classified broadly into the following categories:

a. Re-pricing risk which arises from timing differences in the maturity (for fixed rate) and re-pricing (for floating rate) of assets, liabilities and off balance sheet positions. As profit rates vary, these re-pricing mismatches expose the Group's income and underlying economic value to unanticipated fluctuations;

b. Yield curve risk which arises when unanticipated shifts of the yield curve have adverse effects on the Group's income and/or underlying economic value;

c. Basis risk which arises from imperfect correlation in the adjustment in the rate earned on products priced and the rate paid on different instruments with otherwise similar re-pricing characteristics. When profit rates change, these differences can give rise to unexpected changes in the cash flows and earnings spread between assets, liabilities, and off balance sheet instruments of similar maturities or re-pricing frequencies; and

d. Displaced Commercial Risk refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared with competitors rates.

4.11.2 Profit rate risk strategy
The Group is subject to profit rate risk on its financial assets, financial liabilities, and Islamic hedging instruments. The Group recognises income on certain of its financial assets on a time-apportioned basis. As a strategy the Group:

a. has identified the profit rate sensitive products and activities it wishes to engage in;
b. has established a structure to monitor and control the profit rate risk of the Group;
c. measures profit rate risk through establishing maturity/re-pricing schedule that distributes profit rate sensitive assets, liabilities, Islamic hedging instruments, and off-balance sheet items in pre-defined time bands according to their maturity; and
d. makes efforts to match the amount of floating rate assets with floating rate liabilities in the banking book.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2023

4. Risk Management (Continued)

4.11 Profit Rate Risk (continued)

4.11.3 Profit rate risk measurement tools
The Group uses the following tools for profit rate risk measurement in the banking book:

a. Re-pricing gap analysis which measures the arithmetic difference between the profit-sensitive assets and liabilities of the banking book in absolute terms; and
b. Basis Point Value ("BPV") analysis which is the sensitivity measure for all profit rate priced products and positions. The BPV is the change in net present value of a position arising from basis point shift in the yield curve. This quantifies the sensitivity of the position or portfolio to changes in profit rates.

4.11.4 Profit rate risk monitoring and reporting
The Group has implemented information systems for monitoring, controlling and reporting profit rate risk. Reports are provided on a timely basis to all relevant stakeholders in the Group on a periodic basis.

Table – 34. Profit Rate Risk in Banking Book (PD-1.3.40 (b))

The Group has implemented information systems for monitoring, controlling and reporting profit rate risk. Reports are provided on a timely basis to all relevant stakeholders in the Group on a periodic basis.

	Up to 3 months BD'000	3-6 months BD'000	6-12 months BD'000	1-3 years BD'000	Over 3 years BD'000	Total BD'000
Assets						
Placements with financial institutions	51,689	-	-	-	-	51,689
Financing assets	54,088	47,586	55,749	184,423	263,657	605,503
Ijara Muntahia Bittamleek	4,509	5,718	8,705	43,737	256,168	318,837
Investment in sukik	51,444	7,188	20,910	94,173	84,012	257,727
Other assets*	-	1,668	-	-	-	1,668
Total profit rate sensitive assets	161,730	62,160	85,364	322,333	603,837	1,235,424
Liabilities And Equity Of Investment Accountholders						
Placements with financial institutions**	73,704	304	12,742	9,092	-	95,842
Placements from non-financial institutions and individuals	131,285	74,369	84,942	6,619	-	297,215
Financing from financial institutions	86,117	27,824	67,561	-	-	181,502
Equity of investment accountholders***	385,195	6,739	9,346	10,328	113	411,721
Other liabilities****	884	-	-	-	-	884
Total profit rate sensitive liabilities and IAH	677,185	109,236	174,591	26,039	113	987,164
On-balance sheet profit rate gap	(515,455)	(47,076)	(89,227)	296,294	603,724	248,260
Off-balance sheet exposures	76,071	4,090	4,709	21,619	8,206	114,695
Total profit rate gap	(439,384)	(42,986)	(84,518)	317,913	611,930	362,955

* Other assets relate to fair value and the receivable of the profit rate swap entered into during the year.
** Placements from financial institutions includes frozen accounts of BD 8,996 thousand.
*** The Bank uses expected withdrawal pattern to classify its saving accounts into different maturity buckets. The remaining IAH balances are disclosed on a contractual basis.
**** Other liabilities relate to payable on profit rate swap entered into during the year.

