

Al Baraka Group B.S.C.

**UNIFIED SHARI'A SUPERVISORY BOARD REPORT,
REPORT OF THE BOARD OF DIRECTORS,
INDEPENDENT AUDITOR'S REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS**

31 DECEMBER 2023

5 .Shaaban .1445
15 February 2024

In the name of Allah, The Beneficent, The Merciful, Ever Merciful

**Unified Shari'a Supervisory Board Report
AlBaraka Group B.S.C.
For the year ended 31 December 2023**

Praise be to Allah and peace be upon our Prophet Mohamed, His Apostles and Companions

To: Al Baraka Group Shareholders

May peace and Allah's Mercy and Blessings Be upon You

In accordance with Article (58) of the Articles of Association of Al Baraka Group, we are required to submit the following report:

First: Meetings of the Unified Shari'a and its Executive Committee

The Unified Shari'a and its Executive Committee conducted five meetings during 2023 in which we studied Shari'a audit reports prepared by the Group's Shari'a Audit for the year ended 31 December 2023 and gave few Shari'a related comments on those reports. These reports were rectified through coordination between Shari'a Audit and the relative local subsidiaries' Shari'a Boards. In addition, the Unified Shari'a Supervisory Board replied to requests for fatwa from the Group and subsidiaries and studies the contracts entered into by the Group during the year 2023.

Second: Monitoring

We have reviewed the principles applied by the Group and reviewed the 2023 Shari'a reports issued by the Group Units' Shari'a Supervisory Boards. We have also reviewed their financial statements when needed. In addition, we examined the Group's financial position as of 31 December 2023 and Statement of Income and their notes for the year then ended. We have queried from some of the Technical's on the points that need explanation and statement. We have also reviewed the process of calculating Zakah in accordance with the Shari'a Standard number (35) and the Financial Accounting Standard number (9) issued by the Accounting and Auditing Organization for Islamic financial Institutions and according to what was approved by Al Baraka Symposium 1/31 and by the Unified Shari'a Supervisory Board.



Third: Responsibilities of the Unified Shari'a

The Group and Units' management are responsible for the execution and implementation of the Unified Shari'a Supervisory Board resolutions and to bring to the attention of the Unified Shari'a Supervisory Board any transactions or issues that require Shari'a approval. The Unified Shari'a Supervisory Board is responsible for supervising the implementation of the resolution from a Shari'a point of view and issue opinion based on the Group and Units' Shari'a reports and financial statements.

The Unit's Shari'a Supervisory Boards, as is clear from their report, have supervised the Units' business activities including examining on test basis documentations and procedures applied by the Group and its Units.

The Units' Shari'a Supervisory Boards, as is clear from their reports, planned and performed reviews so as to obtain all the information and explanations they considered necessary in order to provide them with sufficient evidence to provide reasonable assurance that the Group and its Units have not violated Shari'a Rules and Principles.

In our opinion:

1. The Contracts, transactions and dealings entered into by the Group and its Units during the year ended 31 December 2023 are made in compliance with Shari'a Rules and Principles.
2. The allocation of profit and charging of losses relating to investment accounts conform to the basis that have been approved by the Units' Shari'a Supervisory Boards in accordance with Shari'a Rules and Principles.
3. All earnings realized from sources or by means prohibited by Islamic Shari'a Rules and Principles have been committed by the Management to dispose it off to Charitable Causes.
4. The attached Zakah calculation was prepared in accordance with the provisions and principles of Islamic Shari'a according to the Net Invested Fund Method in accordance to the Shari'a Standard number (35) and the Financial Accounting Standard number (9) issued by the Accounting and Auditing Organization for Islamic financial Institutions and according to what was approved by the Unified Shari'a Supervisory Board.

The General Assembly, in its regular meeting held on March 22, 2023, had authorized the executive management of Al Baraka Group to pay an amount of money amounting to US Dollar six hundred and nine thousand five hundred and eighty-nine (US Dollar 609,589) as Zakat on behalf of all shareholders for the year 2022, where it will be directly deducted from shareholders' profits. This amount was paid to those worthy of Zakah in accordance with Shariah regulations established, approved and certified by the Unified Shariah Board.



The Total Zakah dues for the fiscal year ending on 31st December 2023, after excluding the Zakah of the Units whose Zakah is paid directly, amounting to US Dollar five hundred seventy-six thousand two hundred and ninety five, US Dollar 576,295 at (0.05) US cents per share, and The Group is not authorized to pay Zakah without obtaining an authorization from the shareholders, accordingly the shareholders must pay the Zakah themselves in case of not authorizing the Group to pay it on their behalf. Noting that Zakah dues, in the event of lack of the necessary liquidity, can be postponed as a whole or part, so that it becomes a debt until liquidity is available.

Praise be to Allah.

Chairman and Members

Shaikh Dr. Abdulla Al Mannea
Chairman

Shaikh Dr. Abdullatif Al Mahmood
Vice Chairman

Shaikh Dr. Saad Al Shithry
Member

Shaikh Yousif Hassan Khilawy
Member

Shaikh Dr. Layachi Feddad
Member



Zakah Calculation for the year ended 31 December 2023

	US\$ '000
Equity Attributable to Shareholders	1,252,948
Less: Investment of the parent on the shareholding of Al Baraka Bank Egypt, Al Baraka Bank Sudan and Al Baraka Islamic Bank	(310,915)
Perpetual tier 1 capital	<u>(400,000)</u>
Net Zakatable Equity Attributable to Shareholders	542,033
<u>Less:</u>	
Musharaka underlined by unzakatable assets	(65,557)
Investment in Islamic Sukuk underlined by unzakatable assets	(64,436)
Ijarah Muntahia Bittamleek	(156,391)
long-term investment in real estate	(16,329)
Properties and equipment	(128,465)
Intangible assets	(39,488)
Investment in Associates	(45,200)
Prepayments	(18,393)
Deferred tax asset	(44,464)
<u>Add:</u>	
Shareholders share on Zakatable Assets by Associates	23,534
Sale of long-term investment in real estate during the year	1,521
Deferred tax liability	5,467
Employees' end of services benefit	<u>28,531</u>
Zakatable amount	22,363
Zakah Percentage	<u>2.5770%</u>
Total Zakah due	<u>576</u>
Number of Shares (thousands)	<u>1,211,500</u>
Zakah per share (US\$ cents)	<u>0.05</u>

Directors Report

ECONOMIC OUTLOOK

During 2023, Al Baraka Group (the "Group") succeeded in strengthening its ability to achieve profits and maintain a strong balance sheet despite the multitude of challenges it faced.

The Group's commitment to its core directions has contributed to strengthening its position throughout the region and achieving distinguished results. Our strong and agile business model has enabled us to adapt to changing economic conditions, proving the Group's ability to keep pace with local and regional conditions, and provide the best services and products to its customers. The Group's efforts to simplify its strategic directions and those of its subsidiaries ("Units") have also contributed to preparing the Group and its Units to take full advantage of the opportunities available to them. In addition, the Group continued its efforts to rationalize operational costs and enhance digitization processes across its network, while accelerating digital transformation strategies for all major Units, with the aim of strengthening its position as a leading group in digital Islamic banking services in the world, while providing its customers with the best level of services and products offered, and providing it through a best-in-class digital platform.

The effects of global unrest across the Middle East and Central Asia, continue to impact businesses and economies in the region. This has resulted in the emergence of geopolitical challenges that have had a significant impact on various aspects, including oil prices, basic materials, and inflation rates. Interest rates remain comparatively high, dictated by the Central Banks of the United States and Europe. Tight policies in emerging markets and middle-income economies, and the resulting fluctuation in local currencies, will remain among the most important challenges we will face in 2024.

During the year, Al Baraka Group divested its stake in Bank-Al-Tamweel Wa Al-Inma in Morocco. The Group also received an Exit Offer from the major shareholder, Dallah Al Baraka Holding Company. During the year, Al Baraka Group's Shareholders approved the delisting of the Group's shares from Bahrain Bourse pursuant to the Exit Offer. The Shareholders also approved changing the commercial name of Al Baraka Group B.S.C. to Al Baraka Group B.S.C.(c).

Looking ahead, the Group's strategic priorities will focus on enhancing revenue generation, particularly centred on income from transactional fees and non-financing activities efficiently, controlling costs on every Unit within the Group, generating improved quality of assets as well as prudent use of capital. Al Baraka Group embraces fully the ethic of sustainable and socially responsible approach in all its activities. The Group will also continue its journey on the path drawn by the founding father, Sheikh Saleh Abdullah Kamel, may God have mercy on him, in adhering to the principles and provisions of Islamic Shari'a in all its banking transactions and activities.



FINANCIAL PERFORMANCE

Al Baraka Group total operating income remained stable at US\$1.14 billion for the year 2023. The net income for the year was US\$ 283.3 million, up by 18% from last year. The net income attributable to the equity holders of the parent amounted to US\$ 144 million, slightly higher than US\$ 143 million in 2022. The Basic and Diluted Earnings per Share was US Cents 8.94 compared to US Cents 9.06 in 2022. The year witnessed a rise in profit margins in some subsidiaries and the major contributor to the net income was our subsidiary in Turkey in addition to our Banks in Jordan, Egypt and Algeria. Despite adverse foreign currency movements, the Group performed well, which is evidence of the efficient management of the resources and business.

The total assets were US\$ 25.2 billion as of the end of 2023, compared to US\$ 25.0 billion as of the end of 2022. The equity attributable to the parent's shareholders and Sukuk holders amounted to US\$ 1.3 billion at the end of 2023 (US\$ 1.3 billion in 2022). Total equity as of the end of the year was flat at US\$ 2.0 billion when compared to the end of the last year.

The Board of Directors remuneration and other entitlements in addition to the top management remuneration are attached hereto (as per the requirements of Article (188) of the Companies Commercial Law of Bahrain).

As of December 31, 2023, the ownership of the shares of ABG by the Board is immaterial and no trading of such shares took place during the year. Details of the shares held by the directors and executive management are provided in the notes to the consolidated financial statements.

We would like to put on record our grateful thanks to all our stakeholders and customers for their continued loyalty and trust to enable us to achieve yet another excellent performance and to further the strategic objectives of the Group. We would also like to express our gratitude to the management and staff of ABG and its subsidiaries for their unstinting dedication and commitment to achieving the Group's objectives. Finally, we would like to thank the Unified Shari'a Supervisory Board for their advice and counsel, and the Central Bank of Bahrain, The Ministry of Industry & Commerce, the Bahrain Bourse, regulatory authorities and all our subsidiaries for their continued support and cooperation.

May Peace, Mercy and Blessings of Allah be upon you.

Abdullah Saleh Kamel
Chairman



First: Board of directors' remuneration details

Name	Fixed remunerations					Variable remunerations					End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance *****
	Remunerations of the chairman and BOD*	Total allowance for attending Board and committee meetings	Salaries**	Others***	Total	Remunerations of the chairman and BOD	Bonus	Incentive plans	Others****	Total			
1. Shaikh Abdullah Saleh Kamel	46,085	7,917	-	-	54,002	-	-	-	-	-	-	54,002	-
2. Mr. Mohammed Al Shroogi	45,591	10,179	-	-	55,770	-	-	-	-	-	-	55,770	1,089
3. Mr. Abdul Elah Abdul Rahim Sabbahi	40,155	11,310	-	-	51,465	-	-	-	-	-	-	51,465	-
4. Mr. Housseem Ben Haj Amor	37,190	9,048	**	-	46,238	-	-	-	-	-	-	46,238	382
5. Mr. Saud Saleh Al Saleh	43,120	12,441	-	-	55,561	-	-	-	-	-	-	55,561	930
6. Dr. Khaled Abdulla Ateeq	52,509	15,834	-	-	68,343	-	-	-	-	-	-	68,343	1,076
7. Mrs. Dalia Hazem Khorshid	38,672	10,179	-	-	48,851	-	-	-	-	-	-	48,851	2,391
8. Mr. Naser Mohamed Ali Al Nuwais	45,097	14,703	-	-	59,800	-	-	-	-	-	-	59,800	2,009
9. Dr. Ziad Ahmed Bahaa-Eldin	43,120	13,572	-	-	56,692	-	-	-	-	-	-	56,692	-
10. Mr. Tawfig Shaker Mufti	40,155	12,441	-	-	52,596	-	-	-	-	-	-	52,596	-
11. Mr. Masood Ahmed Al Bastaki ●●	33,066	11,310	-	-	44,376	-	-	-	-	-	-	44,376	1,076
12. Mr. Musa Abdel-Aziz Shihadeh ●●	28,619	7,917	-	-	36,536	-	-	-	-	-	-	36,536	-
13. Mr. Fahd bin Ibrahim Al Mufarrij ●●	38,008	10,179	-	-	48,187	-	-	-	-	-	-	48,187	938
14. Mr. Fahad Abdullah Al Rajhi ●	11,536	5,655	-	-	17,191	-	-	-	-	-	-	17,191	573
15. Dr. Jehad Abdul Hamid El-Nakla ●	11,042	4,524	-	-	15,566	-	-	-	-	-	-	15,566	1,282
16. Prof. Mohamed Cheikh Rouhou ●	11,536	4,524	-	-	16,060	-	-	-	-	-	-	16,060	1,602
Total	565,500	161,733	-	-	727,233	-	-	-	-	-	-	727,233	13,350

Notes:

All amounts stated in Bahraini Dinars.

Remunerations of the chairman and BOD:

* Includes fixed remunerations and remunerations calculated by points system. The remuneration is the proposed amounts and are subject to approval by the Shareholders in the AGM.

Salaries:

** Mr. Housseem Ben Haj Amor's salary is included in the Executive Management remuneration disclosure.

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).

Expenses Allowance:

***** It includes Per-diem, Ticket and Hotel Fees.

● The names mentioned above were not re-elected in the current term of the Board, March 2023 - March 2026

●● The names mentioned above were elected for the current term of the Board, March 2023 - March 2026



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
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Top 6 remunerations for executives, including CEO* and Senior Financial Officer**

972,086

552,250

221,788

1,746,124

Note: All amounts stated in Bahraini Dinars.

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

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

Abdullah Saleh Kamel
Chairman

Mr. Mohamed Al Shroogi
Vice Chairman



Independent auditor's report to the shareholders of Al Baraka Group B.S.C.

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Al Baraka Group B.S.C. ("the Firm") and its subsidiaries (together the "Group") as at 31 December 2023, its consolidated financial performance, its consolidated cash flows and consolidated statement of changes in off-balance sheet equity of investment accountholders for the year then ended in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI").

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2023;
- the consolidated statement of income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in owners' equity for the year then ended;
- the consolidated statement of changes in off-balance sheet equity of investment accountholders for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with the Auditing Standards for Islamic Financial Institutions issued by AAOIFI. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions (AAOIFI Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in the Kingdom of Bahrain. We have fulfilled our other ethical responsibilities in accordance with these requirements and the AAOIFI Code.



Independent auditor's report to the shareholders of Al Baraka Group B.S.C. (continued)

Report on the audit of the consolidated financial statements (continued)

Our audit approach

Overview

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Board of Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

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 year. 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. For the matter below, our description of how our audit addressed the matter is provided in that context.

Key audit matter	
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- | | |
|--|---|
| | <ul style="list-style-type: none">• Allowance for expected credit losses against financing facilities |
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Independent auditor's report to the shareholders of Al Baraka Group B.S.C. (continued)

Report on the audit of the consolidated financial statements (continued)

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How the matter was addressed in our audit
Allowance for expected credit losses against financing facilities Allowance for expected credit losses represents the Board of Directors' best estimate of the credit losses arising. As described in the significant accounting policies to the Group's consolidated financial statements, the allowance for expected credit losses has been determined in accordance with FAS 30. We focused on this area because the Board of Directors makes complex and subjective judgements over amount and timing of recognition of allowance for expected credit losses to capture the recent developments in the financing facilities, such as: • Update factors including GDP and oil prices; • Determining criteria for significant increase in credit risk; • Choosing appropriate models and assumptions for the measurement of Expected Credit Losses (ECL) including Probability of default (PD), Loss Given Default (LGD), and Exposure at Default (EAD); • Adjustments to models based on weighting assigned to base case, upside and downside scenarios; • Establishing groups of similar assets for the purpose of measuring the ECL; and • Determining disclosure requirement in accordance with FAS 30. The Group's financing facilities i.e. receivables, mudaraba and musharaka financing, and ijarah muntahia bittamleek totalling to USD 14,338 million and the related ECL amounting to USD 808 million as at 31 December 2023 are material to the Group. Information on the credit risk including Group's credit risk management is provided in note 28 to the Group's consolidated financial statements.	Our audit procedures included the following: • We assessed and tested a sample of key controls around origination and approval of financing facilities and monitoring of credit exposure and allowance for expected credit losses calculation; • We evaluated the appropriateness of the Group's accounting policy for allowance for expected credit losses in accordance with the requirements of FAS 30; • We used our experts on a sample basis to independently assess the reasonableness of the ECL methodology developed and applied by the Board of Directors including model risk parameters (PD, LGD, and EAD), forward-looking information, associated weighting, and staging analysis; • We obtained an understanding and on a sample basis tested the completeness and accuracy of the data sets used for the ECL calculation; • We tested a sample of financing facilities to determine the appropriateness and application of staging criteria; • We obtained samples of the latest available credit reviews and checked that they include appropriate assessment and documentation of borrowers' ability to meet repayment obligations (principal, profit, and fees); • We independently assessed the appropriateness of provisioning assumptions on a sample of Stage 3 exposures. An independent view was formed on the levels of provisions recognised, based on the detailed loan and counterparty information available in the credit files; and • We evaluated the adequacy of the consolidated financial statements disclosures to determine if they were in accordance with the requirements of FAS 30.

Independent auditor's report to the shareholders of Al Baraka Group B.S.C. (continued)

Report on the audit of the consolidated financial statements (continued)

Other information

The Board of Directors is responsible for the other information. The other information comprises the Unified Shari'a Supervisory Board Report and the Report of the Board of Directors (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report and the Annual Report which is expected to be made available to us after that date.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of those charged with governance for the consolidated financial statements

These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Sharia' Rules and Principles are the responsibility of the Board of Directors.

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the FAS and the Bahrain Commercial Companies Law number (21) of 2001, as amended (the "Commercial Companies Law"), the Central Bank of Bahrain ("CBB") Rulebook (Volume 4 and applicable provisions of Volume 6) and for such internal control as the Board of Directors determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, i.e., the Board of Directors, are responsible for overseeing the Group's financial reporting process.