RISK AND CAPITAL MANAGEMENT DISCLOSURE
For the year ended 31 December 2023

4. Risk Management (Continued)

4.11 Profit Rate Risk (continued)

Table – 34. Profit Rate Risk in Banking Book (PD-1.3.40 (b)) (Continued)

The following table summarises the effect on the value of assets, liabilities and economic capital for a benchmark change of 200 bp in profit rates as of 31 December 2023:

	Effect on value of Asset BD'000	Effect on value of Liability BD'000	Effect on value of Economic Capital BD'000
Upward rate shocks:	**5,239**	**(8,516)**	**(3,277)**
Downward rate shocks:	**(5,239)**	**8,516**	**3,277**

Table – 35. Quantitative Indicators of Financial Performance and Position (PD-1.3.9 (b) PD-1.3.33 (d))

The following table summarises the basic quantitative indicators of financial performance for the past 5 years:

	2023	2022	2021	2020	2019
Return on average equity	**7.94%***	9.61%*	5.53%*	(11.58%)	5.21%
Return on average assets	**0.82%**	0.94%	0.48%	(1.03%)	0.50%
Cost to Income Ratio	**60.80%**	52.29%	47.10%	60.00%	59.30%

* Average equity includes AT1 Subordinated Mudaraba of BD 25 million

Table – 36. The following table summarises the historical data over the past five years in relation to Profit Sharing Investment Accounts (PD-1.3.41):

The details of income distribution to Profit Sharing Investment Accounts (PSIA) for the last five years:

	2023	2022	2021	2020	2019
Allocated income to IAH	**20,613**	23,362	23,979	16,551	35,686
Distributed profit	**3,903**	3,970	3,501	4,010	12,685
Mudarib fees	**18,083**	19,306	20,388	12,476	23,001

	2023	2022	2021	2020	2019
Balances (BD'000s):					
Profit Equalization Reserve (PER)	**113**	1,486	1,400	1,310	1,245
Investment Risk Reserve (IRR)	**-**	-	-	-	-
PER Movement	**(1,373)**	86	90	65	-
IRR Movement	**-**	-	-	-	(1,177)
Ratios (%):					
Income allocated to IAH / Mudarabah assets %	**1.67%**	1.92%	1.99%	1.53%	2.96%
Mudarabah fees / Mudarabah assets %	**1.47%**	1.58%	1.69%	1.16%	1.91%
Distributed profit / Mudarabah assets %	**0.32%**	0.33%	0.29%	0.38%	1.05%
Rate of Return on average IAH %	**0.66%**	0.97%	0.86%	0.98%	1.70%
Profit Equalization Reserve / IAH %	**0.03%**	0.37%	0.33%	0.32%	0.29%
Investment Risk Reserve / IAH %	**0.00%**	0.00%	0.00%	0.00%	0.00%

4.12 CBB Penalties (PD 1.3.44)

During the year, the CBB imposed financial penalties of BD 34,065 regarding CBB Directives on EFTS.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

For the year ended 31 December 2023

5. Glossary of Terms

ALCO	Assets and Liabilities Committee
BCP	Business Continuity Plan
BisB	Bahrain Islamic Bank B.S.C.
BPV	Basis Point Value
BRCC	Board Risk and Compliance Committee
CA Module	Capital Adequacy Module
CAR	Capital Adequacy Ratio
CBB	Central Bank of Bahrain
CRMD	Credit and Risk Management Department
CR & AD	Credit Review and Analysis Department
C&IC	Credit and Investment Committee
DCR	Displaced Commercial Risk
Excom	Executive Committee
FX	Foreign Exchange
GM-C&RM	General Manager-Credit and Risk Management
Group	Bahraini Islamic Bank B.S.C. and its subsidiaries
HR Committee	Human Resource Committee
IAH	Investment Account Holder
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
IT Committee	Information Technology Committee
IRR	investment Risk Reserve
MLG	Minimum Liquidity Guidelines
PCD	Prudential Consolidation and Deduction Requirements Module
PD	Public Disclosure
PER	Profit Equalisation Reserve
PSIA	Profit Sharing Investment Account
RCSA	Risk and Control Self-Assessment
RMC	Risk Management Committee
RWE	Risk Weighted Exposures
VaR	Value-at-Risk
L/C	Letter of Credit
L/G	Letter of Guarantee
ECL	Expected Credit Losses

14 Key ESG Performance Indicators

Our SDG Index

	1 NO POVERTY	2 ZERO HUNGER	3 GOOD HEALTH AND WELL-BEING	4 QUALITY EDUCATION	5 GENDER EQUALITY	6 CLEAN WATER AND SANITATION	7 AFFORDABLE AND CLEAN ENERGY	8 DECENT WORK AND ECONOMIC GROWTH
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Human Capital		•	•	•			•	
Intellectual Capital				•			•	
Natural Capital					•	•		
Social & Relationship Capital	•	•	•	•				•
Safeguarding Value				•				•

	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	10 REDUCED INEQUALITIES	11 SUSTAINABLE CITIES AND COMMUNITIES	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	13 CLIMATE ACTION	14 LIFE BELOW WATER	15 LIFE ON LAND	16 PEACE, JUSTICE AND STRONG INSTITUTIONS	17 PARTNERSHIPS FOR THE GOALS
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Human Capital		•						•	•
Intellectual Capital			•	•	•				•
Natural Capital			•		•				
Social & Relationship Capital	•	•							
Safeguarding Value	•	•		•				•	•

15 GRI & Bahrain Bourse Index

GRI STANDARDS				
GRI 1: FOUNDATION 2021				
Statement of Use	Bahrain Islamic Bank (BisB) has reported in accordance with the GRI Standards for the period from 1 January 2023 to 31 December 2023			
GRI 2: GENERAL DISCLOSURES				
Gri Disclosure	*Content*	*Bahrain Bourse Disclosures*	*Reference Section*	*Notes*
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2-6	Activities, value chain and other business relationships		2, 3	
2-7	Employees	S3: Employee Turnover S4: Gender Diversity	5	
2-8	Workers who are not employees	S5: Temporary Worker ratio S9: Child & Forced Labour	5	
Governance				
2-9	Governance structure and composition	G1: Board Diversity	9, 10	
2-10	Nomination and selection of the highest governance body	G2: Board Independence	1, 9, 10	

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2-11	Chair of the highest governance body		9, 10
2-12	Role of the highest governance body in overseeing the management of impact		9, 10
2-13	Delegation of responsibility for managing impacts		9, 10
2-14	Role of the highest governance body in sustainability reporting	G3: Incentivized Pay	9, 10
2-15	Conflicts of interest	G6: Ethics & Anti-Corruption	9, 10
2-16	Communication of critical concerns		9, 10
2-17	Collective knowledge of the highest governance body		9, 10
2-18	Evaluation of the performance of the highest governance body		9, 10
2-19	Remuneration policies	G3: Incentivized Pay S1: CEO Pay Ratio S2: Gender Pay Ratio	10, 11
2-20	Process to determine remuneration	S2: Gender Pay Ratio	11
2-21	Annual total compensation ratio	G3: Incentivized Pay S1: CEO Pay Ratio S2: Gender Pay Ratio	11
Strategy, Policies, and Practices			
2-22	Statement on sustainable development strategy	G8: Sustainability reporting G9: Disclosure Practices E8 & E9: Environmental Oversight	2
2-23	Policy commitments		2, 5
2-24	Embedding policy commitments		2, 5
2-25	Processes to remediate negative impacts		12
2-26	Mechanisms for seeking advice and raising concerns		1, 4, 9, 10, 13
2-27	Compliance with laws and regulations	G6: Ethics & Anti-Corruption	9, 10