Independent auditor's report to the shareholders of Al Baraka Group B.S.C. (continued)

Report on the audit of the consolidated financial statements (continued)

Auditor's responsibilities for the audit of the consolidated financial statements

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

As part of an audit in accordance with the Auditing Standards for Islamic Financial Institutions issued by AAOIFI, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



Independent auditor's report to the shareholders of Al Baraka Group B.S.C. (continued)

Report on the audit of the consolidated financial statements (continued)

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

From the matters communicated with those charged with governance we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's 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 legal and regulatory and Sharia requirements

As required by the Commercial Companies Law and the CBB Rulebook (Volume 4), we report the following:

- i. The Firm has maintained proper accounting records and the consolidated financial statements are in agreement therewith.
- ii. The financial information contained in the Unified Shari'a Supervisory Board Report and the Report of the Board of Directors is consistent with the consolidated financial statements;
- iii. Nothing has come to our attention which causes us to believe that the Bank has, during the year, breached any of the applicable provisions of the Commercial Companies Law, the CBB Rulebook (Volume 4 and applicable provisions of Volume 6), the Central Bank of Bahrain and Financial Institutions Law, and CBB directives or the items of its Memorandum and Articles of Association that would have a material adverse effect on its activities for the year ended 31 December 2023 or its financial position as at that date; and
- iv. Satisfactory explanations and information have been provided to us by the Board of Directors in response to all our requests.

Further, we report that the Firm has complied with the Islamic Sharia' Principles and Rules as determined by the Sharia' Supervisory Board of the Group during the year under audit.

The engagement partner on the audit resulting in this independent auditor's report is Elias Abi Nakhoul.

Partner's registration number: 196
PricewaterhouseCoopers M.E Limited
Manama, Kingdom of Bahrain
20 February 2024

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

	Notes	2023 US\$ '000	2022 US\$ '000
ASSETS			
Cash and balances with banks	3	5,167,589	4,396,612
Receivables	4	10,070,120	10,437,573
Mudaraba and Musharaka financing	5	983,299	1,497,324
Investments	6	5,451,565	5,234,714
Ijarah Muntahia Bittamleek	7	2,477,262	2,233,356
Property and equipment	8	464,711	461,472
Other assets	9	648,788	720,783
TOTAL ASSETS		25,263,334	24,981,834
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
LIABILITIES			
Customers current and other accounts		6,403,831	6,451,061
Due to banks		1,129,155	971,459
Long term financing	10	777,006	308,037
Other liabilities	11	1,187,211	1,151,678
TOTAL LIABILITIES		9,497,203	8,882,235
EQUITY OF INVESTMENT ACCOUNTHOLDERS			
Financial institutions		417,206	670,694
Non-financial institutions and individuals		13,380,345	13,462,134
Total equity of investment accountholders	12	13,797,551	14,132,828
EQUITY			
Share capital	13	1,242,879	1,242,879
Treasury shares	13	(15,658)	(15,000)
Share premium		16,873	16,059
Reserves		222,714	208,363
Cumulative changes in fair values		62,161	55,006
Foreign currency translations reserve	13	(1,246,905)	(1,127,651)
Retained earnings		558,527	483,571
Proposed appropriations	13	12,357	-
Equity attributable to parent's shareholders		852,948	863,227
Sukuk (Tier 1 Capital)	14	400,000	400,000
Equity attributable to parent's shareholders and Sukuk (Tier 1 Capital) holders		1,252,948	1,263,227
Non-controlling interest		715,632	703,544
TOTAL OWNERS' EQUITY		1,968,580	1,966,771
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		25,263,334	24,981,834



Abdullah Saleh Kamel
Chairman



Houssem Ben Haj Amor
Board member and Group Chief Executive Officer

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2023

	Notes	2023 US\$ '000	2022 US\$ '000
INCOME			
Net income from jointly financed contracts and investments	15	1,507,233	1,408,471
Return on equity of investment accountholders before			
Group's share as a Mudarib		(1,428,979)	(1,310,448)
Group's share as a Mudarib	16	296,740	337,894
Return on equity of investment accountholders		(1,132,239)	(972,554)
Group's share of income from Equity of Investment			
Accountholders (as a Mudarib and Rabalmal)		374,994	435,917
Mudarib share for managing off-balance sheet			
Equity of Investment Accountholders		13,708	17,755
Net income from self financed contracts and investments	15	466,762	402,980
Other fees and commission income	17	228,916	170,318
Other operating income	18	107,108	144,573
		1,191,488	1,171,543
Profit paid on long term financing	19	(51,040)	(32,811)
TOTAL OPERATING INCOME		1,140,448	1,138,732
OPERATING EXPENSES			
Staff expenses		308,705	285,301
Depreciation and amortisation	20	41,394	50,587
Other operating expenses	21	192,782	186,167
TOTAL OPERATING EXPENSES		542,881	522,055
NET OPERATING INCOME FOR THE YEAR BEFORE			
NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT			
AND TAXATION			
		597,567	616,677
Net allowance for credit losses /impairment	22	(193,294)	(239,635)
NET INCOME BEFORE TAXATION		404,273	377,042
Taxation		(121,010)	(137,588)
NET INCOME FOR THE YEAR		283,263	239,454
Attributable to:			
Equity holders of the parent		143,509	143,116
Non-controlling interest		139,754	96,338
		283,263	239,454
Basic and diluted earnings per share - US cents	23	8.94	9.06
 Abdullah Saleh Kamel Chairman		 Housseem Ben Haj Amor Board member and Group Chief Executive Officer	

The attached notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Notes	2023 US\$ '000	2022 US\$ '000
OPERATING ACTIVITIES			
Net income before taxation		404,273	377,042
Adjustments for:			
Depreciation and amortisation	20	41,394	50,587
Depreciation on Ijarah Muntahia Bittamleek	15.4	146,525	188,970
Unrealised gain on equity and debt-type instruments at fair value through statement of income	15.3	(209,123)	(131,650)
Gain on sale of property and equipment	18	(11,622)	(10,446)
Gain on sale of investment in real estate	15.3	(5,935)	(4,597)
Gain on sale of equity type instruments at fair value through equity	15.3	(668)	(108)
Gain on sale of equity and debt-type instruments at fair value through statement of income	15.3	(208)	(391)
Income from associates and joint venture	15.3	(15,071)	(17,371)
Net allowance for credit losses /impairment	22	193,294	239,635
Operating profit before changes in operating assets and liabilities		542,859	691,671
Net changes in operating assets and liabilities:			
Reserves with central banks		(382,028)	790,758
Receivables		191,813	320,758
Mudaraba and Musharaka financing		504,921	1,995,322
Ijarah Muntahia Bittamleek		(390,991)	(403,797)
Other assets		51,944	(85,475)
Customers current and other accounts		(47,231)	(1,128,217)
Due to banks		157,696	(281,992)
Other liabilities		77,187	(7,576)
Equity of investment accountholders		(332,740)	(1,423,828)
Taxation paid		(145,756)	(106,512)
Net cash generated from operating activities		227,674	361,112
INVESTING ACTIVITIES			
Net sale/(purchase) of investments		(4,394)	(616,197)
Net (purchase)/sale of property and equipment		(23,565)	34,107
Dividends received from associates and joint venture		3,799	4,152
Net movement of investment in associates and joint venture		4,698	(28,754)
Net cash used in investing activities		(19,462)	(606,692)
FINANCING ACTIVITIES			
Long term financing		468,969	21,204
Net movement in treasury shares		156	95
Profit distributed on perpetual tier 1 capital		(35,100)	(33,300)
Movement related to subsidiaries' tier 1 capital		(4,714)	(5,244)
Net changes in non-controlling interest		(38,610)	66,758
Net cash generated from financing activities		390,701	49,513
Foreign currency translation adjustments		(209,732)	(297,784)
NET CHANGES IN CASH AND CASH EQUIVALENTS		389,181	(493,851)
Cash and cash equivalents at 1 January		2,212,263	2,706,114
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	24	2,601,444	2,212,263

The attached notes 1 to 31 form part of these consolidated financial statements.

Al Baraka Group B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2023

Equity attributable to parent's shareholders and Sukuk holders

	Reserves					Cumulative changes in fair value of investments	Cumulative changes in fair value of property and equipment	Foreign currency translations reserve	Retained earnings	Proposed appropriations	Total	Perpetual tier 1 capital	Non-controlling interest	Total equity
	Share capital US\$ '000	Treasury shares US\$ '000	Share premium US\$ '000	Statutory reserve US\$ '000	Other reserves US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Balance at 1 January 2023	1,242,879	(15,000)	16,059	208,363	-	9,745	45,261	(1,127,651)	483,571	-	863,227	400,000	703,544	1,966,771
Movement in treasury shares	-	(658)	814	-	-	-	-	-	-	-	156	-	-	156
Net movement in cumulative change in fair value for investments	-	-	-	-	-	7,155	-	-	-	-	7,155	-	2,799	9,954
Foreign currency translation	-	-	-	-	-	-	-	(119,254)	-	-	(119,254)	-	(90,478)	(209,732)
Net income for the year	-	-	-	-	-	-	-	-	143,509	-	143,509	-	139,754	283,263
Transfer to statutory reserve (note 13)	-	-	-	14,351	-	-	-	-	(14,351)	-	-	-	-	-
Proposed dividends	-	-	-	-	-	-	-	-	(12,357)	12,357	-	-	-	-
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(32,664)	(32,664)
Zakah paid on behalf of shareholders (note 13)	-	-	-	-	-	-	-	-	(610)	-	(610)	-	-	(610)
Profit distributed on perpetual tier 1 capital	-	-	-	-	-	-	-	-	(35,100)	-	(35,100)	-	-	(35,100)
Movement related to subsidiaries' tier 1 capital	-	-	-	-	-	-	-	-	(4,714)	-	(4,714)	-	(12,336)	(17,050)
Effect of change in ownership	-	-	-	-	-	-	-	-	(1,421)	-	(1,421)	-	1,421	-
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	3,592	3,592
Balance at 31 December 2023	1,242,879	(15,658)	16,873	222,714	-	16,900	45,261	(1,246,905)	558,527	12,357	852,948	400,000	715,632	1,968,580

The attached notes 1 to 31 form part of these consolidated financial statements.

Al Baraka Group B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2023

	Equity attributable to parent's shareholders and Sukuk holders												
	Reserves					Cumulative changes in fair value of property and equipment	Foreign currency translations reserve	Retained earnings	Total	Perpetual tier 1 capital	Non-controlling interest	Total equity	
	Share capital US\$ '000	Treasury shares US\$ '000	Share premium US\$ '000	Statutory reserve US\$ '000	Other reserves US\$ '000	Cumulative changes in fair value of investments US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
1 January 2022	1,242,879	(15,655)	16,619	194,051	2,488	10,475	46,929	(940,728)	430,312	987,370	400,000	670,757	2,058,127
Restatement	-	-	-	-	-	-	(1,668)	-	(27,438)	(29,106)	-	(28,433)	(57,539)
Restated Balance as of 1 January 2022	1,242,879	(15,655)	16,619	194,051	2,488	10,475	45,261	(940,728)	402,874	958,264	400,000	642,324	2,000,588
Movement in treasury shares	-	655	(560)	-	-	-	-	-	-	95	-	-	95
Net movement in cumulative change in fair values	-	-	-	-	-	(591)	-	-	-	(591)	-	(585)	(1,176)
Net movement in other reserves	-	-	-	-	(2,488)	-	-	-	-	(2,488)	-	(11,077)	(13,565)
Foreign currency translation	-	-	-	-	-	-	-	(186,693)	-	(186,693)	-	(111,091)	(297,784)
Net income for the year	-	-	-	-	-	-	-	-	143,116	143,116	-	96,338	239,454
Transfer to statutory reserve (note 13)	-	-	-	14,312	-	-	-	-	(14,312)	-	-	-	-
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(32,149)	(32,149)
Zakah paid on behalf of shareholders (note 13)	-	-	-	-	-	-	-	-	(347)	(347)	-	-	(347)
Profit distributed on perpetual tier 1 capital	-	-	-	-	-	-	-	-	(33,300)	(33,300)	-	-	(33,300)
Movement related to subsidiaries' tier 1 capital	-	-	-	-	-	-	-	-	(5,244)	(5,244)	-	(11,256)	(16,500)
Effect of change in ownership	-	-	-	-	-	(139)	-	(230)	(9,216)	(9,585)	-	40,546	30,961
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	90,494	90,494
Balance at 31 December 2022	1,242,879	(15,000)	16,059	208,363	-	9,745	45,261	(1,127,651)	483,571	863,227	400,000	703,544	1,966,771

The attached notes 1 to 31 form part of these consolidated financial statements.

Al Baraka Group B.S.C.

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

For the year ended 31 December 2023

	Cash US\$ '000	Sales receivables US\$ '000	Mudaraba financing US\$ '000	Investment in real estate US\$ '000	Ijarah Muntahia Bittamleek US\$ '000	Investments US\$ '000	Total US\$ '000
Balance at 1 January 2023	51,767	519,725	189,326	48,246	242,560	482,063	1,533,687
Deposits	221,744	318,822	228,647	2,474	148,061	155,528	1,075,276
Withdrawals	(181,731)	(255,565)	(21,543)	(270)	(52,427)	(492,364)	(1,003,900)
Income net of expenses	-	44,248	6,501	825	17,549	21,416	90,539
Mudarib's share	-	(13,239)	-	-	(461)	(8)	(13,708)
Foreign exchange translations	-	4,935	-	-	-	(23)	4,912
Balance at 31 December 2023	91,780	618,926	402,931	51,275	355,282	166,612	1,686,806
Balance at 1 January 2022	67,715	456,222	85,846	53,319	219,412	245,189	1,127,703
Deposits	367,957	255,273	157,142	148	74,567	299,250	1,154,337
Withdrawals	(383,905)	(177,117)	(53,174)	(7,297)	(51,088)	(88,765)	(761,346)
Income net of expenses	-	10,789	3,890	2,076	-	26,613	43,368
Mudarib's share	-	(13,038)	(4,378)	-	(331)	(8)	(17,755)
Foreign exchange translations	-	(12,404)	-	-	-	(216)	(12,620)
Balance at 31 December 2022	51,767	519,725	189,326	48,246	242,560	482,063	1,533,687

The attached notes 1 to 31 form part of these consolidated financial statements.

1 CORPORATE INFORMATION AND ACTIVITIES

Al Baraka Group B.S.C., formerly Al Baraka Banking Group B.S.C., (the "Firm" or "ABG") is a Bahrain shareholding company incorporated in the Kingdom of Bahrain on 27 June 2002, under Commercial Registration ("CR") number 48915. The Firm is engaged in investment firm activities in the Middle East, Europe, and African region. The address of the Firm's registered office is Bahrain Bay, P.O. Box 1882, Manama, Kingdom of Bahrain.

The principal activities of the ABG and its subsidiaries (the "Group") comprise of international and commercial banking, financing, treasury and investment activities. The Firm is supervised and regulated by the CBB under its Rule Book Volume 4 - Investment Business and Volume 6 - Capital Markets.

On 20 July 2023, an announcement was made on Bahrain Bourse website regarding a potential conditional exit offer which was provided by the Group's major shareholder, Dallah Al Baraka Holding Company B.S.C. (c) ("Dallah"), to other ABG's shareholders that are not connected to Dallah. Dallah's direct and indirect shareholdings in ABG currently stand at 74%.

On 3 October 2023, ABG's Board of Directors (the "Board") announced that it received the firm intention to make the exit offer as well as the offer document from Dallah. The offer is subject to receipt of approvals or confirmations from ABG's shareholders and various regulatory authorities for the conversion of ABG into a closed Bahraini shareholding company and its subsequent delisting from the Bahrain Bourse.

On 24 October 2023, a circular was issued by the Board to the shareholders and published on Bahrain Bourse in relation to the above.

On 14 November 2023, an extraordinary general assembly meeting was held whereby the main agenda items were approved:

1. The delisting of Al Baraka Group's shares from Bahrain Bourse;
2. The conversion of the legal form of Al Baraka Group B.S.C. from Public (B.S.C.) to a Closed Shareholding Company (B.S.C.(c)) along with the commercial name change from Al Baraka Group B.S.C. to Al Baraka Group B.S.C.(c). and
3. The amendment and restatement in full of the Memorandum and Articles of Association of the Firm (in the form of the draft circulated to the shareholders) subject to obtaining the necessary approvals and finalisation of the shareholding structure.

On 30 November 2023, ABG announced the termination of its market making activities effective 31 December 2023, noting that such activities will remain suspended thereto.

As of 8 January 2024, an announcement was made with respect to the updated timetable of principal events and completion of the final offer period. The delisting and conversion dates are yet to be announced. As of the date of issuing these consolidated financial statements, the conversion process is underway in compliance with the requirements of the Ministry of Industry and Commerce, following which a formal application to delist the Group from the Bahrain Bourse will be made to the CBB and Bahrain Bourse.

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

2 ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for investment in real estate, equity and debt-type instruments through statement of income, equity-type and debt-type instruments through equity and land occupied by the Group (classified as property and equipment) that have been measured at fair value. The consolidated financial statements are presented in United States Dollars ("US\$") being the functional currency of ABG. All values are rounded to the nearest US\$ thousand ("US\$ '000") unless otherwise indicated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2 ACCOUNTING POLICIES (continued)**Statement of compliance**

The consolidated financial statements of the Group are prepared in accordance with applicable rules and regulations issued by the Central Bank of Bahrain ("CBB"). These rules and regulations require the adoption of all Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation of Islamic Financial Institutions ("AAOIFI"). In accordance with the AAOIFI framework, for matters not covered by FAS, the Group uses the requirements of the relevant IFRS Accounting Standards issued by the International Accounting Standards Board ("IASB"). This framework is referred to as "FAS issued by AAOIFI".

Regulatory compliance

The CBB, sets and monitors ABG's capital requirements at Head Office level, while ABG's banking subsidiaries are directly regulated by their local banking supervisors, which set and monitor their capital adequacy requirements.

The CBB requires each Bahrain-based Investment company under Category 1 of Volume 4 to maintain a minimum capital of BHD 1.0 million and minimum capital adequacy ratio not lower than 110%.

There were no financial penalties imposed by the CBB during the year.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Firm and its subsidiaries as at and for the year ended 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Firm, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Non-controlling interest in a subsidiary's net assets is reported as a separate item in the Group's owners' equity. In the consolidated statement of income, non-controlling interest is included in net profit, and shown separately from that of the shareholders.

Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in owners' equity since the date of combination. Statement of income and each component of OCI are attributed to the equity holders of the parent of the Firm and to the non-controlling interests (NCIs), even if this results in the NCIs having a deficit balance.