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2-28	Membership associations		9, 10
Stakeholder Engagement			
2-29	Approach to stakeholder engagement		2
2-30	Collective bargaining agreements	G3: Collective Bargaining	In progress
GRI 3: MATERIAL TOPICS			
3-1	Process to determine material topics		2
3-2	List of material topics		2
3-3	Management of material topics		2
GRI 200: Economic Standard Series			
GRI 201: Economic Performance 2016			
GRI 201 Topic Specific			
3-3	Management Approach		4, 12
201-1	Direct economic value generated and distributed		4, 12
201-3	Defined benefit plan obligations and other retirement plans		4, 12
201-4	Financial assistance received from government		*None*
GRI 202: Market Presence 2016			
GRI 202 Topic Specific			
3-3	Management Approach		5
202-2	Proportion of senior management hired from the local community	S11: Nationalization	5
GRI 203: Indirect Economic Impacts 2016			
GRI 203 Topic Specific			
3-3	Management Approach	E10: Climate Risk Mitigation	4
203-2	Significant indirect economic impacts		4
GRI 204: Procurement Practices 2016			
GRI 204 Topic Specific			
3-3	Management Approach		8

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204-1	Proportion of spending on local suppliers	G5: Supplier Code of Conduct	8
GRI 205: Anti-Corruption 2016			
GRI 205 Topic Specific			
3-3	Management Approach		5, 6
205-1	Operations assessed for risks related to corruption	G6: Ethics & Anti-Corruption	*Practice still under development*
205-2	Communication and training about anti-corruption policies and procedures	G6: Ethics & Anti-Corruption	*5, 6*
205-3	Confirmed incidents of corruption and actions taken	G6: Ethics & Anti-Corruption	*Practice still under development*
GRI 300: Environmental Standard Series			
GRI 302: Energy 2016			
GRI 302 Topic Specific			
3-3	Management Approach	E10: Climate Risk Mitigation	7
302-1	Energy consumption within the organization	E3: Energy Usage	7
302-2	Energy consumption outside of the organization	E4: Energy Intensity E5: Energy Mix	*Information Not Available*
302-4	Reduction of energy consumption	E4: Energy Intensity E5: Energy Mix	7
GRI 303: Water and Effluents 2018			
GRI 303 Topic Specific			
3-3	Management Approach		7
303-5	Water Consumption	E6: Water Usage	7
GRI 305: Emissions 2016			
GRI 305 Topic Specific			
3-3	Management Approach	E8 & E9: Environmental Oversight	7

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305-1	Direct (Scope 1) GHG emissions	E1: GHG Emissions	7
305-2	Energy indirect (Scope 2) GHG emissions	E1: GHG Emissions	7
305-3	Other indirect (Scope 3) GHG emissions	E1: GHG Emissions	7
305-4	GHG emissions intensity	E1: GHG Emissions E2: Emissions Intensity	7
305-5	Reduction of GHG emissions	E1: GHG Emissions	7
GRI 306: Waste 2020			
GRI 306 Topic Specific			
3-3	Management Approach		7
306-1	Waste generation and significant waste-related impacts	E7: Environmental Operations	7
306-2	Management of significant waste-related impacts	E7: Environmental Operations	7
306-3	Waste generated diverted from disposal	E7: Environmental Operations	7
GRI 400: Social Standard Series			
GRI 401: Employment 2016			
GRI 401 Topic Specific			
3-3	Management Approach		5
401-1	New employee hires and employee turnover	S3: Employee Turnover	5
401-2	Benefits provided to full-time employees that are not provided to part-time employees		5
401-3	Parental Leave		5
GRI 403: Occupational Health & Safety 2018			
GRI 403 Topic Management Disclosures			
3-3	Management Approach		5
403-1	Occupational health and safety management system	S8: Global Health and Safety	5