The following are the principal subsidiaries of the Firm, which form part of these consolidated financial statements:

	Ownership for 2023	Ownership for 2022	Year of incorporation	Country of incorporation	No. of branches/ offices at 31 December 2023
Held directly by the Firm					
Banque Al Baraka D'Algerie (BAA)	55.67%	55.67%	1991	Algeria	33
Al Baraka Islamic Bank - Bahrain (AIB)	92.82%	92.82%	1984	Bahrain	175
Al Baraka Bank Tunis (ABT)	78.40%	78.40%	1983	Tunisia	42
Al Baraka Bank Egypt (ABE)	73.47%	73.47%	1980	Egypt	36
Jordan Islamic Bank (JIB)	65.82%	65.82%	1978	Jordan	111
Al Baraka Turk Participation Bank (ATPB)	45.09%	45.09%	1985	Turkey	225
Al Baraka Bank Limited (ABL)	64.51%	64.51%	1989	South Africa	9
Al Baraka Bank Sudan (ABS)	75.73%	75.73%	1984	Sudan	30

2 ACCOUNTING POLICIES (continued)**Basis of consolidation (continued)**

The following are the subsidiaries held indirectly through the principal subsidiaries of the Firm:

	<i>Subsidiary held through</i>	<i>Effective Ownership for 2023</i>	<i>Effective Ownership for 2022</i>	<i>Year of incorporation</i>	<i>Country of incorporation</i>
Held indirectly by the Firm					
Al Baraka Bank (Pakistan) Limited	AIB	54.89%	54.89%	2010	Pakistan
Al-Omariya School Company	JIB	65.69%	65.69%	1987	Jordan
Al-Samaha Real Estate Company	JIB	65.82%	65.82%	1998	Jordan
Future Applied Computer Technology Company	JIB	65.82%	65.82%	1998	Jordan
Sanable Alkhair for Financial Investment	JIB	65.82%	65.82%	2006	Jordan
Al Baraka Properties (Pty) Ltd.	ABL	64.51%	64.51%	1991	South Africa
Insha GMBH	ATPB	45.09%	45.09%	2018	Germany

Significant accounting policies

The significant accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year, except for the adoption of new standards and interpretations effective as of 1 January 2023:

2.1 Adoption of new and amended standards and interpretations

These consolidated financial statements have been prepared using accounting policies, which are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2022 except for the new standards, interpretations and amendments issued and effective as of 1 January 2023 which are as follows:

FAS 39 - Financial Reporting for Zakah

The responsibility of payment of zakah is on individual shareholders and investment accountholders. However, the shareholders provide authority to the Group to pay Zakah on their behalf during the annual general meeting which be directly deducted from "Owner's equity" and accordingly distributed to eligible parties. While, the Group had no obligation to collect and pay Zakah on behalf of equity of investment accountholders.

The Group determines said Zakah by using "net asset method" as prescribed in AAOIFI standards and under the guidance and interpretations of Sharia Board. Zakah per share is presented in the Shari'a Supervisory Board Report.

FAS 41 - Interim Financial Reporting

The objective of this standard is to set out the principles for interim financial reporting for all institutions having adopted AAOIFI FASs and it should be read with other AAOIFI FASs and generally accepted accounting principles, applicable in relevant jurisdictions. The standard applies to institutions that elect to publish or are required to publish interim financial reports according to applicable laws, regulations, or practices.

The adoption of this standard did not have any significant impact on the Group's consolidated financial statements.

2 ACCOUNTING POLICIES (continued)

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

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

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

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

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

- a) Revised conceptual framework is now integral part of the AAOIFI FAS's;
- b) Definition of 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 statements.

FAS 40 - Financial Reporting for Islamic Finance Windows

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

FAS 42 - Presentation and disclosures in the Financial Statements of Takaful Institutions

AAOIFI has issued FAS 42 in 2022. This standard supersedes the earlier FAS 12 – General Presentation and Disclosures in the Financial Statements of Islamic Insurance Companies. The objective of this standard is to set out the overall requirements for the presentation of financial statements, the minimum requirement for the contents of and disclosures in the financial statements and recommended structure of financial statements that facilitates fair presentation in line with Shari'a principles and rules for Takaful institutions. This standard shall be effective for the financial periods beginning on or after 1 January 2025 with early adoption permitted if adopted alongside FAS 43 – Accounting for Takaful: Recognition and Measurement. The standard does not have any material impact on the Group.

2 ACCOUNTING POLICIES (continued)

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

FAS 43 - Accounting for Takaful: Recognition and Measurement

AAOIFI has issued FAS 43 in 2022. The objective of this standard is to set out the principles for the recognition and measurement of Takaful arrangements and ancillary transactions with the objective of faithfully representing the information related to these arrangements to the relevant stakeholders. The standard should be read in conjunction with FAS 42 – Presentation and disclosures in the Financial Statements of Takaful Institutions. This standard shall be effective for the financial periods beginning on or after 1 January 2025 with early adoption permitted if adopted alongside FAS 42 – Presentation and disclosures in the Financial Statements of Takaful Institutions. The standard does not have any material impact on the Group.

2.3 Summary of significant accounting policies

a. Financial contracts

Financial contracts consist of cash and balances with banks, receivables, Mudaraba (net of deferred profit) and Musharaka financing, Investments - debt type instruments at amortised cost, Ijarah Muntahia Bittamleek (where the estimates of future cash flows dependent on a single customer) and certain other assets. In addition it consist of off-balance sheets exposures such as letter of credit, letter of guaranties and undrawn commitments. Balances relating to these contracts are stated net of allowance for credit losses.

b. Impairment assessment

Impairment of financial assets

The Group applies three-stage approach to measure expected credit losses ("ECL") on financial assets carried at amortised cost. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: twelve months ECL

For exposures where there has not been a Significant Increase in Credit Risk ("SICR"), since initial recognition, a portion of the lifetime ECL's that represent the ECL that result from default events on a financial contract that is possible within 12 months after the reporting date (or a shorter period if the expected life of the financial instrument is less than 12 months) of the lifetime ECL associated with the probability of default events occurring within next twelve months after the reporting date is recognised.

Stage 2: lifetime ECL – not credit impaired

For credit exposures where there has been a SICR since initial recognition but that are not credit impaired, a lifetime ECL is recognised. Lifetime ECL is the loss that results from all possible default events over the expected life of the financial contract.

Lifetime ECL (Stage 2) is a probability-weighted estimate of credit losses and is determined based on the difference between the present value of all cash shortfalls. The cash shortfall is the difference between all contractual cash flows that are due to the Group and the present value of the recoverable amount, for financial assets that are not credit-impaired at the reporting date.

Stage 3: Lifetime ECL – credit impaired

Financial contracts are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.

For Stage 3 financial contracts, the provisions for credit-impairment are determined based on the difference between the net carrying amount and the recoverable amount of the financial contract. As this uses the same criteria as under FAS 11, the Group methodology for specific allowance for credit losses remains largely unchanged.

In cases where there are no collaterals or guarantees which the Group can recover its exposure, the past due rules as per Group's policy or local requirements, whichever is more strict, are applied for allowance for credit losses calculation.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

b. Impairment assessment (continued)

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- probability that the borrower will enter bankruptcy or other financial reorganization; or
- the restructuring of a facility by the Group on terms that the Group would not consider otherwise.

Measurement of ECL

Following are the key inputs into the measurement of ECL:

- Probability of Default (PD);
- Loss Given Default (LGD); and
- Exposure At Default (EAD).

These parameters are generally derived from internally developed models and other historical data. These are adjusted to reflect forward-looking information as described below.

Definition of default

The Group considers a financial asset 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 liquidating collateral; or the borrower is past due more than 90 days or any material credit obligation to the Group. In assessing whether a borrower is in default, the Group considers both qualitative factors such as breaches of covenants and quantitative factors such as overdue status and non-payment on another obligation of the same issuer to the Group.

Probability of default

Credit risk grades are a primary input into the determination of the term structure of Probability of Default (PD) for exposures. The Group collects performance and default information about its credit risk exposures analysed by credit risk grading for corporate and days-past-due for retail portfolio. The Group employs statistical models for analysing the data collected and generate estimates of PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, across various geographies in which the Group operates.

Each component (subsidiary) of the Group uses combination of key macro-economic indicators including, fiscal surplus/deficit as a percentage of GDP, gross domestic product (GDP) growth, oil prices, government spending, stock market volatility, cost of funding, lending rates credit growth, inflation rate and unemployment.

Types of PDs used for ECL computation

- 12-month PDs – This is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months). This is used to calculate 12-month ECLs.
- Lifetime PDs – This is the estimated probability of a default occurring over the remaining life of the financial instrument. This is used to calculate lifetime ECLs for 'stage 2'.

Incorporation of forward - looking information

The Group considers latest available economic forecasts published by the International Monetary Fund (IMF) or other reputed service providers, for 5 years. The Group employs statistical models to incorporate macro-economic factors on historical default rates. In case none of the macro-economic parameters are statistically significant or the results of forecasted PDs are significantly deviated from the present forecast for the economic conditions, quantitative PD overlay shall be used by the management after analyzing the portfolio as per the diagnostic tool.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

b. Impairment assessment (continued)

Incorporating forward-looking information increases the level of judgment as to how changes in these macroeconomic factors will affect the ECL applicable to the stage 1 and stage 2 exposures which are considered as performing (Stage 3 are the exposures under default category). As per the policy, the methodologies and assumptions involved, including any forecasts of future economic conditions, are required to be reviewed periodically.

Loss Given Default

LGD is a percentage that determine the amount of loss that will arise if the borrower was to default. This is calculated by looking at the collateral and other resources available to the Group that can be used to recover the asset in case of default.

The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties, based on historical data using both internal and external factors. For Estimation of LGD, the Group considers use of any of the following methods:

Internal default history: When data is available units can estimate LGDs using the historical default information and corresponding recovery data.

Basel LGD: local regulatory recommended Basel LGD adjusted depending on the available collateral.

Collateral-based LGD: for secured financing the Group uses collateral-based LGD, where the Group has effective collateral management framework that is able to assess and provide up to date collateral valuation and establish legal charge and enforceability.

Exposure At Default

EAD represents estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, and expected drawdowns on committed facilities.

On-balance sheet EADs

EADs for on-balance sheet items are the amount that is outstanding at the time of default. Outstanding of an on-balance sheet exposure shall be directly taken subject to inclusion of its repayment structure.

Prepayments have to be estimated using previous trends and deducted from EAD while calculating ECL.

Off-balance sheet EADs

Off-balance sheet exposures do not have fixed payout date; thus, the EAD for off-balance sheet is calculated after applying the Credit Conversion Factor (CCF) to the nominal amount of the Off-balance sheet exposure. The Group uses following methods to work out CCF for off- balance sheet EADs.

CCF based on internal data - The Group performs off-balance sheet product based analysis to study the average percentage utilization/conversion over a period of 3- 5 years. Based on the analysis product wide conversion/utilization factors are estimated. For Letters of Credit (LCs) and Letters of Guarantees (LGs) issued, units determines CCF by estimating total amount of LCs/LGs devolved/converted over last 3-5 years as a percentage of total LC/LG issued to arrive at the expected exposure over the future for these off-balance sheet items.

Regulatory CCFs - In absence of internal data, The Group uses same as Basel CCF that are used for calculating the Capital Adequacy Ratio (CAR) as per the CBB regulations. These rates are 20% for exposures with maturity equal to or less than 1 year and 50% for exposures with maturity of more than 1 year.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

b. Impairment assessment (continued)

Collective ECL computation and staging

ECL on individually large exposures and credit-impaired loans are generally measured individually. For retail exposures and other exposures to small and medium-sized enterprises, where less client-specific information is available, ECL is measured on a collective basis. This incorporates borrower-specific information, such as delinquency, collective historical experience of losses and forward-looking macroeconomic information.

To assess the staging of exposures and to measure a loss allowance on a collective basis, the Group groups its exposures into segments on the basis of shared credit risk characteristics, such as geography, type of customer, industry, rating, date of initial recognition, maturity and collateral value.

Significant Increase in Credit Risk

When determining whether the risk of default on a financial contracts has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost and efforts. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment including forward-looking information.

The assessment is carried out for specific instrument rather than a counterparty. As each instrument may have had different credit risk at initial recognition.

The application of above requirements of SICR to various locations of the Group varies depending on a number of circumstances faced by each location and each location applies a robust risk assessment methodology that is commensurate with the size, complexity, structure, economic significance and risk profile of its portfolio.

Renegotiated financial assets

The accounts which are performing prior to restructuring but restructured due to financial difficulty are categorised under stage 2. The accounts that are non-performing or meet any criteria for classifying as non-performing (prior to restructuring), then such restructured accounts are categorized under stage 3.

Backward transition

FAS 30 staging model is of symmetrical nature as movement across stages is a "Two Way" phenomenon. However, backward movement across stages are not immediate once SICR indicators are no longer triggered. Once such indicators are no longer triggered, movement back to Stage 1 or Stage 2 has to be calibrated and cannot be automatic or immediate. Certain criteria like cooling off period, SICR indicators and payment history are considered for migrating customers to Stage 2 or Stage 1. Following factors including cure period are considered for any backward transition:

From Stage 2 to stage 1

- The criteria to classify the exposure into Stage 2 (criteria covered in SICR section above) is no longer present;
- Up to date payment with no arrears;
- A minimum cool-off/cure period of 6 months for any stage 2 accounts; and
- A minimum cool-off/cure period of 12 months for restructured accounts.

From stage 3 to stage 2

- The criteria to classify the exposure into Stage 3 (criteria covered in default section above) is no longer present.
- Up to date payment with no arrears.
- A minimum cool-off/cure period of 12 months for non-performing and restructured facilities.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

b. Impairment assessment (continued)

Write-offs

Financing facilities are written-off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written-off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Presentation of allowance for credit losses in the consolidated statement of financial position

Allowance for credit losses are presented in the consolidated statement of financial position as follows:

- financial assets measured at amortised cost, as a deduction from the gross carrying amount of the assets;
- financing commitments and financial guarantee contracts: generally as a provision included in other liabilities; and
- where a financial contract includes both a drawn and undrawn component, and the Group has identified the ECL on the financing commitments/off-balance sheet component separately from those on the drawn component, allowance for credit losses on undrawn component is presented as a provision in other liabilities.

c. Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash and cash in transit, balances with central banks excluding mandatory reserves and balances with other banks with an original maturity of three months or less.

d. Receivables

Receivables comprise Sales (Murabaha) receivables, Ijarah receivables, Salam receivables and Istisna'a receivables.

Sales (Murabaha) receivables

Sales (Murabaha) receivables consist mainly of murabaha and international commodities stated net of deferred profits and provision for doubtful amount. The Group considers promise made in sales (murabaha) receivables to the purchase orderer as obligatory.

Ijarah receivables

Ijarah receivables is the outstanding rental at the end of the year less any provision for doubtful amount.

Salam receivables

Salam receivables is the outstanding amount at the end of the year less any provision for doubtful amount.

Istisna'a receivables

Istisna'a receivables is the outstanding amount at the end of the year less any provision for doubtful amount.

e. Mudaraba and Musharaka financing

Mudaraba and Musharaka financing are partnerships in which the Group contributes capital. These are stated at the fair value of consideration given less impairment.

f. Investments

Investments comprise equity and debt-type instruments at fair value through statement of income, equity-type instruments at fair value through equity, debt-type instruments at amortised cost, investment in real estate and investment in associates and joint venture .

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

f. Investments (continued)

Investment in real estate

Properties held for rental, or for capital appreciation purposes, or both, are classified as investment in real estate. Investments in real estate are initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, investments in real estate are re-measured at fair value and changes in fair value (only gains) are recognised as property and equipment fair value reserve in the consolidated statement of changes in equity.

Losses arising from changes in the fair values of investment in real estate are firstly adjusted against the property and equipment fair value reserve to the extent of the available balance and then the remaining losses are recognised in the consolidated statement of income. If there are unrealised losses that have been recognised in the consolidated statement of income in the previous financial periods, the current period unrealised gain shall be recognised in the consolidated statement of income to the extent of crediting back such previous losses in the consolidated statement of income. When the property is disposed of, the cumulative gain previously transferred to the property and equipment fair value reserve, is transferred to the consolidated statement of income.

Investment in associates and joint venture

The Group's investment in associates and joint venture is accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Under the equity method, the investment in the associate or joint venture is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate or joint venture. Goodwill relating to an associate or joint venture is included in the carrying amount of the investment and is not amortised. The consolidated statement of income reflects the Group's share of the results of operations of the associate or joint venture. Where there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in owners' equity. Profits and losses resulting from transactions between the Group and the associate or the joint venture are eliminated to the extent of the interest in the associate or the joint venture.

The reporting dates of the associates and the Group are identical and the associates accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Equity and debt-type instruments at fair value through statement of income

This includes instruments held for trading purposes to gain profits from market fluctuations in the short term. These are initially recognised at cost, being the fair value of the consideration given excluding acquisition costs. These are subsequently re-measured at fair value. All related realised and unrealised gains or losses are included in the consolidated statement of income.

All other investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs.

Equity-type instruments at fair value through equity

This includes all instruments that are not covered above. Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value with unrealised gains or losses recognised proportionately in owners' equity and equity of investment accountholders until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in owners' equity or equity of investment accountholders is recognised in consolidated statement of income.

2 ACCOUNTING POLICIES (continued)**2.3 Summary of significant accounting policies (continued)****f. Investments (continued)***Debt-type instruments at amortised cost*

Debt-type instruments which are managed on a contractual yield basis and are not held for trading and has not been designated at fair value through statement of income are classified as debt-type instruments at amortised cost. Such investments are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such investment is recognised in the consolidated statement of income, when the investment is de-recognised or impaired.

g. Ijarah Muntahia Bittamleek

Ijara income is recognised on a time apportioned basis over the Ijara term and is stated net of depreciation. Income related to non-performing Ijara muntahia bittamleek accounts that are non-performing is excluded from the consolidated statement of income.

h. Property and equipment

Property and equipment are initially recognised at cost. Subsequent to initial recognition property and equipment are stated at cost less accumulated depreciation and accumulated impairment in value, except for land which is carried at fair value. The cost of additions and major improvements are capitalised; maintenance and repairs are charged to the consolidated statement of income as incurred. Gains or losses on disposal are reflected in other operating income. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets other than freehold land, which is deemed to have an indefinite life.

The calculation of depreciation is on the following basis:

Buildings	30 - 50 years
Office furniture and equipment	4 - 10 years
Vehicles	3 years
Others	4 - 5 years

Any subsequent change in fair value of land (only gains) are recognised as property and equipment fair value reserve in the consolidated statement of changes in owners' equity. Losses arising from changes in the fair value of land is first adjusted against the property and equipment fair value reserve to the extent of the available balance and then the remaining losses are recognised in the consolidated statement of income. If there are unrealised losses that have been recognised in the consolidated statement of income in the previous financial periods, the current period unrealised gain shall be recognised in the consolidated statement of income to the extent of crediting back such previous losses in the consolidated statement of income. When the land is disposed of, the cumulative gain previously transferred to the property and equipment fair value reserve, is transferred to the consolidated statement of income.

i. Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability, and the principal or the most advantageous market must be accessible to by the Group.

Fair value is determined for each financial asset individually in accordance with the valuation policies set out below:

(i) For investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the reporting date.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

i. Fair values (continued)

(ii) For unquoted investments, fair value is determined by reference to recent significant buy or sell transactions with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.

(iii) For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for investments with similar terms and risk characteristics.