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403-2	Hazard identification, risk assessment, and incident investigation	S7: Injury Rate S8: Global Health and Safety	5
403-3	Occupational health services	S8: Global Health and Safety	5
403-4	Worker participation, consultation, and communication on Occupational health and safety	S8: Global Health and Safety	5
403-5	Worker training on occupational health and safety	S8: Global Health and Safety	5
403-6	Promotion of worker health	S8: Global Health and Safety	5
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	S8: Global Health and Safety	5
GRI 403 Topic Specific			
403-8	Workers covered by an occupational health and safety management system	S7: Injury Rate	5
403-9	Work-related injuries	S7: Injury Rate	5
403-10	Work-related ill health	S7: Injury Rate	5
GRI 404: Training and Education 2016			
GRI 404 Topic Specific			
3-3	Management Approach		5
404-1	Average hours of training per year per employee		5
404-2	Programs for upgrading employee skills and transition assistance programs		5
404-3	Percentage of employees receiving regular performance and career development reviews		5
GRI 405: Diversity and Equal Opportunity 2016			
GRI 405 Topic Specific			
3-3	Management Approach		5, 9, 10
405-1	Diversity of governance bodies and employees	G1: Board Diversity S4: Gender Diversity	5, 9, 10
GRI 406: Non-Discrimination 2016			
GRI 406 Topic Specific			

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(Continued)

3-3	Management Approach		5
406-1	Incidents of discrimination and corrective actions taken	S6: Non-discrimination	5
GRI 410: Security Practices			
GRI 406 Topic Specific			
3-3	Management Approach		5
410-1	Security personnel trained in human rights policies or procedures	S10: Human rights	5
GRI 413: Local Community 2016			
GRI 413 Topic Specific			
3-3	Management Approach		8
413-1	Operations with local community engagement, impact assessments, and development programs	S12: Community Investment	8
GRI 418: Customer Privacy			
GRI 418 Topic Specific			
3-3	Management Approach		6
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	G7: Data Privacy	6

16 ⟵ Independent Assurance Statement

CSE Independent Assurance Statement

CSE has been engaged by Bahrain Islamic Bank (BisB) to provide independent assurance over the Annual Report 2023. The aim of this process is to provide reassurance to Bahrain Islamic Bank (BisB)'s stakeholders over the accuracy, reliability and objectivity of the reported information and the coverage of the material issues regarding the business and the stakeholders. The Bahrain Islamic Bank (BisB) 2023 Annual `Report is in compliance with the requirements of the GRI STANDARDS Guidelines at 'In Accordance level'' as well as the Bahrain Bourse Index Standards.

Scope of work

The scope of work included a review of the BisB 2023 Annual Report activities and performance data related to the 2023 year that ended December 31, 2023.
The assurance process was conducted in line with the requirements of the AA1000 Assurance Standard v3 and applied a Type 2 'moderate' level of assurance. Type 2 requires assessment of organization's adherence with the AA1000 AS Principles and shall additionally assess and evidence the reliability and quality of specified sustainability performance and disclosed information. The principles that the assurance process is focused on are:

• Inclusivity, Materiality, Responsiveness, and Impact.

The scope of work included a review of the 2023 Annual Report activities and performance data.
Specifically, this included:
• Statements, information and performance data contained within the Annual `Report.
• BisB's process for determining material aspects for reporting and the management approach to material issues.
• BisB's reported data and information as per the requirements of the Global Reporting Initiative (GRI) STANDARDS Sustainability Reporting Guidelines as indicated in the Report index.

Methodology

In order to verify the content of the 2023 Annual Report we undertook the following activities to inform our independent assurance engagement:

• Conducted document reviews, data sampling and associated reporting systems as they relate to selected content and performance data.
• Reviewed a selection of external media reports relating to BisB to evaluate the coverage of topics within the Sustainability pages of BisB's website.
• Reviewed the outcomes of BisB's stakeholder engagement activities in 2023.
• Reviewed the materiality analysis and its outputs.
• Evaluated BisB's public disclosures against the GRI and Bahrain Bourse Index standards.

More details on the specific information and data that were verified are presented in the following sections of the present independent assurance report.

General Conclusions

With respect to the scope of work, we conclude that:

• The account of BisB's activities and performance during 2023 and the way they are presented in the 2023 Annual Report is accurate.
• BisB adheres to the principles of inclusivity, materiality, responsiveness, and impact as per the AA1000 Accountability Principles Standard.
Any errors or misstatements identified during the engagement were corrected prior to the publication of the 2023 Annual Report.

Any errors or misstatements identified during the engagement were corrected prior to the publication of the 2023 Annual Report.