(iv) Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost, less provision for impairment.

j. Goodwill

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

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

k. Intangible assets

Intangible assets comprise principally the value of computer software. Intangible assets acquired are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

l. Collateral pending sale

Collateral acquired in settlement of certain financing facilities is stated at the lower of the net realisable value of the related financing facilities and the current fair value of such assets. Gains or losses on disposal, and revaluation losses, are recognised in the consolidated statement of income.

m. Employees' end of service benefits

The Group provides for end of service benefits to its employees. Entitlement to these benefits is based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued for over the period of employment.

n. Provision

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount of the obligation.

o. Dividends

Dividends to shareholders are recognised as liabilities in the year in which they are declared.

p. Equity of investment accountholders

All equity of investment accountholders are carried at cost plus accrued profit and related reserves. Investment risk reserves and profit equalisation reserves are made at the Firm or subsidiary level.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

q. Investment risk reserve

Investment risk reserves are amounts appropriated out of the income of equity of investment accountholders, after allocating the mudarib share, in order to cater against future losses for equity of investment accountholders.

r. Profit equalisation reserve

Profit equalisation reserves are amounts appropriated out of the Mudaraba income, before allocating the mudarib share, in order to maintain a certain level of return on investments for participating stakeholders.

s. Sukuk

Sukuk issued by the Group are treated based on the underlying contracts and structure.

t. Off-balance sheet equity of investment accountholders

Off-balance sheet equity of investment accountholders represent funds received by the Group from third parties for investment in specified products as directed by them. These products are managed in a fiduciary capacity and the Group has no entitlement to these products. Third parties bear all of the risks and earn all of the rewards on these products. Off-balance sheet equity of investment accountholders are not included in the consolidated statement of financial position since the Group does not have the right to use or dispose these products except within the conditions of the contract between the Group and third parties.

u. Treasury shares

Own equity instruments which are reacquired (treasury shares) are deducted from equity of the parent and accounted for at weighted average cost. Consideration paid or received on the purchase, sale, issue or cancellation of the Group's own equity instruments are recognised directly in equity of the parent. No gain or loss is recognised in consolidated statement of income on the purchase, sale, issue or cancellation of own equity instruments.

v. Revenue recognition

Sales (Murabaha) receivables

Profit from Sales (Murabaha) receivables is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised on time-apportioned basis over the period of the transaction. Where the income from a contract is not contractually determinable or quantifiable, it is recognised when the realisation is reasonably certain or when actually realised. Income related to accounts that are 90 days overdue is excluded from the consolidated statement of income.

Salam and Istisna'a receivables

Income on Salam and Istisna'a is recognised on time-apportioned basis when the income from a contract is contractually determinable or quantifiable.

Mudaraba and Musharaka financing

Income on Mudaraba and Musharaka financing is recognised when the right to receive payment is established or on distribution by the Mudarib. Income related to accounts that are 90 days overdue is excluded from the consolidated statement of income.

Ijarah Muntahia Bittamleek

Income net of depreciation is recognised on a time-apportioned basis over the lease term.

Fee and commission income

Fee and commission income is recognised when earned.

Other income

Other income on investments is recognised when the right to receive payment is established.

Group's share as a Mudarib

The Group's share of profit as a Mudarib for managing equity of investment accountholders is based on the terms and conditions of the related mudarib agreements.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

v. Revenue recognition (continued)

Mudarib's share of off-balance sheet equity of investment accountholders

The Group shares profit for managing off-balance sheet equity of investment accountholders based on the terms and conditions of related contracts.

w. Return on equity of investment accountholders

Equity of investment accountholders' share of income is calculated based on the applicable local laws and based on the underlining individual Mudaraba contract. It represents the income generated from joint investment accounts and after deducting other expenses. Other expenses include all expenses incurred by the Group including specific provisions. The Group's share is deducted before distributing such income.

x. Joint and self financed

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

y. Taxation

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on foreign operations is provided in accordance with the fiscal regulations of the respective countries in which the subsidiaries operate. The Group accounts for its share of associates profit after accounting for corporate taxation. Deferred income tax is provided using the liability method on temporary differences at the financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

z. Shari'a supervisory board

The Group's business activities are subject to the supervision of a Shari'a supervisory board consisting of five members appointed by the general assembly.

aa. Zakah

The article of association of Al Baraka Group is not empowering the Group for paying Zakah on behalf of the shareholders and there is no such law in Kingdom of Bahrain requiring the Group to pay Zakah on behalf of the shareholders, unless there is a direct empowerment from the general assembly to the Group to pay Zakah on the behalf of the shareholders.

ab. Earnings prohibited by Shari'a

The Group is committed to avoid recognising any income generated from non-Islamic source. Accordingly, all non-Islamic income is credited to a charity account where the Group uses these funds for various social welfare activities.

ac. Impairment of financial assets

An assessment is made at each financial position date to determine whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the assessment by the Group of the estimated cash equivalent value, is recognised in the consolidated statement of income. Specific provisions are created to reduce all impaired financial contracts to their realisable cash equivalent value. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment value was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated statement of income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2 ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

ac. Impairment of financial assets (continued)

In addition, the Group maintains a provision to reflect a potential loss that may occur as a result of currently unidentifiable risks in relation to receivables, financings or investment assets. The amount reflects estimated losses affecting these assets attributable to events that have already occurred at the date of the financial statements, and not estimated losses attributable to future events.

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

ad. Assets classified as Held for sale

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

ae. Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. The monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the financial position date. All differences are taken to income statement at the entity level.

Foreign currency translations

As at the reporting date, the assets and liabilities in foreign currencies are translated into the presentation currency of the Group (United States Dollars) at the rate of exchange ruling at the financial position date and their income statements are translated at the average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of owners' equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in owners' equity relating to that particular foreign entity is recognised in the consolidated statement of income.

af. Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which affects the amounts recognised in the consolidated financial statements:

Classification of investments

Management decides on acquisition of an investment whether it should be classified as equity and debt-type instrument at fair value through statement of income, equity-type instrument at fair value through equity or debt-type instrument at amortised cost.

The management of the Group exercises professional judgement in assessing control and significant influence over investees, which has a determinantal role in deciding the accounting method for such investments.

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.

ag. Use of estimates in preparation of the consolidated financial statements

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of financial assets and liabilities at the date of the consolidated financial statements. The use of estimates is used primarily to the determination of provisions for sales (Murabaha) receivable, mudaraba financing, musharaka financing, equity-type instrument at fair value through equity, debt-type instrument at amortised cost, ijarah receivable and other assets.

2 ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

ah. Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- (i) the right to receive cash flows from the asset has expired;
- (ii) the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of income.

3 CASH AND BALANCES WITH BANKS

	2023 US\$ '000	2022 US\$ '000
Balances with central banks*	3,915,198	3,331,927
Balances with other banks	724,636	530,747
Cash and cash in transit	528,135	534,119
Allowance for credit losses (note 22)	(380)	(181)
	<u>5,167,589</u>	<u>4,396,612</u>

* Balances with central banks include mandatory reserves amounting to US\$ 2,566,525 thousand (2022: US\$ 2,184,530 thousand). These amounts are not available for use in the Group's day-to-day operations.

4 RECEIVABLES

	2023 US\$ '000	2022 US\$ '000
Sales (Murabaha) receivables (note 4.1)	10,211,340	10,610,013
Ijarah receivables (note 4.2)	160,765	136,924
Salam receivables (note 4.3)	315,780	283,574
Istisna'a receivables (note 4.4)	139,682	150,365
Allowance for credit losses	(757,447)	(743,303)
	<u>10,070,120</u>	<u>10,437,573</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4 RECEIVABLES (continued)

4.1 Sales (Murabaha) receivables

	2023			2022		
	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000
Commodity murabaha	10,135	319,734	329,869	23,679	314,383	338,062
Other murabaha	1,081,623	9,913,066	10,994,689	954,173	10,246,009	11,200,182
Gross sales (murabaha) receivables	1,091,758	10,232,800	11,324,558	977,852	10,560,392	11,538,244
Deferred profits (note 4.1(a))	(93,798)	(1,019,420)	(1,113,218)	(86,767)	(841,464)	(928,231)
	997,960	9,213,380	10,211,340	891,085	9,718,928	10,610,013
Allowance for credit losses (note 22)	(310,526)	(360,050)	(670,576)	(263,339)	(398,762)	(662,101)
Net sales (murabaha) receivables	687,434	8,853,330	9,540,764	627,746	9,320,166	9,947,912
					2023 US\$ '000	2022 US\$ '000
Non-performing					360,872	381,464

4.1(a) Murabaha deferred profit movement

	2023 US\$ '000	2022 US\$ '000
Deferred profit at the beginning of the year	928,231	1,106,458
Murabaha sales during the year	2,769,309	2,793,595
Murabaha cost of sales	(1,979,339)	(2,279,654)
	1,718,201	1,620,399
Deferred profit collected during the year	(404,227)	(488,655)
Deferred profit settled during the year	(15,162)	(15,947)
Deferred profit waived during the year	(529)	(5,033)
FX translation	(185,065)	(182,533)
Deferred profit at the end of the year	1,113,218	928,231

4.2 Ijarah receivables

	2023			2022		
	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000
Gross ijarah receivables	3,085	157,680	160,765	3,657	133,267	136,924
Allowance for credit losses (note 22)	(83)	(56,774)	(56,857)	(179)	(46,424)	(46,603)
Net ijarah receivables	3,002	100,906	103,908	3,478	86,843	90,321
					2023 US\$ '000	2022 US\$ '000
Non-performing					123,977	110,053

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4 RECEIVABLES (continued)

4.3 Salam receivables

	2023			2022		
	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000
Gross salam receivables	-	315,780	315,780	-	283,574	283,574
Allowance for credit losses (note 22)	-	(14,316)	(14,316)	-	(17,361)	(17,361)
Net salam receivables	-	301,464	301,464	-	266,213	266,213
					2023 US\$ '000	2022 US\$ '000
Non-performing					22,998	24,543

4.4 Istisna'a receivables

	2023			2022		
	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000
Gross istisna'a receivables	-	139,682	139,682	-	150,365	150,365
Allowance for credit losses (note 22)	-	(15,698)	(15,698)	-	(17,238)	(17,238)
Net istisna'a receivables	-	123,984	123,984	-	133,127	133,127
					2023 US\$ '000	2022 US\$ '000
Non-performing					17,917	20,300

The table below shows the receivables credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification.

	31 December 2023			
	Stage 1 US\$ '000	Stage 2 US\$ '000	Stage 3 US\$ '000	Total US\$ '000
Good (1-4)	2,857,474	162,212	-	3,019,686
Satisfactory (5-7)	5,909,199	1,372,918	-	7,282,117
Default (8-10)	-	-	525,764	525,764
Allowance for credit losses	(104,344)	(264,359)	(388,744)	(757,447)
	8,662,329	1,270,771	137,020	10,070,120
	31 December 2022			
	Stage 1 US\$ '000	Stage 2 US\$ '000	Stage 3 US\$ '000	Total US\$ '000
Good (1-4)	2,732,623	167,451	-	2,900,074
Satisfactory (5-7)	6,180,829	1,563,613	-	7,744,442
Default (8-10)	-	-	536,360	536,360
Allowance for credit losses	(45,453)	(282,885)	(414,965)	(743,303)
	8,867,999	1,448,179	121,395	10,437,573

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4 RECEIVABLES (continued)

4.4 Istisna'a receivables (continued)

The below table shows the movement in allowance for credit losses by stage:

31 December 2023				
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Balance at 1 January	45,453	282,885	414,965	743,303
Changes due to receivables recognised in opening balance that have:				
- transferred to Stage 1	97,020	(90,366)	(6,654)	-
- transferred to Stage 2	(170,095)	197,180	(27,085)	-
- transferred to Stage 3	(31,591)	(44,066)	75,657	-
Net remeasurement of loss allowance	84,029	3,243	112,902	200,174
Recoveries / write-backs	-	-	(24,533)	(24,533)
Allocation from (to) investment risk reserve	103,408	(64,050)	(42,836)	(3,478)
Amounts written off	-	-	(65,337)	(65,337)
FX translation / others	(23,880)	(20,467)	(48,335)	(92,682)
	104,344	264,359	388,744	757,447
31 December 2022				
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Balance at 1 January	57,197	293,781	509,922	860,900
Changes due to receivables recognised in opening balance that have:				
- transferred to Stage 1	5,745	(3,986)	(1,759)	-
- transferred to Stage 2	(3,932)	19,947	(16,015)	-
- transferred to Stage 3	(88)	(63,175)	63,263	-
Net remeasurement of loss allowance	15,837	72,087	189,956	277,880
Recoveries / write-backs	-	-	(60,564)	(60,564)
Allocation from / (to) investment risk reserve	(9,699)	439	21,054	11,794
Amounts written off	-	-	(263,736)	(263,736)
FX translation / others	(19,607)	(36,208)	(27,156)	(82,971)
	45,453	282,885	414,965	743,303

5 MUDARABA AND MUSHARAKA FINANCING

	2023	2022
	US\$ '000	US\$ '000
Mudaraba financing (note 5.1)	332,365	691,226
Musharaka financing (note 5.2)	687,349	836,032
Allowance for credit losses	(36,415)	(29,934)
	983,299	1,497,324

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

5 MUDARABA AND MUSHARAKA FINANCING (continued)

5.1 Mudaraba financing

	2023			2022		
	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000
Gross mudaraba financing	(32,549)	364,914	332,365	10,927	680,299	691,226
Allowance for credit losses (note 22)	(420)	(18,472)	(18,892)	(420)	(16,643)	(17,063)
Net mudaraba financing	(32,969)	346,442	313,473	10,507	663,656	674,163
					2023 US\$ '000	2022 US\$ '000
Non-performing					35,010	35,275

5.2 Musharaka financing

	2023			2022		
	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000
Gross musharaka financing	157,184	530,165	687,349	242,597	593,435	836,032
Allowance for credit losses (note 22)	(516)	(17,007)	(17,523)	(808)	(12,063)	(12,871)
Net musharaka financing	156,668	513,158	669,826	241,789	581,372	823,161
					2023 US\$ '000	2022 US\$ '000
Non-performing					16,980	18,320

The table below shows the mudaraba and musharaka credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification.

	31 December 2023			
	Stage 1 US\$ '000	Stage 2 US\$ '000	Stage 3 US\$ '000	Total US\$ '000
Good (1-4)	604,311	26,658	-	630,969
Satisfactory (5-7)	226,800	109,955	-	336,755
Default (8-10)	-	-	51,990	51,990
Allowance for credit losses	(3,601)	(8,269)	(24,545)	(36,415)
	827,510	128,344	27,445	983,299
	31 December 2022			
	Stage 1 US\$ '000	Stage 2 US\$ '000	Stage 3 US\$ '000	Total US\$ '000
Good (1-4)	749,979	32,584	-	782,563
Satisfactory (5-7)	536,874	154,226	-	691,100
Default (8-10)	-	-	53,595	53,595
Allowance for credit losses	(3,457)	(4,474)	(22,003)	(29,934)
	1,283,396	182,336	31,592	1,497,324

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

5 MUDARABA AND MUSHARAKA FINANCING (continued)

5.2 Musharaka financing (continued)

The below table shows the movement in allowance for credit losses by stage:

31 December 2023				
	Stage 1: 12-month ECL US\$ '000	Stage 2: Lifetime ECL not credit-impaired US\$ '000	Stage 3: Lifetime ECL credit-impaired US\$ '000	Total US\$ '000
Balance at 1 January	3,457	4,474	22,003	29,934
Changes due to financing recognised in opening balance that have:				
- transferred to Stage 1	59	(57)	(2)	-
- transferred to Stage 2	(93)	109	(16)	-
- transferred to Stage 3	(227)	(4)	231	-
Net remeasurement of loss allowance	1,063	4,699	3,342	9,104
Recoveries / write-backs	-	-	-	-
Allocation from / (to) investment risk reserve	(8)	(2)	(52)	(62)
Amounts written off	-	-	-	-
FX translation / others	(650)	(950)	(961)	(2,561)
	3,601	8,269	24,545	36,415
31 December 2022				
	Stage 1: 12-month ECL US\$ '000	Stage 2: Lifetime ECL not credit-impaired US\$ '000	Stage 3: Lifetime ECL credit-impaired US\$ '000	Total US\$ '000
Balance at 1 January	6,460	3,886	23,983	34,329
Changes due to financing recognised in opening balance that have:				
- transferred to Stage 1	(126)	128	(2)	-
- transferred to Stage 2	575	(573)	(2)	-
- transferred to Stage 3	-	(36)	36	-
Net remeasurement of loss allowance	(2,162)	2,495	1,263	1,596
Recoveries / write-backs	-	-	(1,134)	(1,134)
Allocation (to) from investment risk reserve	(1)	28	(38)	(11)
Amounts written off	-	-	-	-
FX translation / others	(1,289)	(1,454)	(2,103)	(4,846)
	3,457	4,474	22,003	29,934

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

6 INVESTMENTS

	2023	2022
	US\$ '000	US\$ '000
Equity and debt-type instruments at fair value through statement of income (note 6.1)	249,938	135,926
Equity-type instruments at fair value through equity (note 6.2)	572,225	593,612
Debt-type instruments at amortised cost (note 6.3)	4,405,200	4,274,330
	5,227,363	5,003,868
Investment in real estate (note 6.4)	167,376	172,708
Investment in associates and joint venture (note 6.5)	56,826	58,138
	5,451,565	5,234,714

6.1 Equity and debt-type instruments at fair value through statement of income

	2023			2022		
	<i>Self financed US\$ '000</i>	<i>Jointly financed US\$ '000</i>	<i>Total US\$ '000</i>	<i>Self financed US\$ '000</i>	<i>Jointly financed US\$ '000</i>	<i>Total US\$ '000</i>
Quoted investments						
Debt instruments	-	-	-	67	-	67
Equity securities	244,464	3,549	248,013	131,772	3,292	135,064
	244,464	3,549	248,013	131,839	3,292	135,131
Unquoted investments						
Equity securities	1,925	-	1,925	795	-	795
	1,925	-	1,925	795	-	795
	246,389	3,549	249,938	132,634	3,292	135,926

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

6 INVESTMENTS (continued)

6.2 Equity-type instruments at fair value through equity

	2023			2022		
	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000
Quoted investments						
Equity securities	19,862	24,667	44,529	12,255	30,849	43,104
Managed funds	1,494	19,961	21,455	3,131	20,392	23,523
Sukuk	224,378	209,026	433,404	256,326	221,573	477,899
	<u>245,734</u>	<u>253,654</u>	<u>499,388</u>	<u>271,712</u>	<u>272,814</u>	<u>544,526</u>
Unquoted investments						
Equity securities	13,328	34,097	47,425	14,610	21,322	35,932
Managed funds	-	11,197	11,197	711	11,546	12,257
Sukuk	-	19,711	19,711	-	7,577	7,577
	<u>13,328</u>	<u>65,005</u>	<u>78,333</u>	<u>15,321</u>	<u>40,445</u>	<u>55,766</u>
Provisions for impairment	(5,231)	(265)	(5,496)	(6,875)	195	(6,680)
	<u>253,831</u>	<u>318,394</u>	<u>572,225</u>	<u>280,158</u>	<u>313,454</u>	<u>593,612</u>

6.3 Debt-type instruments at amortised cost

	2023			2022		
	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000	Self financed Total	Jointly financed Total	Total US\$ '000
Quoted investments						
Sukuk and similar items	2,059,116	1,122,837	3,181,953	2,070,759	1,333,716	3,404,475
	<u>2,059,116</u>	<u>1,122,837</u>	<u>3,181,953</u>	<u>2,070,759</u>	<u>1,333,716</u>	<u>3,404,475</u>
Unquoted investments						
Sukuk and similar items	80,403	1,156,669	1,237,072	93,286	785,281	878,567
Allowance for credit losses	(1,075)	(12,750)	(13,825)	(715)	(7,997)	(8,712)
	<u>2,138,444</u>	<u>2,266,756</u>	<u>4,405,200</u>	<u>2,163,330</u>	<u>2,111,000</u>	<u>4,274,330</u>

The table below shows the debt type instruments credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification.

	31 December 2023			
	Stage 1 US\$ '000	Stage 2 US\$ '000	Stage 3 US\$ '000	Total US\$ '000
Good (1-4)	3,844,126	-	-	3,844,126
Satisfactory (5-7)	557,265	15,069	-	572,334
Default (8-10)	-	-	2,565	2,565
Allowance for credit losses	(10,868)	(392)	(2,565)	(13,825)
	<u>4,390,523</u>	<u>14,677</u>	<u>-</u>	<u>4,405,200</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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6 INVESTMENTS (continued)

6.3 Debt-type instruments at amortised cost (continued)

	31 December 2022			
	Stage 1	Stage 2	Stage 3	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Good (1-4)	3,677,323	-	-	3,677,323
Satisfactory (5-7)	595,055	8,099	-	603,154
Default (8-10)	-	-	2,565	2,565
Allowance for credit losses	(5,872)	(275)	(2,565)	(8,712)
	<u>4,266,506</u>	<u>7,824</u>	<u>-</u>	<u>4,274,330</u>

The below table shows the movement in allowance for credit losses by stage:

	31 December 2023			
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Balance at 1 January	5,872	275	2,565	8,712
Changes due to instruments recognised in opening balance that have:				
- transferred to Stage 1	-	-	-	-
- transferred to Stage 2	(30)	30	-	-
- transferred to Stage 3	-	-	-	-
Net remeasurement of loss allowance	6,187	346	-	6,533
Allocation from / (to) investment risk reserve	(109)	(260)	-	(369)
FX translation / others	(1,052)	1	-	(1,051)
	<u>10,868</u>	<u>392</u>	<u>2,565</u>	<u>13,825</u>

	31 December 2022			
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Balance at 1 January	4,966	37	2,565	7,568
Net remeasurement of loss allowance	3,113	(19)	-	3,094
Allocation from / (to) investment risk reserve	(39)	260	-	221
FX translation / others	(2,168)	(3)	-	(2,171)
	<u>5,872</u>	<u>275</u>	<u>2,565</u>	<u>8,712</u>

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6 INVESTMENTS (continued)

6.4 Investment in real estate

	2023			2022		
	<i>Self financed US\$ '000</i>	<i>Jointly financed US\$ '000</i>	<i>Total US\$ '000</i>	<i>Self financed US\$ '000</i>	<i>Jointly financed US\$ '000</i>	<i>Total US\$ '000</i>
At cost	14,010	152,390	166,400	14,084	152,180	166,264
At fair value	9,183	158,193	167,376	10,465	162,243	172,708

Investment in real estate at fair value at 31 December consist of the following:

	2023			2022		
	<i>Self financed US\$ '000</i>	<i>Jointly financed US\$ '000</i>	<i>Total US\$ '000</i>	<i>Self financed US\$ '000</i>	<i>Jointly financed US\$ '000</i>	<i>Total US\$ '000</i>
Land	1,457	91,174	92,631	1,624	95,813	97,437
Buildings	7,726	67,019	74,745	8,841	66,430	75,271
	9,183	158,193	167,376	10,465	162,243	172,708

The following is a reconciliation between carrying amounts of investment in real estate at the beginning and end of the year:

	2023 US\$ '000	2022 US\$ '000
Beginning balance of the year	172,708	186,767
Acquisitions	1,036	3,106
Net gain from fair value adjustments	6,210	190
Disposals	(12,506)	(15,269)
Foreign exchange translation / others - net	(72)	(2,086)
	(5,332)	(14,059)
Ending balance of the year	167,376	172,708

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6 INVESTMENTS (continued)**6.5 Investment in associates and joint venture**

Investment in associates and joint venture comprise of the following:

	2023			Market value US\$ '000
	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000	
Quoted associates and joint venture	-	13,171	13,171	11,236
Unquoted associates and joint venture	43,655	-	43,655	
	43,655	13,171	56,826	
	2022			Market value US\$ '000
	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000	
Quoted associates and joint venture	-	13,169	13,169	11,500
Unquoted associates and joint venture	44,969	-	44,969	
	44,969	13,169	58,138	

The investment in associates and joint venture are net of impairment of US\$ 23,000 thousand (2022: US\$ 23,000 thousand).

Summarised financial information of associates and joint venture that have been equity accounted for in these consolidated financial statements, not adjusted for percentage of ownership held by the Group:

	2023 US\$ '000	2022 US\$ '000
Total assets	933,660	1,121,181
Total liabilities	743,646	950,311
Total revenues	94,819	185,972
Total net profit	19,595	41,244

Investment in associates and joint venture comprise of:

Name of associate	Ownership %	Country of incorporation	Nature of business
The Islamic Insurance Company	33.5%	Jordan	Insurance activities
Jordan International Trading Centre	28.4%	Jordan	Trading activities
katilim finans kefalet a.ş	15.0%	Turkey	Financial services
Takaful for Pension and Life Insurance	50.0%	Turkey	Insurance activities
Danat AlBahrain*	51.0%	Bahrain	Real estate development
Al Baraka Bank Lebanon	99.0%	Lebanon	Banking
Al Baraka Bank Syria	29.0%	Syria	Banking

*This is classified as investment in joint venture

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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7 IJARAH MUNTAHIA BITTAMLEEK

	2023			2022		
	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000
Land and building						
Cost	-	2,730,486	2,730,486	-	2,451,334	2,451,334
Accumulated depreciation	-	(532,717)	(532,717)	-	(439,221)	(439,221)
Allowance for credit losses	-	(8,248)	(8,248)	-	(8,186)	(8,186)
Net book value	-	2,189,521	2,189,521	-	2,003,927	2,003,927
Equipment						
Cost	36,629	320,951	357,580	50,890	257,906	308,796
Accumulated depreciation	(10,096)	(62,647)	(72,743)	(9,639)	(71,470)	(81,109)
Allowance for credit losses	(54)	(5,482)	(5,536)	(492)	(4,488)	(4,980)
Net book value	26,479	252,822	279,301	40,759	181,948	222,707
Others						
Cost	-	11,000	11,000	-	9,110	9,110
Accumulated depreciation	-	(2,391)	(2,391)	-	(2,300)	(2,300)
Allowance for credit losses	-	(169)	(169)	-	(88)	(88)
Net book value	-	8,440	8,440	-	6,722	6,722
TOTAL						
Cost	36,629	3,062,437	3,099,066	50,890	2,718,350	2,769,240
Accumulated depreciation	(10,096)	(597,755)	(607,851)	(9,639)	(512,991)	(522,630)
Less: allowance for credit losses (note 22)	(54)	(13,899)	(13,953)	(492)	(12,762)	(13,254)
Net book value	26,479	2,450,783	2,477,262	40,759	2,192,597	2,233,356

The table below shows the ijarah muntahia bittamleek credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification.

	31 December 2023			
	Stage 1 US\$ '000	Stage 2 US\$ '000	Stage 3 US\$ '000	Total US\$ '000
Good (1-4)	710,942	6,560	-	717,502
Satisfactory (5-7)	1,541,412	232,301	-	1,773,713
Default (8-10)	-	-	-	-
Allowance for credit losses	(2,187)	(11,766)	-	(13,953)
	2,250,167	227,095	-	2,477,262

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

7 IJARAH MUNTAHIA BITTAMLEEK (continued)

	31 December 2022			
	Stage 1 US\$ '000	Stage 2 US\$ '000	Stage 3 US\$ '000	Total US\$ '000
Good (1-4)	803,338	9,316	-	812,654
Satisfactory (5-7)	1,208,469	225,476	-	1,433,945
Default (8-10)	-	-	11	11
Allowance for credit losses	(1,926)	(11,326)	(2)	(13,254)
	2,009,881	223,466	9	2,233,356

The below table shows the movement in allowance for credit losses by stage:

	31 December 2023			
	Stage 1: 12-month ECL US\$ '000	Stage 2: Lifetime ECL not credit- impaired US\$ '000	Stage 3: Lifetime ECL credit- impaired US\$ '000	Total US\$ '000
Balance at 1 January	1,926	11,326	2	13,254
Changes due to ijarah muntahia bittamleek recognised in opening balance that have:				
- transferred to Stage 1	2	-	(2)	-
- transferred to Stage 2	-	-	-	-
- transferred to Stage 3	-	-	-	-
Net remeasurement of loss allowance	304	258	-	562
FX translation / others	(45)	182	-	137
	2,187	11,766	-	13,953

	31 December 2022			
	Stage 1: 12-month ECL US\$ '000	Stage 2: Lifetime ECL not credit- impaired US\$ '000	Stage 3: Lifetime ECL credit- impaired US\$ '000	Total US\$ '000
Balance at 1 January	2,355	10,631	2	12,988
Net remeasurement of loss allowance	(391)	660	-	269
Allocation from investment risk reserve	53	-	-	53
FX translation / others	(91)	35	-	(56)
	1,926	11,326	2	13,254

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

8 PROPERTY AND EQUIPMENT

	<i>Buildings</i>	<i>Lands</i>	<i>Office furniture and equipment</i>	<i>Vehicles</i>	<i>Others</i>	<i>Right of use asset</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Cost:							
At 1 January 2022	249,244	157,838	227,320	6,843	82,399	82,089	805,733
Additions	71,343	29,119	11,552	514	19,272	14,382	146,182
Disposals	(56,514)	(16,229)	(1,916)	(469)	(7,409)	(2,435)	(84,972)
Foreign exchange translations	(39,372)	(7,321)	(25,399)	(968)	(52,588)	(17,544)	(143,192)
At 31 December 2022	224,701	163,407	211,557	5,920	41,674	76,492	723,751
Additions	39,150	13,462	18,269	23,769	10,485	23,772	128,907
Disposals	(23)	(47)	(3,492)	(212)	(23,627)	(2,100)	(29,501)
Foreign exchange translations	(25,909)	(6,421)	(10,516)	(4,399)	(22,856)	(20,384)	(90,485)
At 31 December 2023	237,919	170,401	215,818	25,078	5,676	77,780	732,672
Accumulated Depreciation:							
At 1 January 2022	60,050	-	178,433	4,734	13,771	24,634	281,622
Charged during the year (note 20)	9,965	-	15,720	580	3,464	9,251	38,980
Relating to disposals	(8,778)	-	(1,275)	(152)	(3,969)	(1,155)	(15,329)
Foreign exchange translations	(9,616)	-	(15,803)	(659)	(10,484)	(6,432)	(42,994)
At 31 December 2022	51,621	-	177,075	4,503	2,782	26,298	262,279
Charged during the year (note 20)	7,866	-	11,596	1,705	1,431	9,349	31,947
Relating to disposals	(15)	-	(3,245)	(107)	(1,189)	(2,082)	(6,638)
Foreign exchange translations	(4,378)	-	(5,925)	(375)	(2,107)	(6,842)	(19,627)
At 31 December 2023	55,094	-	179,501	5,726	917	26,723	267,961
Net book values:							
At 31 December 2023	182,825	170,401	36,317	19,352	4,759	51,057	464,711
At 31 December 2022	173,080	163,407	34,482	1,417	38,892	50,194	461,472

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

9 OTHER ASSETS

	2023 US\$ '000	2022 US\$ '000
Bills receivables	175,726	262,124
Goodwill and intangible assets (note 9 (a))	72,455	73,461
Collateral pending sale*	183,470	149,857
Good faith qard	39,962	59,153
Deferred taxation	120,996	88,219
Prepayments	32,784	29,237
Assets held for sale**	-	39,978
Others	54,716	51,233
	680,109	753,262
Impairment / allowance for credit losses	(31,321)	(32,479)
	648,788	720,783

* The nature of the collateral pending sale are mainly residential and commercial real estates.

** During December 2022, ABG agreed in principle with Bank of Africa, through the signing of a sale and purchase agreement for sale of ABG's stake in BTI Morocco. The transaction was approved by ABG's Board of Directors in December 2022. The transaction was then still subject to various legal and regulatory formalities that were expected to be completed in the year 2023. As a result, the investment in BTI was classified as assets and liabilities held for sale.

On 27 July 2023, the Group announced the completion of exiting from Bank Al-Tamweel wal Al-Inma S.A (BTI) in Morocco, currently named Bank Al Karam after receiving the required approvals from the Central Bank of Bahrain (CBB) and Bank Al-Maghrib. There has been no gain or loss upon the completion of exiting BTI.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

9 OTHER ASSETS (continued)

9 (a) Goodwill and intangible assets

	2023			2022		
	Goodwill	Intangible	Total	Goodwill	Intangible	Total
	US\$ '000	assets	US\$ '000	US\$ '000	assets	US\$ '000
		US\$ '000	US\$ '000		US\$ '000	US\$ '000
At 1 January	40,438	33,023	73,461	43,377	32,636	76,013
Additions	2,541	19,053	21,594	4,014	19,369	23,383
Amortisation charge for the year (note 20)	-	(9,447)	(9,447)	-	(11,607)	(11,607)
Impairment loss for the year (note 22)	(1,500)	-	(1,500)	-	-	-
Foreign exchange translations	(5,284)	(6,369)	(11,653)	(6,953)	(7,375)	(14,328)
At 31 December	36,195	36,260	72,455	40,438	33,023	73,461

Goodwill acquired through business combinations with indefinite lives have been allocated to four individual cash-generating units. The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2023	2022
	US\$ '000	US\$ '000
Al Baraka Turk Participation Bank	1,318	3,484
Al Barak Bank Egypt	511	638
Jordan Islamic Bank	26,646	26,646
Al Baraka Bank (Pakistan) Limited	7,720	9,670
	36,195	40,438

The recoverable amounts of the cash-generating units were determined based on value in use calculation using cash flow projections from financial budgets covering a five year period or market capitalisation approved by the Group's senior management. For cashflow projections, management determined budgeted spreads based on the cash-generating units' past performance and its expectation of market development.

10 LONG TERM FINANCING

	2023	2022
	US\$ '000	US\$ '000
Murabaha financing	436,728	23,491
Subordinated financing obtained by a subsidiary	340,278	284,546
	777,006	308,037

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

11 OTHER LIABILITIES

	2023	2022
	US\$ '000	US\$ '000
Payables	322,861	310,059
Cash margins	260,060	235,099
Managers' cheques	102,906	69,807
Current taxation *	120,301	119,287
Deferred taxation *	20,434	13,416
Accrued expenses	106,682	92,729
Charity fund	14,333	20,389
Net Ijarah liability	54,471	52,562
Liabilities held for sale**	-	39,978
Others	126,400	135,481
Allowance for credit losses (note 22)	58,763	62,871
	1,187,211	1,151,678

*In view of the operations of the Group being subject to various tax jurisdictions and regulations, it is not practical to provide a reconciliation between the accounting and taxable profits together with details of effective tax rates.

**This relates to the sale of ABG's stake in BTI Morocco (refer note 9).

12 EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH)

	2023	2022
	US\$ '000	US\$ '000
Equity of investment accountholders*	13,534,471	13,966,177
Profit equalisation reserve (note 12.1)	183,760	66,501
Investment risk reserve (note 12.2)	80,474	98,768
Cumulative changes in fair value attributable to equity of investment accountholders - net (note 12.3)	(1,154)	1,382
	13,797,551	14,132,828

**Medium term Sukuk*

This includes unsecured, sub-ordinated and privately placed unrestricted mudaraba sukuk amounting to US\$ 11,976 thousand (2022: US\$ 15,600 thousand) issued by Al Baraka Bank (Pakistan) Limited (ABPL) during 2014 and 2021 and will mature in 2024 and 2031 respectively. The issuance of sukuk is intended to comply with regulatory requirements related to capital adequacy ratio of ABPL. The principal repayment, started after six months of the drawdown date and is being made semi-annually on a straight line basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

12 EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH) (continued)

The following table summarises the breakdown of IAH as of:

	2023	2022
	US\$ '000	US\$ '000
IAH - Financial institutions	417,206	670,694
IAH - Non-financial institutions and individuals	13,380,345	13,462,134
	13,797,551	14,132,828

12.1 Profit equalisation reserve

The following shows the movement in profit equalisation reserve:

	2023	2022
	US\$ '000	US\$ '000
Balance at 1 January	66,501	3,152
Amount apportioned from income allocable to equity of investment accountholders	171,922	73,409
Amount used during the year	(1,245)	1,674
Foreign exchange translations	(53,418)	(11,734)
Balance at 31 December	183,760	66,501

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

12 EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH) (continued)

12.2 Investment risk reserve

The following shows the movement in investment risk reserve:

	2023 US\$ '000	2022 US\$ '000
Balance at 1 January	98,768	62,005
Amount appropriated from/(to) provision (note 22)	3,908	(12,056)
Amount apportioned from/(to) income allocable to equity of investment accountholders	(16,167)	51,259
Foreign exchange translations	(6,035)	(2,440)
Balance at 31 December	80,474	98,768

As noted under note 28 i), the economic environment in Turkey was considered hyperinflationary. Unlike IFRS accounting standards which issued IAS 29 'Financial Reporting in Hyperinflationary Environment' to consider the impact on hyperinflation, the AAOIFI standards do not have similar requirements and are still under consideration of the AAOIFI Board. IAS 29 requires financial statements that are prepared in the currency of a hyper-inflationary economy to be stated in terms of the purchasing power at the end of the reporting period. This is because money loses purchasing power at such a rate that comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, are likely to be misleading without this impact.

12.3 Cumulative changes in fair value attributable to equity of investment accountholders - net

	2023 US\$ '000	2022 US\$ '000
Balance at 1 January	1,382	2,183
Change in fair values during the year	347	613
Realised gain transferred to consolidated statement of income	(2,301)	(1,466)
Deferred taxation effect	(586)	58
Transfer to shareholder's equity	4	(6)
Balance at 31 December	(1,154)	1,382
Attributable to investment in real estate	3,187	2,897
Attributable to equity-type instruments at fair value through equity	(4,341)	(1,515)
	(1,154)	1,382

13 EQUITY

	2023 US\$ '000	2022 US\$ '000
Share capital		
Authorised: 2,500,000,000 (2022: 2,500,000,000) ordinary shares of US\$ 1 each	2,500,000	2,500,000
<i>Issued and fully paid up:</i>		
At beginning of the year 1,242,879,755 (2022: 1,242,879,755) shares of US\$1 each	1,242,879	1,242,879
At end of the year 1,242,879,755 (2022: 1,242,879,755) shares of US\$1 each	1,242,879	1,242,879

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

13 EQUITY (continued)**Treasury shares**

	<i>Number of shares ('000)</i>	<i>2023 US\$ '000</i>	<i>2022 US\$ '000</i>
At 1 January	30,040	15,000	15,655
Purchase of treasury shares	1,496	814	973
Sale of treasury shares	(156)	(156)	(1,628)
At 31 December	31,380	15,658	15,000

The market value of the treasury shares is US\$ 8,473 thousand (2022: US\$ 9,763 thousand) and it represents 2.5% (2022: 2.4%) of the outstanding shares.