Key Observations and Recommendations

Based on the observations and concluding remarks derived from the assurance engagement, our key observations, and recommendations for the improvement of BisB's future Annual Reports are:

• With respect to the principle of inclusivity, BisB maintains a comprehensive communication process with its key stakeholders. It is suggested that BisB builds on this model to maximize its effectiveness and results and educate its C-Suite Executives on ESG issues.
• With respect to the principle of materiality, it is suggested that BisB considers a materiality assessment at least every two years and sets more detailed ESG goals.
• With respect to the principle of responsiveness BisB has taken significant steps to incorporate the concerns and preferences of its key stakeholder groups.
• With respect to the principle of impact, BisB shows adequate monitoring, measuring, and accountability for its actions and how they affect its broader natural and human ecosystems.
• With respect to performance indicators, it is recommended to continue showing performance from previous years in most indicators, and to be able to show the progress made in managing all material issues.

CSE Independent Assurance Statement
(Continued)

Findings and conclusions concerning adherence to the AA1000AS principles of Inclusivity, Materiality, Responsiveness and Specific Performance Information

Inclusivity – how the key stakeholder groups were identified and engaged regarding sustainability issues. All the key stakeholder groups were engaged. BisB applied widely accepted principles in developing its approach to stakeholder engagement and sustainability.

Materiality – how the assessment of the importance of each sustainability topic took place. The process for determining the material issues by BisB provides a balanced representation of the material issues regarding its sustainability performance and impacts.

Responsiveness – how the company responded to the issues that were pointed out by each stakeholder group, and how this response is described in the 2023 Annual Report. BisB has applied the principle of responsiveness during the selection of the issues to be included in the Report, as well as to the manner those are represented in the Report. It is recommended to continue performing the existing surveys (Branch Customers survey, Customer focus groups and Employee "We invest in people" survey) while working with the enablers and high-performance limiters already identified.

Impact – how the company monitors, measures, and is accountable for how its actions affect their broader ecosystems. BisB provides adequate information in its 2023 Annual Report on how it monitors its impacts to the natural and human ecosystems. The performance indicators used are based on commonly accepted standards and local/global best practices.

Specific Performance Information – The Specific Performance Information (quantitative data related to GRI and Bahrain Bourse Index metrics and indicators) has been collected and presented in a commonly acceptable manner in the 2023 Annual Report and the 'general and specific disclosures' have been reviewed during the assurance process.

Specifically, during the independent assurance process, CSE examined evidence and documentation regarding:
- A description of other means, besides the materiality assessment, of identifying and verifying important sustainability topics for the 2023 fiscal year.
- A description (along with any supporting evidence and documentation) of the stakeholder engagement process, including the materiality assessment process.
- Evidence and documentation about BisB's Sustainability Strategy and KPIs.
- Evidence and documentation regarding material ESG topics, included in the report:

o Community Investment
o Workforce
o Regulatory mandatory training hours
o Direct Environmental Footprint
o Investors in People accreditation
o Euromoney awards
o ISO 27001, ISO 45001, ISO 22301 and ISO 14001 certifications.

Overall, the report is in accordance with the GRI STANDARDS and follows the Bahrain Bourse Index standards. It is recommended, for future reports, that BisB sets definite goals for all material topics and outlines a 5-year plan for its ESG Goals.

Exclusions and Limitations
Excluded from the scope of our work is information relating to:

- Activities outside the defined reporting period or scope.
- Company position statements.
- Financial data taken from BisB's 2023 Annual Report
- Content of external websites or documents.
- Any other issue or policy was not referred in the documentation.

This independent statement should not be relied upon to detect all errors, omissions or misstatements that may exist within the 2023 Annual Report. The scope of our work was defined and agreed in consultation with BisB.

Statement of CSE Independence, Impartiality and Competence
This is the first year that CSE has provided independent assurance services in relation to the BisB Annual Report. Our assurance team completing the work for BisB has extensive knowledge of conducting assurance over environmental, social, health, safety and ethical information and systems, and through its combined experience in this field, an excellent understanding of good practice in Annual Reporting and assurance.

On behalf of the Assurance Team

Marina Alonistioti

Head of Assurance Services

Centre For Sustainability and Excellence (CSE)

CENTER for SUSTAINABILITY and EXCELLENCE
ESG Net-Zero Climate Resilience

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