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:

At 31 December 2023

<i>Names</i>	<i>Nationality/ Incorporation</i>	<i>Number of shares</i>	<i>% holding</i>
Dallah AlBaraka Holding Company E.C.	Bahrain	680,431,667	54.75%
Altawfeek Company For Investment Funds	Cayman Island	240,173,054	19.32%
Abdulla AbdulAziz AlRajhi	Saudi	87,313,197	7.03%

At 31 December 2022

<i>Names</i>	<i>Nationality/ Incorporation</i>	<i>Number of shares</i>	<i>% holding</i>
Late Saleh Abdullah Kamel	Saudi	374,236,973	30.11%
Dallah AlBaraka Holding Company E.C.	Bahrain	306,194,694	24.64%
Altawfeek Company For Investment Funds	Cayman Island	240,173,054	19.32%
Abdulla AbdulAziz AlRajhi	Saudi	87,313,197	7.03%

- ii) The Bank 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:

At 31 December 2023

	<i>Number of shares</i>	<i>Number of shareholders</i>	<i>% of total outstanding shares</i>
Less than 1%	107,790,867	1,073	8.67%
1% up to less than 5%	127,170,970	5	10.23%
5% up to less than 10%	87,313,197	1	7.03%
10% up to less than 20%	240,173,054	1	19.32%
20% up to less than 50%	-	-	0.00%
More than 50%	680,431,667	1	54.75%
	1,242,879,755	1,081	100.00%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

13 EQUITY (continued)

Additional information on shareholding pattern (continued)

At 31 December 2022

Categories:	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	89,593,279	1,076	7.21%
1% up to less than 5%	145,368,558	6	11.70%
5% up to less than 10%	87,313,197	1	7.02%
10% up to less than 20%	240,173,054	1	19.32%
20% up to less than 50%	680,431,667	2	54.75%
	1,242,879,755	1,086	100.00%

a. Share premium/Equity transaction cost

Amounts collected in excess of the par value of the issued share capital during any new issue of shares, net of issue costs, are treated as share premium. This amount is not available for distribution, but can be utilised as stipulated in the Bahrain Commercial Companies Law (BCCL).

Equity transaction cost, represent costs incurred by the Firm that are directly related to raising capital and have been incurred in cash.

b. Statutory reserve

In accordance with the BCCL and the Bank's articles of association, 10% of the parent's share of the net income for the year is transferred to the statutory reserve until such time as the reserve reaches 50% of the Bank's paid-up share capital. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law. During the year US\$ 14,351 thousand (2022: US\$ 14,312 thousand) was transferred to statutory reserve.

c. Cumulative changes in fair values

This represents the net unrealised fair value gains and losses relating to the equity of the parent on equity-type instruments at fair value through equity, investment in real estate and land occupied by the Group (classified as property and equipment).

d. Foreign currency translations

The foreign currency translations are used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

The following table summarises the subsidiary wise foreign currency translation reserve as at 31 December:

Subsidiary	Currency	2023 US\$ '000	2022 US\$ '000
Banque Al Baraka D'Algerie (BAA)	Algerian Dinar	69,803	72,806
Al Baraka Bank (Pakistan) Limited	Pakistani Rupees	57,636	49,345
Al Baraka Bank Egypt (ABE)	Egyptian Pound	284,794	237,882
Al Baraka Turk Participation Bank (ATPB)	Turkish Lira	570,601	514,209
Al Baraka Bank Limited (ABL)	South African Rand	27,441	25,057
Al Baraka Bank Sudan (ABS)	Sudanese Pound	134,944	134,216
Al Baraka Bank Tunis (ABT)	Tunisian Dinar	36,789	37,915
Al Baraka Bank Syria (ABBS)	Syrian Pound	64,897	57,001
Others		-	(780)
		1,246,905	1,127,651

13 EQUITY (continued)**Additional information on shareholding pattern (continued)***e. Other reserves*

Other reserves mainly consist of general banking risk reserves maintained by the subsidiaries in accordance with local regulations.

f. Zakah paid on behalf of shareholders

The General Assembly in its annual meeting conducted on 22 March 2023 empowered the Executive Management of Al Baraka Group to pay an amount of US\$ 610 thousand as Zakah on behalf of the shareholders deducted from the retained earnings for the financial year of 2022. The Group has paid and distributed to those who are entitled to receive Zakah as per Shari'a boundaries and as approved by the Unified Shari'a Board.

	2023 US\$ '000	2022 US\$ '000
Zakah to be paid on behalf of shareholders for the year	610	347
Uses of Zakah:		
Zakah for the poor and needy	316	47
Scholarships	150	300
Total uses	466	347
Remaining Zakah to be paid	144	-

g. Net movement in non-controlling interest

This mainly includes the effect of changes in capital of subsidiaries, buying (selling) by the non-controlling interest from (to) the Group.

Non-controlling interest

Non-controlling interest constitutes equity in a subsidiary not attributable, directly or indirectly, to a parent. This includes the portion of the Tier 1 Mudaraba Sukuk amounted to US\$ 165 million (31 December 2022: US\$ 165 million) issued by the Group's subsidiary in February 2018 which is not subscribed by the parent.

h. Proposed appropriations

The Board of Directors propose the appropriation of dividends of 1% of share capital amounting to US\$ 12,357 thousand (2022: US\$ Nil thousand) which is subject to regulatory and shareholders' approval in the ensuing Annual General Meeting.

14 SUKUK (TIER 1 CAPITAL)

On 31 May 2017, the Bank completed an issuance of US\$ 400 million Additional Tier 1 Mudaraba Sukuk in compliance with CBB regulations; listed on Irish Stock Exchange. Profit shall be payable subject to and in accordance with terms and conditions on the outstanding nominal amount of the Sukuk at an expected profit of 8.775% per annum, payable on semi-annual basis. These Sukuks are recognised under equity in the consolidated statement of financial position and the corresponding profit payable on those Sukuk are accounted as appropriation of profits. Expenses relating to the issuance have been included in the retained earnings. As per the terms and conditions, the Sukuk holders will not have a right to claim the profit and such event of non-payment of profit will not be considered as event of default. The Sukuk can be redeemed only at the option of ABG.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

15 NET INCOME FROM JOINTLY AND SELF FINANCED CONTRACTS AND INVESTMENTS

	2023	2022
	US\$ '000	US\$ '000
Receivables (note 15.1)	1,076,593	965,958
Mudaraba and Musharaka financing (note 15.2)	114,838	177,907
Investments (note 15.3)	689,135	573,492
Ijarah Muntahia Bittamleek (note 15.4)	169,788	130,547
	2,050,354	1,847,904
Net income from jointly financed contracts and investments	1,507,233	1,408,471
Gross income from self financed contracts and investments	543,121	439,433
	2,050,354	1,847,904
Gross income from self financed contracts and investments	543,121	439,433
Loss paid on short term financing	(76,359)	(36,453)
Net income from self financed contracts and investments	466,762	402,980

15.1 Receivables

	2023	2022
	US\$ '000	US\$ '000
Sales (Murabaha) receivables	1,058,609	944,944
Salam receivables	15,654	15,881
Istisna'a receivables	2,330	5,133
	1,076,593	965,958

15.2 Mudaraba and Musharaka financing

	2023	2022
	US\$ '000	US\$ '000
Mudaraba financing	47,963	111,779
Musharaka financing	66,875	66,128
	114,838	177,907

15.3 Investments

	2023	2022
	US\$ '000	US\$ '000
Equity-type instruments at fair value through equity	13,591	19,541
Debt-type instruments at amortised cost	444,193	396,773
Unrealised gain on equity and debt-type instruments at fair value through statement of income	209,123	131,650
Gain on sale of equity-type instruments at fair value through equity	668	108
Gain on sale of equity and debt-type instruments at fair value through statement of income	208	391
Income from investment in real estate	346	2,083
Income from associates and joint venture	15,071	17,371
Gain on sale of investment in real estate	5,935	4,597
Gain on sale of investment in subsidiaries	-	978
	689,135	573,492

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

**15 NET INCOME FROM JOINTLY AND SELF FINANCED CONTRACTS AND INVESTMENTS
(continued)**

15.4 Ijarah Muntahia Bittamleek

	2023	2022
	US\$ '000	US\$ '000
Income from Ijarah Muntahia Bittamleek	316,313	319,517
Depreciation on Ijarah Muntahia Bittamleek	(146,525)	(188,970)
	169,788	130,547

16 GROUP'S SHARE AS A MUDARIB

Group's share as a Mudarib is determined at the level of each subsidiary and is based on the terms and conditions of the related agreements.

17 OTHER FEES AND COMMISSION INCOME

	2023	2022
	US\$ '000	US\$ '000
Banking fees and commissions	198,079	129,067
Letters of credit	10,052	15,259
Guarantees	19,563	21,774
Acceptances	1,222	4,218
	228,916	170,318

18 OTHER OPERATING INCOME

	2023	2022
	US\$ '000	US\$ '000
Foreign exchange gain	95,486	134,127
Gain on sale of property and equipment	11,622	10,446
	107,108	144,573

19 PROFIT PAID ON LONG TERM FINANCING

	2023	2022
	US\$ '000	US\$ '000
Murabaha financing	7,259	180
Subordinated financing obtained by a subsidiary	33,973	26,662
Sukuk	9,808	5,969
	51,040	32,811

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

20 DEPRECIATION AND AMORTISATION

	2023	2022
	US\$ '000	US\$ '000
Property and equipment depreciation (note 8)	31,947	38,980
Intangible assets amortisation (note 9 (a))	9,447	11,607
	41,394	50,587

21 OTHER OPERATING EXPENSES

	2023	2022
	US\$ '000	US\$ '000
General and administration expenses	129,400	123,937
Professional and business expenses	25,732	28,247
Premises related expenses	37,650	33,983
	192,782	186,167

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

	2023	2022
	US\$ '000	US\$ '000
Audit fees	1,192	1,060
Non - Audit fees	419	347
	1,611	1,407

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

22 NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT

	<i>Cash and balances with banks</i>	<i>Sales (Murabaha) receivables</i>	<i>Ijarah receivables</i>	<i>Salam receivables</i>	<i>Istisna'a receivables</i>	<i>Mudaraba financing</i>	<i>Musharaka financing</i>	<i>Investments</i>	<i>Ijarah Muntahia Bittamleek</i>	<i>Other assets</i>	<i>Other liabilities</i>	<i>Total</i>
2023	US\$ '000 (note 3)	US\$ '000 (note 4.1)	US\$ '000 (note 4.2)	US\$ '000 (note 4.3)	US\$ '000 (note 4.4)	US\$ '000 (note 5.1)	US\$ '000 (note 5.2)	US\$ '000 (note 6.2 & 6.3)	US\$ '000 (note 7)	US\$ '000 (note 9)	US\$ '000 (note 11)	US\$ '000
Allowance at 1 January	181	662,101	46,603	17,361	17,238	17,063	12,871	15,392	13,254	32,479	62,871	897,414
Charged during the year	232	180,443	17,605	748	1,378	1,924	7,180	7,186	562	(563)	548	217,243
Written back / recovered during the year	-	(13,595)	(8,872)	(1,906)	(160)	-	-	(602)	-	(158)	(2,256)	(27,549)
	232	166,848	8,733	(1,158)	1,218	1,924	7,180	6,584	562	(721)	(1,708)	189,694
	413	828,949	55,336	16,203	18,456	18,987	20,051	21,976	13,816	31,758	61,163	1,087,108
Written off during the year	-	(65,337)	-	-	-	-	-	(1,262)	-	(309)	-	(66,908)
Amount appropriated from/(to) investment risk reserve (note 12.2)	-	(3,971)	585	-	(92)	-	(62)	(368)	-	-	-	(3,908)
Foreign exchange translations/others - net	(33)	(89,065)	936	(1,887)	(2,666)	(95)	(2,466)	(1,025)	137	(128)	(2,400)	(98,692)
Allowance at 31 December	380	670,576	56,857	14,316	15,698	18,892	17,523	19,321	13,953	31,321	58,763	917,600

During the year, an impairment loss of US\$ 2.1 Million and US\$ 1.5 Million (2022: US\$ 20.5 Million and US\$ Nil) was charged against investments and goodwill.

An amount of US\$ 5,496 thousand (2022: US\$ 6,680 thousand) is related to provision of equity type instruments at fair value through equity.

	<i>Cash and balances with banks</i>	<i>Sales (Murabaha) receivables</i>	<i>Ijarah receivables</i>	<i>Salam receivables</i>	<i>Istisna'a receivables</i>	<i>Mudaraba financing</i>	<i>Musharaka financing</i>	<i>Investments</i>	<i>Ijarah Muntahia Bittamleek</i>	<i>Other assets</i>	<i>Other liabilities</i>	<i>Total</i>
2022	US\$ '000 (note 3)	US\$ '000 (note 4.1)	US\$ '000 (note 4.2)	US\$ '000 (note 4.3)	US\$ '000 (note 4.4)	US\$ '000 (note 5.1)	US\$ '000 (note 5.2)	US\$ '000 (note 6.2 & 6.3)	US\$ '000 (note 7)	US\$ '000 (note 9)	US\$ '000 (note 11)	US\$ '000
Allowance at 1 January	3,688	776,535	47,989	18,912	17,464	17,731	16,597	14,902	12,988	27,295	85,397	1,039,498
Charged during the year	131	264,014	9,915	2,772	1,179	1,053	543	3,202	270	(1,895)	1,064	282,248
Written back/recovered during the year	-	(46,279)	(12,494)	(1,639)	(152)	-	(1,134)	(187)	(1)	(36)	(1,224)	(63,146)
	131	217,735	(2,579)	1,133	1,027	1,053	(591)	3,015	269	(1,931)	(160)	219,102
	3,819	994,270	45,410	20,045	18,491	18,784	16,006	17,917	13,257	25,364	85,237	1,258,600
Written off during the year	-	(263,035)	(495)	(206)	-	-	-	-	-	(7)	-	(263,743)
Amount appropriated from investment risk reserve	-	7,895	1,628	-	2,271	-	(12)	221	53	-	-	12,056
Foreign exchange translations/others - net	(3,638)	(77,029)	60	(2,478)	(3,524)	(1,721)	(3,123)	(2,746)	(56)	7,122	(22,366)	(109,499)
Allowance at 31 December	181	662,101	46,603	17,361	17,238	17,063	12,871	15,392	13,254	32,479	62,871	897,414

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22 NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT (continued)

The provisions relate to the following geographical areas:

	<i>Cash and balances with banks</i>	<i>Sales (Murabaha) receivables</i>	<i>Ijarah receivables</i>	<i>Salam receivables</i>	<i>Istisna'a receivables</i>	<i>Mudaraba financing</i>	<i>Musharaka financing</i>	<i>Investments</i>	<i>Ijarah Muntahia Bittamleek</i>	<i>Other assets</i>	<i>Other liabilities</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
	<i>(note 3)</i>	<i>(note 4.1)</i>	<i>(note 4.2)</i>	<i>(note 4.3)</i>	<i>(note 4.4)</i>	<i>(note 5.1)</i>	<i>(note 5.2)</i>	<i>(note 6.2 & 6.3)</i>	<i>(note 7)</i>	<i>(note 9)</i>	<i>(note 11)</i>	
2023												
Middle East	256	328,691	17,015	-	2,716	18,892	361	15,970	106	25,709	50,860	460,576
North Africa	124	53,441	39,034	5,758	751	-	16	2,255	13,602	4,282	1,779	121,042
Europe	-	244,017	-	-	-	-	513	1	243	607	1,982	247,363
Others	-	44,427	808	8,558	12,231	-	16,633	1,095	2	723	4,142	88,619
Total	380	670,576	56,857	14,316	15,698	18,892	17,523	19,321	13,953	31,321	58,763	917,600
2022												
Middle East	163	355,786	12,422	-	2,808	17,063	423	11,990	106	27,977	53,750	482,488
North Africa	18	52,274	33,131	6,993	756	-	136	1,837	12,620	3,644	2,850	114,259
Europe	-	238,045	-	-	-	-	806	215	524	185	2,159	241,934
Others	-	15,996	1,050	10,368	13,674	-	11,506	1,350	4	673	4,112	58,733
Total	181	662,101	46,603	17,361	17,238	17,063	12,871	15,392	13,254	32,479	62,871	897,414

The fair value of collateral the Group holds relating to non-performing facilities as at 31 December 2023 amounts to US\$ 277 million (2022: US\$ 322 million). The collateral consists of cash margin, securities and properties. The utilisation of the collaterals will be on customer by customer basis and will be limited to the customer's total exposure.

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23 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share amounts are calculated by dividing net income for the year attributable to equity holders of the parent by the weighted average number of shares outstanding during the year as follows:

	2023 US\$ '000	<i>2022</i> <i>US\$ '000</i>
Net income attributable to the equity		
shareholders of the parent for the year - <i>US\$ '000</i>	143,509	143,116
Profit distributed on perpetual tier 1 capital - <i>US\$ '000</i>	(35,100)	(33,300)
	108,409	109,816
Number of shares outstanding at the beginning of the year (in thousands)	1,242,879	1,242,879
Treasury shares effect (in thousands)	(30,151)	(30,645)
Weighted average number of shares outstanding at the end of the year (in thousands)	1,212,728	1,212,234
Earnings per share - US cents	8.94	9.06

24 CASH AND CASH EQUIVALENTS

	2023 US\$ '000	<i>2022</i> <i>US\$ '000</i>
Balances with central banks excluding mandatory reserve	1,348,673	1,147,397
Balances with other banks	724,636	530,747
Cash and cash in transit	528,135	534,119
	2,601,444	2,212,263

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25 RELATED PARTY TRANSACTIONS

Related parties comprise major shareholders, directors of the Group, entities owned or controlled, jointly controlled or significantly influenced by them, companies affiliated by virtue of shareholding in common with that of the Group and Shari'a supervisory board members.

The income and expenses in respect of related parties were as follows:

	<i>Associated companies US\$ '000</i>	<i>Major shareholders US\$ '000</i>	<i>Directors and key management personnel US\$ '000</i>	<i>Other related parties US\$ '000</i>	<i>Total 2023 US\$ '000</i>	<i>Total 2022 US\$ '000</i>
Net income from jointly financed contracts and investments	1,645	-	-	-	1,645	1,595
Return on equity of investment accountholders	743	379	414	-	1,536	745
Other fees and commission income	16	-	1	-	17	270

Compensation of key management personnel of the Firm, included in consolidated statement of income, is as follows:

	<i>2023 US\$ '000</i>	<i>2022 US\$ '000</i>
Short term benefits	4,071	3,175
Long term benefits	680	366

Short term benefits includes basic salaries, bonuses, allowances and other benefits paid during the year and long term benefits includes indemnity, social insurance benefits and investment scheme.

Director's remuneration accrued for the year ended 31 December 2023 amounted to US\$ 1.5 million (2022: US\$ 1.5 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

25 RELATED PARTY TRANSACTIONS (continued)

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

	<i>Associated companies US\$ '000</i>	<i>Major shareholders US\$ '000</i>	<i>Directors and key management personnel US\$ '000</i>	<i>Other related parties US\$ '000</i>	<i>Total 2023 US\$ '000</i>	<i>Total 2022 US\$ '000</i>
Assets:						
Receivables	-	-	1	-	1	2,858
Mudaraba and Musharaka financing	-	-	-	-	-	1,370
Investments	58,965	-	-	-	58,965	64,904
Other assets	9,924	-	425	-	10,349	9,666
Liabilities:						
Customer current and other accounts	42,133	1,014	468	5	43,620	76,615
Other liabilities	21	-	-	-	21	383
Equity of investment accountholders	29,973	15,862	7,170	-	53,005	35,119
Off-balance sheet equity of investment accountholders	109,548	12,372	1,763	-	123,683	134,050

All related party exposures are performing and are free of any specific provision for credit losses.

Details of Directors' and Executive Management's direct and indirect interests in the Firm's shares as at the end of the year were:

<i>Name of directors</i>	<i>Position</i>	<i>Nationality</i>	<i>2023 Number of shares</i>	<i>Transaction Number of shares</i>
Abdulla Saleh Kamel	Chairman	Saudi	338,598	-
Abdul Elah Sabbahi	Board Member	Saudi	225,899	-
Musa Abdel-Aziz Shihadeh	Board Member	Jordanian	968,590	-
<i>Name of directors</i>	<i>Position</i>	<i>Nationality</i>	<i>2022 Number of shares</i>	<i>Transaction Number of shares</i>
Abdulla Saleh Kamel	Chairman	Saudi	338,598	-
AbdulElah Sabbahi	Board Member	Saudi	225,899	-
Fahad AlRajhi (indirect)	Board Member	Saudi	10,815	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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26 COMMITMENTS AND CONTINGENCIES

	2023 US\$ '000	2022 US\$ '000
Letters of credit	570,135	630,421
Guarantees	1,380,579	1,496,283
Acceptances	40,015	56,076
Commitments	1,070,021	857,095
Sharia'a compliant promise contracts	1,142,002	252,006
	4,202,752	3,291,881

27 SEGMENTAL ANALYSIS

Segmental information is presented in respect of the Group's geographical segments. The geographical segments are based upon the location of the units responsible for recording the transactions and reflects the manner in which financial information is evaluated by the Group's management and the Board of Directors.

For financial reporting purposes, the Group is divided into the following geographic segments:

Middle East
North Africa
Europe
Others

The results reported for the geographic segments are based on the Group's internal financial reporting systems. The accounting policies of the segments are the same as those applied in the preparation of the Group's consolidated financial statements as set out in Note 2. Transactions between segments are conducted at estimated market rates on an arm's length basis.

No business segment is presented as that is not applicable to the Group.

Segment assets, liabilities and equity of investment accountholders were as follows:

	2023			2022		
Segment	Assets US\$ '000	Liabilities US\$ '000	IAH US\$ '000	Assets US\$ '000	Liabilities US\$ '000	IAH US\$ '000
Middle East	13,114,451	3,113,933	8,696,520	12,999,079	3,002,644	8,719,950
North Africa	2,883,733	1,531,106	1,050,041	2,627,922	1,348,227	994,496
Europe	7,718,467	4,334,505	3,127,574	7,647,797	4,051,269	3,337,415
Others	1,546,683	517,659	923,416	1,707,036	480,095	1,080,967
	25,263,334	9,497,203	13,797,551	24,981,834	8,882,235	14,132,828

Segment operating income, net operating income and net income were as follows:

	2023			2022		
Segment	Total operating income US\$ '000	Net operating income US\$ '000	Net income / (loss) US\$ '000	Total operating income US\$ '000	Net operating income US\$ '000	Net income / (loss) US\$ '000
Middle East	444,592	207,286	105,702	532,618	289,005	138,567
North Africa	116,853	54,060	36,192	105,553	41,718	33,117
Europe	497,692	299,435	156,140	405,528	252,700	49,036
Others	81,311	36,786	(14,771)	95,033	33,254	18,734
	1,140,448	597,567	283,263	1,138,732	616,677	239,454

28 RISK MANAGEMENT

Risk management is an integral part of the Group's decision-making process. The management risk committee and executive committees guide and assist with overall management of the Group's balance sheet risks. The Group manages exposures by setting limits approved by the Board of Directors. These risks and the processes to mitigate these risks have not significantly altered from the previous year.

The most important types of risk are liquidity risk, credit risk, concentration risk, market risk and other operational risk. Market risk includes profit rate risk, equity price risk and foreign exchange risk.

a) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on regular basis. Each of the Group's subsidiaries has a documented and implemented domestic and foreign currency liquidity policy appropriate to the nature and complexity of its business. The policy addresses the subsidiaries' goal of protecting financial strength even for stressful events.

The table next page summarises the maturity profile of the Group's assets and liabilities based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the 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 investment account holders and the availability of bank lines.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

28 RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

The maturity profile at 31 December 2023 was as follows:

	<i>Up to 1 month</i>	<i>1 to 3 months</i>	<i>3 to 6 months</i>	<i>6 months to 1 year</i>	<i>1 to 3 years</i>	<i>3 to 5 years</i>	<i>5 to 10 years</i>	<i>10 to 20 years</i>	<i>20 years and above</i>	<i>Undated</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Assets											
Cash and balances with banks	2,908,755	-	-	-	-	291,820	-	23,119	-	1,943,895	5,167,589
Receivables	1,217,429	1,584,645	1,467,282	1,580,785	2,356,393	1,402,249	338,037	106,619	13,896	2,785	10,070,120
Mudaraba and Musharaka financing	191,097	5,955	28,975	20,966	282,554	225,220	146,277	77,765	4,490	-	983,299
Investments	1,225,962	504,647	301,958	242,167	1,391,295	938,813	342,560	21,879	8,144	474,140	5,451,565
Ijarah Muntahia Bittamleek	36,629	43,948	78,474	162,152	533,491	420,429	571,830	547,794	82,515	-	2,477,262
Property and equipment	-	-	-	-	-	-	-	-	-	464,711	464,711
Other assets	283,521	11,707	(42,273)	63,967	27,205	32,866	12,723	1,591	-	257,481	648,788
Total assets	5,863,393	2,150,902	1,834,416	2,070,037	4,590,938	3,311,397	1,411,427	778,767	109,045	3,143,012	25,263,334
Liabilities											
Customer current and other accounts	6,403,831	-	-	-	-	-	-	-	-	-	6,403,831
Due to banks	637,480	45,714	300,984	79,132	11,284	460	6,485	47,616	-	-	1,129,155
Long term financing	-	-	20,008	271,890	99,298	116,613	269,197	-	-	-	777,006
Other liabilities	346,053	120,419	67,069	78,719	27,353	61,418	995	432,336	-	52,849	1,187,211
Total liabilities	7,387,364	166,133	388,061	429,741	137,935	178,491	276,677	479,952	-	52,849	9,497,203
Equity of investment accountholders	1,925,808	3,165,979	1,281,389	1,498,838	2,666,853	794,995	1,800,390	663,299	-	-	13,797,551
Total liabilities and equity of investment accountholders	9,313,172	3,332,112	1,669,450	1,928,579	2,804,788	973,486	2,077,067	1,143,251	-	52,849	23,294,754
Net liquidity gap	(3,449,779)	(1,181,210)	164,966	141,458	1,786,150	2,337,911	(665,640)	(364,484)	109,045	3,090,163	1,968,580
Cumulative net liquidity gap	(3,449,779)	(4,630,989)	(4,466,023)	(4,324,565)	(2,538,415)	(200,504)	(866,144)	(1,230,628)	(1,121,583)	1,968,580	
Off-balance sheet equity of investment accountholders	204,893	198,481	39,674	1,186,330	27,383	28,361	1,684	-	-	-	1,686,806

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28 RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

The maturity profile at 31 December 2022 was as follows:

	<i>Up to 1 month</i>	<i>1 to 3 months</i>	<i>3 to 6 months</i>	<i>6 months to 1 year</i>	<i>1 to 3 years</i>	<i>3 to 5 years</i>	<i>5 to 10 years</i>	<i>10 to 20 years</i>	<i>20 years and above</i>	<i>Undated</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Cash and balances with banks	2,651,676	34,344	7,532	-	320,664	10,263	-	-	-	1,372,133	4,396,612
Receivables	1,017,103	1,641,641	1,347,738	1,721,298	2,465,707	1,773,181	359,693	89,642	12,942	8,628	10,437,573
Mudaraba and Musharaka financing	507,552	27,778	13,322	36,081	340,758	324,410	160,734	83,579	3,110	-	1,497,324
Investments	111,249	224,521	180,714	333,808	1,860,230	1,762,620	376,597	21,782	7,017	356,176	5,234,714
Ijarah Muntahia Bittamleek	23,662	39,765	83,575	111,836	421,014	359,798	559,823	551,568	82,315	-	2,233,356
Property and equipment	-	-	-	-	-	-	-	-	-	461,472	461,472
Other assets	226,332	35,945	15,225	42,700	22,777	28,697	28,224	-	-	320,883	720,783
Total assets	4,537,574	2,003,994	1,648,106	2,245,723	5,431,150	4,258,969	1,485,071	746,571	105,384	2,519,292	24,981,834
Liabilities											
Customer current and other accounts	6,451,061	-	-	-	-	-	-	-	-	-	6,451,061
Due to banks	647,835	131,242	59,889	65,086	2,726	189	9,223	55,269	-	-	971,459
Long term financing	9,129	16,443	-	6,790	-	63,144	212,531	-	-	-	308,037
Other liabilities	439,426	119,732	63,631	57,061	22,301	56,237	1,951	371,721	-	19,618	1,151,678
Total liabilities	7,547,451	267,417	123,520	128,937	25,027	119,570	223,705	426,990	-	19,618	8,882,235
Equity of investment accountholders	3,598,216	2,374,839	825,016	1,283,299	3,039,521	783,726	1,672,572	555,639	-	-	14,132,828
Total liabilities and equity of investment accountholders	11,145,667	2,642,256	948,536	1,412,236	3,064,548	903,296	1,896,277	982,629	-	19,618	23,015,063
Net liquidity gap	(6,608,093)	(638,262)	699,570	833,487	2,366,602	3,355,673	(411,206)	(236,058)	105,384	2,499,674	1,966,771
Cumulative net liquidity gap	(6,608,093)	(7,246,355)	(6,546,785)	(5,713,298)	(3,346,696)	8,977	(402,229)	(638,287)	(532,903)	1,966,771	
Off-balance sheet equity of investment accountholders	140,046	147,676	82,988	1,078,705	66,546	1,784	1,867	535	13,540	-	1,533,687

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

28 RISK MANAGEMENT (continued)**b) Credit risk**

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The Group controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are mostly secured by the personal guarantees of individuals who own the counterparty, by collateral in form of mortgage of the objects financed or other types of tangible security.

Type of credit risk

Financing contracts mainly comprise Sales (Murabaha) receivables, Salam receivables, Istisna'a receivables, Mudaraba financing, Musharaka financing and Ijarah Muntahia Bittamleek.

Sales (Murabaha) receivables

The Group finances these transactions through buying a commodity which represents the object of the Murabaha and then resells this commodity to the murabeh (beneficiary) at a profit. The sale price (cost plus the profit margin) is repaid in instalments by the murabeh over the agreed period. The transactions are secured at times by the object of the Murabaha (in case of real estate finance) and other times by a total collateral package securing all the facilities given to the client.

Salam receivables

Salam is a contract whereby the Group makes an immediate payment to a seller for the future delivery of a commodity. To protect itself from risk associated with the commodity the Group simultaneously enters into Parallel Salam contract whereby it sells the commodity for deferred delivery for immediate payment.

Istisna'a receivables

Istisna'a is a sale agreement between the Group as the seller and the customer as the ultimate purchaser whereby the Group undertakes to have manufactured (or acquire) goods and sell it to the customer for an agreed upon price on completion at future date.

Mudaraba financing

The Group enters into Mudaraba contracts by investing in funds managed primarily by other banks and financial institutions for a definite period of time.

Musharaka financing

An agreement between the Group and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared as per the agreement set between both parties while the loss is shared in proportion to their shares of capital or the enterprise.

Maximum exposure to credit risk before collateral held or other credit enhancements

	<i>Maximum exposure</i>	
	2023	2022
	US\$ '000	US\$ '000
Balances with central banks	3,915,198	3,331,927
Balances with other banks	724,636	530,747
Receivables	10,070,120	10,437,573
Mudaraba and Musharaka financing	983,299	1,497,324
Investments	5,451,565	5,234,714
Ijarah Muntahia Bittamleek	2,477,262	2,233,356
Other assets	239,083	340,031
Total	23,861,163	23,605,672
Commitments and contingencies	4,202,752	3,291,881
	28,063,915	26,897,553

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For the year ended 31 December 2023

28 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Credit quality by type of Islamic financing contracts

The table below shows the credit quality by type of Islamic financing contracts, based on the Group's credit rating system as of:

Type of Islamic financing contracts	31 December 2023			Total US\$ '000
	Neither past due nor non performing US\$ '000	Past due but performing US\$ '000	Non performing islamic financing contracts US\$ '000	
Receivables	9,885,799	416,004	525,764	10,827,567
Mudaraba and Musharaka financing	960,792	6,932	51,990	1,019,714
Ijarah Muntahia Bittamleek	2,475,560	15,655	-	2,491,215
Other assets	250,785	1,453	18,166	270,404
	13,572,936	440,044	595,920	14,608,900

Type of Islamic financing contracts	31 December 2022			Total US\$ '000
	Neither past due nor non performing US\$ '000	Past due but performing US\$ '000	Non performing islamic financing contracts US\$ '000	
Receivables	10,033,850	610,666	536,360	11,180,876
Mudaraba and Musharaka financing	1,470,087	3,576	53,595	1,527,258
Ijarah Muntahia Bittamleek	2,235,799	10,800	11	2,246,610
Other assets	363,215	828	8,467	372,510
	14,102,951	625,870	598,433	15,327,254

Ageing analysis of past due but performing Islamic financing contracts

The following table summarises the ageing of past due but performing Islamic financing contracts as of:

Type of Islamic Financing Contracts	31 December 2023			Total US\$ '000
	Less than 30 days US\$ '000	31 to 60 days US\$ '000	61 to 90 days US\$ '000	
Receivables	114,430	95,322	206,252	416,004
Mudaraba and Musharaka financing	3,602	1,779	1,551	6,932
Ijarah Muntahia Bittamleek	10,922	3,881	852	15,655
Other assets	803	462	188	1,453
	129,757	101,444	208,843	440,044

Type of Islamic Financing Contracts	31 December 2022			Total US\$ '000
	Less than 30 days US\$ '000	31 to 60 days US\$ '000	61 to 90 days US\$ '000	
Receivables	152,824	134,816	323,026	610,666
Mudaraba and Musharaka financing	3,024	154	398	3,576
Ijarah Muntahia Bittamleek	6,209	995	3,596	10,800
Other assets	426	258	144	828
	162,483	136,223	327,164	625,870

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For the year ended 31 December 2023

28 RISK MANAGEMENT (continued)**b) Credit risk (continued)**

The following table summarises the total past due, non performing and neither past due nor non performing Islamic financing contracts and aging of non performing Islamic financing contracts disclosed by counterparty type as of 31 December 2023:

	<i>Total US\$ '000</i>	<i>Neither past due nor non performing US\$ '000</i>	<i>Past due but performing US\$ '000</i>	<i>Non performing Islamic financing contracts US\$ '000</i>	<i>Aging of non performing Islamic financing contracts</i>		
					<i>90 days to 1 year US\$ '000</i>	<i>1 year to 3 years US\$ '000</i>	<i>Over 3 years US\$ '000</i>
Sovereign	1,372,074	1,352,775	280	19,019	3,992	11,035	3,992
Bank	1,441,849	1,406,226	-	35,623	29,875	5,415	333
Investment Firms	604	604	-	-	-	-	-
Corporates	7,132,234	6,347,116	402,933	382,185	189,860	56,624	135,701
Retail	4,662,139	4,466,215	36,831	159,093	81,616	24,881	52,596
	14,608,900	13,572,936	440,044	595,920	305,343	97,955	192,622

The following table summarises the total expected credit loss (ECL) on stage 3 disclosed by counterparty type as of 31 December 2023:

	<i>Opening Balance US\$ '000</i>	<i>Charged during the year US\$ '000</i>	<i>Write-back during the year US\$ '000</i>	<i>Write-offs during the year US\$ '000</i>	<i>Foreign Exchange translation/ Others-net US\$ '000</i>	<i>Balance at the end of the year US\$ '000</i>
Bank	44,224	308	(5)	(9,286)	4,537	39,778
Corporates	356,609	106,051	(20,456)	(6,282)	(131,203)	304,719
Retail	118,871	9,885	(4,072)	(49,769)	(6,123)	68,792
	519,704	116,244	(24,533)	(65,337)	(132,789)	413,289

28 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Credit risk mitigation

All the Group's subsidiaries, with exposures secured by real estate or other collateral carry out regular and periodic collateral verification and valuation. This collateral verification and valuation is conducted by an independent qualified assessor or Collateral Analyst at the subsidiary. The frequency of such collateral verification is determined as a part of the credit or investment policy and approval process. The Group's subsidiaries allow cars, ships, aircraft, satellites, railcars, and fleets as collateral for a credit and investment product but do not accept perishable assets or any other assets with depreciable life of less than five years. Subsidiaries do not accept any assets as collateral if the assets are susceptible for obsolescence in case they are moved (e.g. furniture). Subsidiaries also ensure that these assets are insured in order to be accepted as collateral.

Third party cheques are accepted as collateral by the Group's subsidiaries. The Group's subsidiaries accept commercial papers as qualifying collateral if they are issued by banks or corporations of good credit standing. Since the maturity tenure of the commercial papers are generally short in nature, they are not accepted as collateral for long-term facilities (i.e. the financing tenure should not exceed the commercial papers maturity tenure). The subsidiaries do not accept vehicles or equipment, if new, as qualifying collateral for more than 80% of its market value. No vehicles or equipment, if used, are accepted as qualifying collateral for more than 50% of its insured value.

Collaterals listed hereunder may attract capital relief from capital adequacy requirements as per the Central Bank of Bahrain's stipulations:

- 1) Hamish Jiddiyyah (Good faith deposit): Subsidiaries take this type of collateral in the transactions for which non-binding promises to perform is given by the customer. If a customer does not honor his promise to perform, the subsidiary has recourse to the deposit.
- 2) Third party guarantee: The subsidiary should have recourse to the guarantor in case of customer's default. In order to qualify as eligible collateral, the guarantee should be unconditional and irrevocable. The guarantor must be solvent and, if applicable, of investment grade rating.
- 3) Urbon: This is the amount that should be taken from a purchaser or lessee when a contract is established and it is the first line of defense for the subsidiary if the purchaser or lessee breaches the contract.
- 4) Underlying assets of the lease contract: The underlying asset must be of monetary value and the subsidiary must have legal access to it, own it and sell it to cover the open exposure with the customers in question. The assets have also to be free of any of any kind of encumbrance.

Any excess amount resulting from the closure of the pledge by the subsidiary should be returned to the customer (pledger). The subsidiary should conduct at least annual evaluation of the pledged assets and keep adequate documentation of this evaluation.

- 5) Cash deposit free from any legal encumbrance with the subsidiary either in the form of equity of investment accountholders or off-balance sheet equity of investment accountholders.
- 6) Rated and unrated senior Sukuk issued by first class financial institutions or by GCC sovereigns.

28 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Credit quality

Credit Risk Management at the Group will be based upon the creation and maintenance of a Credit Rating System (CRS) for the non-retail business. All the Group's units are to incorporate into their respective credit policies the CRS as the framework for credit management taking into consideration the methodology requirements of their local central banks, in this respect. The methodology for obligor (issuer) rating will reflect the specifics of the Group's main business and the geographical diversity of its operations. Ratings of countries, governments and financial institutions are carried out in centralised fashion at the Bank in Bahrain whereas rating of corporates is done at the subsidiaries level, unless the exposure to the corporate involves cross-border risk, in which case, that rating will also be at the Bank as part of the credit limit approval.

The CRS at the Bank has also been designed to be comparable to the rating system of major international rating agencies (Moody's, Standard & Poor's, Fitch) in respect of their foreign currency rating of countries, governments and financial institutions.

Accordingly, countries, governments and financial Institutions will be rated on the basis of their unsecured medium term foreign currency obligations. This means that for governments and financial institutions the cross-border risk will also be part of the rating and the country's rating will be, in most cases, the ceiling on the financial institution's rating.

The basic approach of the major credit rating agencies to rating is the same as what the Group credit policies require i.e. a comprehensive fundamental analysis of all relevant quantitative and non quantitative factors aimed at identifying actual and potential vulnerability. Credit rating will be applied to countries and single obligors. Single obligors, in turn are categorised as financial institutions, corporates, governments and retail. CRS therefore rates obligors (issuers) and not facilities. The obligor rating of countries and single obligors will identify the relative probability of default but will not take into account the impact of collateral security and other mitigants in the event of default. Facility ratings by contrast, combine both the probability of default and loss severity in case of defaults. However, initially the Group wide policy will be to set up obligor ratings only (which does not prevent individual subsidiaries internally to also rate facilities if they so wish).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

28 RISK MANAGEMENT (continued)**c) Concentration risk**

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group policies and procedures include specific guidelines to focus on country and counter party limits and maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

The distribution of assets, liabilities and equity of investment accountholders items by economic sectors was as follows:

	2023			2022		
	Assets US\$ '000	Liabilities US\$ '000	IAH US\$ '000	Assets US\$ '000	Liabilities US\$ '000	IAH US\$ '000
Manufacturing	2,551,865	189,261	174,280	2,619,599	173,239	146,216
Mining and quarrying	69,387	6,371	74,417	79,764	4,103	35,410
Agriculture	264,616	18,653	5,407	250,264	24,152	4,438
Construction and real estate	2,247,399	83,723	77,926	2,091,058	18,467	22,094
Financial	3,688,265	1,433,537	1,613,412	3,681,726	1,539,683	1,750,814
Trade	1,710,708	178,248	43,900	1,720,022	276,529	84,953
Personal and consumer finance	3,630,979	5,264,323	9,300,875	3,410,399	5,091,356	9,098,784
Government	8,206,575	38,866	255,889	8,202,628	44,264	300,817
Other Sectors	2,893,540	2,284,221	2,251,445	2,926,374	1,710,442	2,689,302
	25,263,334	9,497,203	13,797,551	24,981,834	8,882,235	14,132,828

d) Market risk

Market risk arises from fluctuations in profit rates, equity prices and foreign exchange rates. Under Market Risk Policies currently implemented by management of the Group, have set certain limits on the level of risk that may be accepted. This is monitored by local management at the subsidiary level.

Profit rate risk

Profit rate risk is the risk that the Group will incur a financial loss as a result of mismatch in the profit rate on the Group's assets and on equity of investment accountholders. 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 in line with the market rates.

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the investment portfolio. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

The Group has total equity portfolio of US\$ 341,892 thousand (2022: US\$ 243,995 thousand) comprising of equity-type instruments at fair value through equity amounting to US\$ 91,954 thousand (2022: US\$ 108,136 thousand) and equity-type instruments at fair value through statement of income amounting to US\$ 249,938 thousand (2022: US\$ 135,859 thousand). Variation of 10% increase or decrease in the portfolio value will not have a significant impact on the Group's consolidated net income or owners' equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

28 RISK MANAGEMENT (continued)

d) Market risk (continued)

Foreign exchange risk

Foreign exchange risk arise from the movement of the rate of exchange over a period of time. Positions are monitored on a regular basis to ensure positions are maintained within established approved limits.

Following is the Group's exposure to different currencies in equivalent US dollars:

	2023		
	Operational	Strategic	Total
	equivalent	equivalent	equivalent
	Long	Long	Long
	(Short)	(Short)	(Short)
	US\$ '000	US\$ '000	US\$ '000
Currency			
Turkish Lira	813,222	69,857	883,079
Jordanian Dinar	317,633	517,732	835,365
Egyptian Pound	149,423	232,031	381,454
Sudanese Pound	49,200	(3,199)	46,001
Algerian Dinar	155,368	118,801	274,169
Lebanese Pound	43	-	43
Pound Sterling	(4,928)	-	(4,928)
Tunisian Dinar	114,627	71,818	186,445
Euro	(29,382)	-	(29,382)
South African Rand	58,757	34,194	92,951
Pakistani Rupees	99,287	94,475	193,762
Syrian Pound	2,717	-	2,717
Others	59,013	-	59,013

	2022		
	Operational	Strategic	Total
	equivalent	equivalent	equivalent
	Long	Long	Long
	(Short)	(Short)	(Short)
	US\$ '000	US\$ '000	US\$ '000
Currency			
Turkish Lira	280,830	66,863	347,693
Jordanian Dinar	325,884	505,911	831,795
Egyptian Pound	190,040	232,478	422,518
Sudanese Pound	36,775	21,025	57,800
Algerian Dinar	148,806	112,900	261,706
Lebanese Pound	42	-	42
Pound Sterling	(4,624)	-	(4,624)
Tunisia Dinar	84,830	63,692	148,522
Euro	34,022	-	34,022
South African Rand	51,048	33,542	84,590
Pakistani Rupees	104,757	94,475	199,232
Syrian Pound	5,612	-	5,612
Moroccan Dirham	(2)	-	(2)
Others	46,936	-	46,936

The strategic currency risk represents the amount of equity of the subsidiaries.

Foreign currency risk sensitivity analysis

In order to measure its exposures to currency risk, the Group stress tests its exposures following the standard shocks adopted by Derivatives Policy Group in this respect which calculates the effect on assets and income of the Group as a result of appreciation and depreciation in foreign currencies in relation to the reporting currency of the Group. This is done using various percentages based upon the judgement of the management of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

28 RISK MANAGEMENT (continued)

d) Market risk (continued)

Foreign currency risk sensitivity analysis (continued)

Following is the sensitivity analysis that calculates the effect of a reasonable possible movement of the currency exchange rate against the US Dollar with all other variables held constant on the consolidated statement of income and the consolidated statement of owners' equity.

At 31 December 2023

Currency	Particular	Exposures in US\$ '000	Maximum expected decrease %	Change in net income and owners' equity US\$ '000	Maximum expected increase %	Change in net income and owners' equity US\$ '000
Algerian Dinar	Net income	20,020	-15%	(2,611)	5%	1,054
	Total owners' equity	214,676	-15%	(28,001)	5%	11,299
Egyptian Pound	Net income	57,545	-20%	(9,591)	5%	3,029
	Total owners' equity	316,185	-20%	(52,697)	5%	16,641
Turkish Lira	Net income	156,140	-20%	(26,023)	5%	8,218
	Total owners' equity	256,388	-20%	(42,731)	5%	13,494
S.African Rand	Net income	6,514	-15%	(850)	5%	343
	Total owners' equity	59,786	-15%	(7,798)	5%	3,147
Pakistani Rupees	Net income	9,707	-10%	(882)	5%	511
	Total owners' equity	53,336	-10%	(4,849)	5%	2,807
Tunisian Dinar	Net income	16,172	-10%	(1,470)	5%	851
	Total owners' equity	87,910	-10%	(7,992)	5%	4,627

At 31 December 2022

Currency	Particular	Exposures in US\$ '000	Maximum expected decrease %	Change in net income and owners' equity US\$ '000	Maximum expected increase %	Change in net income and owners' equity US\$ '000
Algerian Dinar	Net income	22,003	-15%	(2,870)	5%	1,158
	Total owners' equity	203,914	-15%	(26,598)	5%	10,732
Egyptian Pound	Net income	84,243	-20%	(14,041)	5%	4,434
	Total owners' equity	310,466	-20%	(51,744)	5%	16,340
Turkish Lira	Net income	49,036	-20%	(8,173)	5%	2,581
	Total owners' equity	259,113	-20%	(43,185)	5%	13,638
Sudanese Pound	Net income	6,373	-100%	(3,187)	5%	335
	Total owners' equity	37,469	-100%	(18,735)	5%	1,972
S.African Rand	Net income	3,436	-15%	(448)	5%	181
	Total owners' equity	51,999	-15%	(6,783)	5%	2,737
Pakistani Rupees	Net loss	8,925	-10%	(811)	5%	470
	Total owners' equity	56,505	-10%	(5,137)	5%	2,974
Tunisian Dinar	Net income	14,380	-10%	(1,307)	5%	757
	Total owners' equity	81,285	-10%	(7,390)	5%	4,278

For the year ended 31 December 2023

28 RISK MANAGEMENT (continued)

e) Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

Operational Risk Management Framework

The Group guidelines have the following sections: (1) Operational Risk Appetite, (2) Operational Risk Management – Structure and Rules, (3) Risk and Control Assessment, (4) Internal Audit, (5) Operational Risk and Basel II and (6) Operational Risk Capital Requirement.

The Group's Operational Risk Appetite is defined as the level of risk which the Group chooses to accept in its identified risk categories. Operational risk appetite is expressed in terms of both impact (direct loss) and the probability of occurrence.

The Operational Risk framework is subject to periodic internal audit.

The Group categorizes operational risk loss events into the following categories:

Infrastructure risks

Availability of information technology is of paramount importance to the Group's infrastructure. The operations of the Group and the subsidiaries might be disrupted and severe operational risks could occur.

In order to hedge the subsidiaries from the infrastructure risk as outlined above, every subsidiary must take all the necessary measures indicated in the Business Continuity Plan and/or Disaster Recovery Plan (BCP and DRP) to cater for these risks.

Information technology risks

The main risks that the Group is exposed to in this context is from inadequate software and hardware quality, unauthorized access by third parties or employees, etc.

Staff risk

The main risks that arises from staff risks are risks due to larceny, fraud, corruption, crime, etc. In order to prevent these risks from occurring, the Group has established Group Human Resources Policies and Code of Conduct which entails constructive ways in dealing with mistakes and frauds. The Group has also established approval control steps in business processes as well as creating separate internal control processes. Further, the Group has established measures of organizational structure in terms of segregation of duties as well as diverse training measures to reduce human errors and frauds, etc.

Business risk

This risk may take on the following forms:

- 1 Processes without clear definitions, for example, when insufficient time was spent on documenting or updating the already documented processes.
- 2 Outdated process descriptions in cases where "reality" already strongly differs from the guidelines laid down in the past.
- 3 The extreme case of a completely missing documentation. To hedge this risk, the Group adopts sound documentation policies of business processes as it is a basic requirement for a well functioning process organization. The process description are up to date and clear; furthermore, it is accessible to all employees.

28 RISK MANAGEMENT (continued)

f) Corporate governance

Board of Directors

The Board of Directors is responsible for approving the Group's overall business strategy, monitoring its operations and taking critical business decisions. In line with international leading practices, the Board has instituted corporate governance measures to ensure that the interests of the shareholders are protected, including the appointment to the Board of four independent non-executive directors as defined in the Rule Book of the CBB.

The Bank is administered by a Board of Directors consisting of not less than five and not more than fifteen members. However, subject to the provisions of the law, the shareholders at an Ordinary General Meeting may determine that the number of directors shall exceed fifteen in certain circumstances. Members of the Board of Directors hold office for a three-year renewable term, although the term of office may be extended at the request of the Board for a period not exceeding six months by resolution of the MOICT.

There are currently thirteen Directors on the Board, who have varied backgrounds and experience and who individually and collectively exercise independent and objective judgment. Other than the President and Chief Executive, all Directors are non-executive. The posts of Chairman and President and Chief Executive are held by different Directors and each has separate, clearly defined responsibilities.

The Board of Directors meets regularly (usually four times a year) and has a formal schedule of matters reserved to it, considering key aspects of the Group's affairs referred to it for decision. The Board reviews the Group's strategy and financial plans, all proposed material changes to the Group's policies, structure and organisation, reports provided to it on the operations of the Group (with emphasis on organisational development, risk management and information technology development) and the performance of executive management. The Board and its committees are supplied with full and timely information to enable them to discharge their responsibilities. All Directors have access to the advice and services of the secretary, who is responsible for ensuring that the Board procedures and applicable rules and regulations are observed.

The Board of Directors has overall responsibility for the Group's system of internal control and its effectiveness. There are established and ongoing procedures in place for identifying, evaluating and managing significant risks faced by the Group, which are regularly reviewed by the Board. The Group's system of internal control provides for a documented and auditable trail of accountability and applies across its operations, is designed to ensure effective and efficient operation and compliance with all applicable laws and regulations, and seeks to manage risk with a view to avoiding material errors, losses and fraud.

g) Russia-Ukraine Conflict

The current ongoing conflict between Russia-Ukraine has impacted the global economy through increased volatility in financial markets and commodity prices. The conflict may affect a broad range of entities across different jurisdictions and industries. Management will continue to closely monitor and assess any direct or indirect impact on its portfolio.

h) Palestine and Israel conflict

There is an ongoing conflict between Palestine and Israel that may impact the regional economy. The Group has assessed the situation and does not foresee any adverse effects on its operations or on the consolidated financial statements. Management will remain vigilant in monitoring and evaluating any potential direct or indirect impact on its business.

28 RISK MANAGEMENT (continued)

i) Classification of Turkey as a hyperinflationary economy

The Accounting Board (AAB) of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) held its 29th meeting on 25-26 September 2022. During the meeting, AAB considered the recent developments in certain countries that may indicate hyperinflation in those economies. AAB deliberated in detail the resultant Shariah issues in financial reporting in such economies by the Islamic financial institutions (IFIs).

After due deliberations, and considering the views of the AAOIFI Shari'ah Board's relevant committee on the subject, AAB concluded that the application of the generally accepted accounting principles for hyperinflation is not deemed aligned with the AAOIFI Financial Accounting Standards (FASs).

AAB further decided to develop, on priority basis, a dedicated FAS on accounting and financial reporting by IFIs in hyperinflationary economies, duly aligned with the AAOIFI Conceptual Framework for Financial Reporting and related Shari'ah Guidance. AAB advised the IFIs which have adopted AAOIFI FASs as reporting framework to continue preparing and presenting their financial statements without considering the effect of hyperinflation, till the time AAOIFI issues FAS on hyperinflation.

The AAB held meetings on 22 May 2023 and 23 May 2023 during which they issued an exposure draft of financial accounting standard "Financial Reporting for Institutions Operating in Hyperinflationary Economies" and discussed a host of other agenda items. Series of public hearings for the exposure drafts are currently in progress.

29 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the value representing the estimate of the amount of cash or cash equivalent that would be received for an asset sold or the amount of cash or cash equivalent paid for a liability extinguished or transferred in an orderly transaction between a willing buyer and a willing seller at the measurement date.

Quoted equity type instruments are investments which are fair valued using quoted prices in active markets for identical instruments and unquoted equity type instruments are investments that are fair valued using directly or indirectly observable inputs.

The Group's investments in sukuk held at amortised cost have fair values amounting to US\$ 4,902 million (2022: US\$ 4,452 million).

Also included under investments are unquoted equity-type instruments at fair value through equity amounting to US\$ 78,333 thousand (2022:US\$ 55,766 thousand) which are carried at net asset value or cost due to lack of other reliable methods for arriving at a reliable fair value for these investments.

The fair values of other on-balance sheet financial instruments are not significantly different from the carrying values included in the consolidated financial statements.

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29 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

A hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions.

These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical investments.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the investments, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – Inputs for the investments that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy at 31 December:

	Level 1	Level 2	Level 3	Total
2023	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Equity and debt-type instruments at fair value through statement of income	248,013	-	1,925	249,938
Equity-type instruments at fair value through equity	499,388	-	72,837	572,225
Investment in real estate	-	167,376	-	167,376
	747,401	167,376	74,762	989,539
2022	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Equity and debt-type instruments at fair value through statement of income	135,131	-	795	135,926
Equity-type instruments at fair value through equity	544,526	-	49,086	593,612
Investment in real estate	-	172,708	-	172,708
	679,657	172,708	49,881	902,246

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

30 EARNINGS PROHIBITED BY SHARI'A

Earnings realised during the year from transactions that were not permitted by Shari'a amounted to US\$ 9 million (2022: US\$ 10 million). This amount has been taken to charity.

31 CAPITAL ADEQUACY RATIO

The CBB, sets and monitors ABG's capital requirements at Head Office level, while ABG's banking subsidiaries are directly regulated by their local banking supervisors, which set and monitor their capital adequacy requirements.

The CBB requires each Bahrain-based Investment company under Category 1 to maintain a minimum capital of BHD 1.0 million and minimum capital adequacy ratio not lower than 110%.

The Regulatory capital must be calculated for all Bahrain based Investment firm based on the shareholders' Equity, the investment firm also must maintain adequate human, financial and other resources sufficient to run the business in ordinary manner.

The following table summarizes the calculation of capital adequacy ratio (CBB Volume 4 - Investment Business, Module Capital Adequacy) based on ABG Solo level:

	2023	2022
	US\$ '000	US\$ '000
1- Regulatory Capital (A)	198,682	84,824
2- Regulatory Requirement (B)	25,485	27,695
3- Risk Based Capital Requirement (C)	25,485	27,695
4- Minimum Capital Requirement (D)	2,653	2,653
5- Ratio of (A) to (B)	780%	306%